

N M Rothschild & Sons Limited

Report of the Directors and Financial Statements
for the year ended 31 March 2017

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Strategic report

Principal activities

N M Rothschild & Sons Limited ("NMR" or "the Company") is the main UK operating subsidiary of Rothschild & Co SCA, its French listed parent company. The principal activity of the Company is Global Advisory, where Rothschild's business is a world leader in the provision of impartial, expert advice on M&A, strategy and financing to governments, corporations, institutions and individuals. Alongside our UK advisory business, NMR owns 50% of Rothschild Europe BV and 100% of Rothschild Australia Limited. The remaining 50% of Rothschild Europe BV is owned by Rothschild et Cie Banque, the Rothschild & Co Group's principal operating business in France.

The Company also supports the Rothschild Merchant Banking global business, the main focus being credit management for a number of CLO, leveraged debt and mezzanine debt vehicles.

NMR's strategy continues to concentrate on developing its advisory business whilst it further reduces its legacy banking exposures.

Further information on the Rothschild & Co Group can be found on the corporate website www.rothschildandco.com.

Strategic developments

Following the sale of the Five Arrows Leasing Group of subsidiaries ("FALG") in November 2015, NMR no longer required deposit funding and therefore began the process of relinquishing its UK deposit taking licence. Regulatory consent for this was granted in September 2016 after which NMR ceased to be regulated by the PRA but it remains regulated by the FCA.

On 1 April 2016, the Company completed the acquisition of Scott Harris UK Limited, an independent equity advisory business, for initial consideration of £3.6m plus deferred consideration which is contingent upon future business performance. To date, the performance of Scott Harris UK Limited has been broadly in line with business plans.

Rothschild & Co SCA announced on 21 March 2017 that it will change its financial year end from 31 March to 31 December. There will therefore be a 9 month accounting period until 31 December 2017. NMR will also change its year end in line with its ultimate parent.

Results overview

Profit before tax for the year to 31 March 2017 reduced to £73.7m, from £150.9m in the prior year which included £86.2m due to the sale of FALG. Stripping out the impact of the FALG sale, profits increased by £9.0m from £64.7m (13.9%). Net operating income increased by £31.8m (9.4%) to £369.1m after adjusting for the impact of the FALG sale.

This was mainly due to another record year in the Global Advisory business where net revenues increased by £19.8m (6.6%) to £318.0m. Rothschild Global Advisory has continued to improve its global market position and ranks 1st by number of completed transactions, for European and, for the first time, global transactions. Merchant Banking revenues have also grown and there is a good pipeline of new funds which should further improve revenues in the coming years.

These increased revenue levels resulted in an 8.6% increase in operating expenses, albeit that the compensation ratio of staff costs to adjusted operating income reduced to 68.2%.

The Company continues to make good progress in managing down the legacy commercial lending book with a small net recovery against impairments this year. Other impairments in 2016 and 2017 reflect the impact of capital reductions in Group entities with the offsetting amounts recognised as dividend income.

After adjusting for those dividends that followed capital reductions and the sale of FALG (2017: £14.8m and 2016: £132.5m), dividend income showed a moderate increase to £17.7m from £14.4m.

| Key Performance Indicators | 2017 | 2016 |
|---------------------------------------|-------|-------|
| Profit before tax (£m) | 73.7 | 150.9 |
| Net fee income (£m) | 337.0 | 314.4 |
| Compensation ratio* | 68.2% | 68.8% |
| Net legacy banking book exposure (£m) | 86.0 | 107.0 |
| Total capital ratio | 50.7% | 26.5% |

*Compensation ratio is ongoing staff costs as a proportion of total operating income adjusted to exclude intra-Group dividends and to include recharges of expenses to other Group entities. Staff costs exclude redundancy payments, those staff costs related to the purchase of a subsidiary (see note 16) and the revaluation of share-based employee liabilities.

The effective tax rate of 15.8% (2016: 7.5%) is lower than the UK tax rate of 20%, principally due to non-taxable dividend income from Group companies (less non tax-deductible impairment provisions).

Balance sheet

The year has seen further progress in reducing balance sheet risks with total assets down £204m to £878m, largely due to the repayment of customer deposits prior to the relinquishment of the deposit taking licence.

Overall, lending balances have remained at similar levels with additional lending to support Rothschild & Co Group entities offsetting a reduction in the legacy commercial lending book which has reduced by a further £21m to £86m. Surplus liquidity which had previously largely been held on deposit at the Bank of England, is now invested in UK government securities and AAA rated money market funds, thereby ensuring that the Company continues to maintain a strong liquidity position.

Capital and dividends

Over the course of the year, total equity increased by £4.8m to £558.1m after the payment of £50m of dividends. The Company's total capital ratio at 31 March 2017 has improved to 50.7% and continues to be well above regulatory requirements. Details of these requirements are disclosed in note 2.6 to the accounts.

Governance and risk management

NMR is an integral part of the wider Rothschild & Co Group and, as such, the governance and risk management framework operates within the overall Rothschild & Co Group structure, whilst ensuring that the requirements of the Company are fully covered. The key governance committees to which the NMR Board has delegated authority are summarised on page 6.

The Chief Risk Officer co-ordinates policy and promotes the development and maintenance of effective risk management procedures throughout the Rothschild & Co Group. Alongside this, the Group Internal Audit team reviews the internal control framework and reports its findings to the Rothschild & Co Group Audit Committee, as well as reporting NMR matters to the NMR Board.

The key uncertainties to which the Company is exposed are the macroeconomic conditions in the markets in which we operate as well as changes in the regulatory environment. The key risks continue to be credit, market, liquidity, pension fund, regulatory, reputational and other operational risks. Further information regarding financial risk is disclosed in note 2 of the financial statements. These risks are closely monitored and controlled as part of the overall risk controls and are taken into account in the Board's periodic assessment of capital and liquidity adequacy (including the Individual Capital Adequacy Assessment Process ("ICAAP")). For a business such as ours, loss of key personnel is a material risk which the Company seeks to mitigate through training, career development and remuneration policies.

By Order of the Board



Nigel Higgins, Chief Executive Officer
New Court, St Swithin's Lane, London EC4N 8AL
5 June 2017

Report of the Directors

The Directors present their Directors' report and financial statements for the year ended 31 March 2017. An overview of the business and its performance is included in the strategic report.

Dividends

During the year the Company paid dividends of £50,000,000 (2016: £50,000,000).

Directors

The Directors who held office during the year were as follows:

Peter Smith (Non-executive Chairman)

Anthony Alt (Deputy Chairman)

Nigel Higgins (Chief Executive Officer)

Peter Barbour

Daniel Bouton (Non-executive) - resigned 21 March 2017

Christopher Coleman

Andrew Didham (Non-executive)

Sir Anthony Salz - resigned 21 March 2017

Jonathan Westcott

Directors' indemnity

The Company has provided qualifying third-party indemnities for the benefit of its Directors. These were provided during the period and remain in force at the date of this report.

Corporate responsibility

The Company 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 Company'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.

Our community investment ambition is to raise and realise the aspirations of young people from disadvantaged backgrounds. Offering a combination of skills-based employee volunteering and strategic financial contributions we pursue long term partnerships with charities, educational establishments and social enterprises which share our goals. We focus on helping disadvantaged young people to develop the skills that will help them to succeed at school and in the workplace, and on instilling in them the confidence to be more ambitious. In addition, we use our advisory skills to help social enterprises whose aims are aligned with ours to develop and transform their business models.

Staff

During the year the Company continued with its long-established policy of providing employees with information on matters of concern to them and on developments within the Rothschild & Co Group. The interest of all staff in the performance of the Group is realised through the Company'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 Company and, if necessary, appropriate training is provided.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

Audit Information

The Directors who held office at the date of approval of this Report of the Directors 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



Nigel Higgins, Chief Executive Officer

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

5 June 2017

Committees

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

R&Co Group Committees

R&Co Group Executive Committee

The purpose of the Group Executive Committee is to formulate strategy for the Rothschild & Co 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.

R&Co Group Assets and Liabilities Committee

This committee is responsible for monitoring and managing all balance sheet risks within the Group, overseeing all Treasury operations within the Group and having oversight of the Group Credit Committee.

R&Co Group Credit Committee - Corporate Credit Sub-Committee

This committee is responsible for the management of corporate lending exposures (including credit risk and the pricing of loans). Exposures exceeding certain limits are subject to ratification by the R&Co Group Assets and Liabilities Committee.

New Client Acceptance Committee

This committee approves, from a reputational, money laundering and due diligence perspective, all new NMR clients to be accepted by the Global Advisory business.

Membership

Nigel Higgins (Co-Chairman), Olivier Pécoux (Co-Chairman), Paul Barry, Mark Crump, Marc-Olivier Laurent, Robert Leitão, Richard Martin, Alain Massiera, Bruno Pfister, Gary Powell, Alexandre de Rothschild, Jonathan Westcott.

Membership

Mark Crump (Chairman), Anthony Alt (Deputy Chairman), Peter Barbour, Christian Bouet, Christopher Coleman, Alain Cornu-Thenard, Adam Greenbury, Richard Martin, David Oxburgh.

Membership

Christopher Coleman (Chairman), Adam Greenbury, Peter Griggs, John King, Ian Walker, Nick Wood.

Membership

Jonathan Westcott (Chairman), Sarah Blomfield, Adam Greenbury, Nicholas Ivey, Luba Kotzeva de Diaz, Axel Stafflage, Albrecht Stewen, Stuart Vincent, William Wells, Adam Young.

Committees of the Company which have oversight responsibilities

NMR Balance Sheet & Treasury Committee

This committee manages and monitors all matters relating to NMR and its subsidiaries' balance sheets and treasury matters.

Membership

Anthony Alt (Chairman), Peter Barbour, Christopher Coleman, Adam Greenbury, John King.

R&Co Committees which have oversight responsibilities

R&Co Group Audit Committee

This committee supervises and reviews the Group's process of drawing up financial information, provides an appraisal of the relevance of accounting methods used to draw up individual and consolidated accounts, reviews internal audit arrangements, liaises with the R&Co Group's external auditors and monitors the overall system and standards of internal control.

Membership

Peter Smith (Chairman), André Lévy-Lang, Sylvain Héfès, Carole Piwnica.

R&Co Group Remuneration and Nomination Committee

This committee sets the principles and parameters of the remuneration policy for the Group, including the nature and scale of the Group's short and long-term incentive performance arrangements, supervises and reviews the principles of the remuneration policy applicable to regulated persons, oversees the annual remuneration review and approves proposals for promotion.

Membership

Sylvain Héfès (Chairman), André Lévy-Lang, Peter Smith, Luisa Todini.

R&Co Group Risk Committee

This committee advises on the overall current and future risk appetite and strategy, reviews the material risks of the Group and the total exposures of the Group's activities to such risk, reviews the Group's broad guidelines relating to risk management and the effectiveness of the risk management policies, and examines incentives provided by the remuneration policies and practices to ensure that they are consistent in the light of the risk, capital and liquidity, and likelihood and timing of expected earnings for entities.

Membership

Sipko Schat (Chairman), Daniel Daeniker, Arielle Malard de Rothschild.

Statement of Directors' responsibilities in respect of the strategic report, the report of the Directors and the financial statements

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

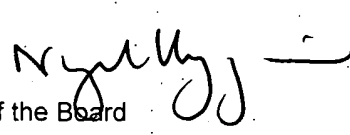
Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law.

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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 Company will continue in business.

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

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


By Order of the Board

Nigel Higgins, Chief Executive Officer
New Court, St Swithin's Lane, London EC4N 8AL
5 June 2017

Independent auditor's report to the members of N M Rothschild & Sons Limited

We have audited the financial statements of N M Rothschild & Sons Limited for the year ended 31 March 2017 set out on pages 10 to 51. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

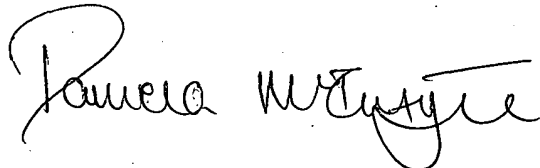
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of N M Rothschild & Sons Limited

Matters on which we are required to report by exception

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

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



Pamela McIntyre (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London E14 5GL

5 June 2017

Income statement

For the year ended 31 March 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|-------|----------------|----------------|
| Interest and similar income | 4 | 6,884 | 16,314 |
| Interest expense and similar charges | 4 | (2,053) | (11,265) |
| Net interest income | | 4,831 | 5,049 |
| Fee and commission income | 5 | 417,891 | 351,444 |
| Fee and commission expense | 5 | (80,853) | (37,057) |
| Net fee and commission income | | 337,038 | 314,387 |
| Dividend income | 6 | 32,486 | 146,895 |
| Net trading income | 7 | 2,122 | 943 |
| Other operating income | 8 | 6,475 | 2,077 |
| Total operating income | | 382,952 | 469,351 |
| Impairment gains/(losses) on loans and other credit risk provisions | 12,13 | 939 | (1,511) |
| Impairment losses on available-for-sale equities | 13 | - | (24,993) |
| Impairment of investment in subsidiary undertakings | 16 | (14,749) | (19,320) |
| Net operating income | | 369,142 | 423,527 |
| Operating expenses | 9 | (291,628) | (268,609) |
| Depreciation | 18 | (3,797) | (4,061) |
| Profit before tax | | 73,717 | 150,857 |
| Tax | 11 | (11,666) | (11,305) |
| Profit after tax | | 62,051 | 139,552 |
| Attributable to: | | | |
| Ordinary shareholders | | 54,859 | 132,677 |
| Holders of perpetual instruments | | 7,192 | 6,875 |
| | | 62,051 | 139,552 |

The notes on pages 15 to 51 form an integral part of these financial statements

Statement of comprehensive income

For the year ended 31 March 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|----------------|----------------|
| Profit after tax | | 62,051 | 139,552 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial (losses)/gains on defined benefit pension funds | 21 | (5,393) | 19,314 |
| Income tax thereon | 11 | (856) | (7,408) |
| | | (6,249) | 11,906 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Change in fair value of assets classified as available-for-sale | | 8,411 | 8,684 |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | | (2,046) | (1,090) |
| Effective portion of changes in fair value of cash flow hedges | | - | (3) |
| Income tax on other comprehensive income | 11 | (557) | 432 |
| | | 5,808 | 8,023 |
| Other comprehensive income for the financial year, net of income tax | | (441) | 19,929 |
| Total comprehensive income for the financial year | | 61,610 | 159,481 |
| Attributable to: | | | |
| Ordinary shareholders | | 54,418 | 152,606 |
| Holders of perpetual instruments | | 7,192 | 6,875 |
| | | 61,610 | 159,481 |

The notes on pages 15 to 51 form an integral part of these financial statements

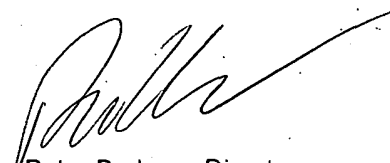
Balance sheet

At 31 March 2017

| | Note | 2017 £'000 | 2016 £'000 |
|--|------|----------------|------------------|
| Assets | | | |
| Cash and balances at central banks | | 16 | 400,097 |
| Loans and advances to banks | 12 | 159,420 | 13,907 |
| Loans and advances to customers | 12 | 130,711 | 123,743 |
| Debt and equity securities | 13 | 352,748 | 305,268 |
| Derivatives | 14 | 942 | 3,034 |
| Other assets | 15 | 126,727 | 107,703 |
| Investments in subsidiary undertakings | 16 | 11,411 | 21,582 |
| Investments in associates and joint ventures | 17 | 30,280 | 30,280 |
| Property, plant and equipment | 18 | 32,542 | 35,883 |
| Deferred tax assets | 20 | 33,258 | 40,423 |
| Total assets | | 878,055 | 1,081,920 |
| Liabilities | | | |
| Due to banks | | 32,613 | 8,460 |
| Due to customers | | 32,533 | 265,371 |
| Derivatives | 14 | 6 | 2,212 |
| Other liabilities | 19 | 72,860 | 91,430 |
| Current tax liabilities | | 3,032 | 1,475 |
| Accruals and deferred income | | 178,864 | 159,590 |
| Total liabilities | | 319,908 | 528,538 |
| Equity | | | |
| Share capital | 27 | 57,655 | 57,655 |
| Share premium account | | 97,936 | 97,936 |
| Retained earnings | | 263,738 | 264,781 |
| Other reserves | | 14,483 | 8,675 |
| | | 433,812 | 429,047 |
| Perpetual instruments | 28 | 124,335 | 124,335 |
| Total equity | | 558,147 | 553,382 |
| Total equity and liabilities | | 878,055 | 1,081,920 |

The accounts on pages 10 to 51 were approved by the Board of Directors and were signed on its behalf by:


Nigel Higgins, Chief Executive Officer
5 June 2017


Peter Barbour, Director
5 June 2017

The notes on pages 15 to 51 form an integral part of these financial statements

Statement of changes in equity

For the year ended 31 March 2017

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Available- for-sale reserve £'000 | Hedging reserve £'000 | Perpetual instruments £'000 | Total equity £'000 |
|---|---------------------------|---------------------------|-------------------------------|--|-----------------------------|-----------------------------------|-----------------------|
| At 1 April 2016 | 57,655 | 97,936 | 264,781 | 8,675 | - | 124,335 | 553,382 |
| Profit after tax | - | - | 54,859 | - | - | 7,192 | 62,051 |
| Other comprehensive income (net of tax): | | | | | | | |
| Actuarial losses on defined benefit pension funds | - | - | (6,249) | - | - | - | (6,249) |
| Available-for-sale securities | - | - | - | 5,808 | - | - | 5,808 |
| Total comprehensive income | - | - | 48,610 | 5,808 | - | 7,192 | 61,610 |
| Dividends paid | - | - | (50,000) | - | - | - | (50,000) |
| Equity-settled share-based payments | - | - | 347 | - | - | - | 347 |
| Interest on perpetual instruments | - | - | - | - | - | (8,990) | (8,990) |
| - tax thereon | - | - | - | - | - | 1,798 | 1,798 |
| At 31 March 2017 | 57,655 | 97,936 | 263,738 | 14,483 | - | 124,335 | 558,147 |
| | | | | | | | |
| At 1 April 2015 | 57,655 | 97,936 | 169,864 | 650 | 2 | 124,335 | 450,442 |
| Profit after tax | - | - | 132,677 | - | - | 6,875 | 139,552 |
| Other comprehensive income (net of tax): | | | | | | | |
| Actuarial gains on defined benefit pension funds | - | - | 11,906 | - | - | - | 11,906 |
| Available-for-sale securities | - | - | - | 8,025 | - | - | 8,025 |
| Cash flow hedges | - | - | - | - | (2) | - | (2) |
| Total comprehensive income | - | - | 144,583 | 8,025 | (2) | 6,875 | 159,481 |
| Dividends paid | - | - | (50,000) | - | - | - | (50,000) |
| Equity-settled share-based payments | - | - | 334 | - | - | - | 334 |
| Interest on perpetual instruments | - | - | - | - | - | (8,593) | (8,593) |
| - tax thereon | - | - | - | - | - | 1,718 | 1,718 |
| At 31 March 2016 | 57,655 | 97,936 | 264,781 | 8,675 | - | 124,335 | 553,382 |

The notes on pages 15 to 51 form an integral part of these financial statements

Cash flow statement

For the year ended 31 March 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|-------|---------------|---------------|
| Cash flow from operating activities | | | |
| Profit before tax | | 73,717 | 150,857 |
| Adjustments to reconcile net profit to cash flow from operating activities | | | |
| Non-cash items included in net profit and other adjustments | | | |
| Depreciation | 18 | 3,797 | 4,061 |
| Dividends received from subsidiaries, associates and joint ventures | 6 | (29,311) | (120,699) |
| Impairment of financial assets (net of recovery) | | 13,810 | 45,824 |
| Profit on disposal of loans and available-for-sale assets | 8 | (2,237) | (956) |
| Equity-settled share-based payments | | 347 | 334 |
| | | (13,594) | (71,436) |
| Net decrease/(increase) in operating assets and liabilities | | | |
| Derivatives | | (114) | 13,792 |
| Debt and equity securities | 13 | (38,640) | (115,473) |
| Loans and advances to customers | 12 | (6,267) | 237,312 |
| Other assets | 15 | (19,024) | (23,061) |
| Net due to / from banks (excluding cash equivalents) | | 24,153 | (272,567) |
| Due to customers | | (232,838) | (211,677) |
| Accrued expenses and other liabilities | | (4,689) | (6,296) |
| Income taxes (paid)/received (net) | | (2,559) | 142 |
| | | (279,978) | (377,828) |
| Net cash flow (used in)/from operating activities | | (219,855) | (298,407) |
| Cash flow (used in)/from investing activities | | | |
| Acquisition/increase in stake of subsidiaries, associates and joint ventures | 16,17 | (4,578) | (350) |
| Dividends received from subsidiaries, associates and joint ventures | 6 | 29,311 | 120,699 |
| Proceeds from disposal of subsidiaries, associates and joint ventures | 16,17 | - | 3,956 |
| Purchase of fixed assets | 18 | (456) | (457) |
| Net cash flow from investing activities | | 24,277 | 123,848 |
| Cash flow used in financing activities | | | |
| Dividends paid | 24 | (50,000) | (50,000) |
| Interest paid on perpetual instruments | 24 | (8,990) | (8,593) |
| Net cash flow used in financing activities | | (58,990) | (58,593) |
| Net decrease in cash and cash equivalents | | (254,568) | (233,152) |
| Cash and cash equivalents at 1 April | | 414,004 | 647,156 |
| Cash and cash equivalents at 31 March | 25 | 159,436 | 414,004 |

Interest receipts and payments during the year were as follows:

| | 2017 £'000 | 2016 £'000 |
|-------------------|---------------|---------------|
| Interest received | 7,384 | 18,713 |
| Interest paid | 7,849 | 19,867 |

The notes on pages 15 to 51 form an integral part of these financial statements

Notes to the financial statements

(forming part of the financial statements)

1. Summary of significant accounting policies

N M Rothschild & Sons Limited ("the Company") is a private limited company incorporated in England and Wales. The Company's registered office is at New Court, St Swithin's Lane, London, EC4N 8AL.

Developments in reporting standards and interpretations

Standards affecting the financial statements

There were no new standards or amendments to standards that have been applied in the financial statements for the year ended 31 March 2017.

New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for accounting periods ending after 31 March 2017 and therefore have not been applied in preparing these financial statements. The Company is currently reviewing these new standards to determine their effects on the Company's financial reporting. Those that may have a significant effect on the financial statements of the Company are:

Accounting standards first effective for accounting periods beginning on or after 1 January 2018

IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and includes revised guidance in respect of the classification and measurement of financial assets and liabilities and introduces additional requirements for liabilities and hedge accounting as well as a new expected credit loss model for calculating impairment on financial assets. The most significant impact for the Company is to replace the current categorisation of financial assets (held-to-maturity, fair value through profit or loss, available-for-sale and loans and receivables) such that financial assets would only be measured at amortised cost or fair value, depending on the assets' contractual terms.

IFRS 15 Revenue from Contracts with Customers, which provides a principles-based framework for determining whether, how much and when revenue is recognised and replaces existing revenue standards. Whilst the full implications of the new standard have still to be assessed, it is currently not expected to have a material impact on future revenue recognition.

Accounting standards first effective for accounting periods beginning on or after 1 January 2019

IFRS 16 Leases, which introduces a single lessee accounting model whereby the classification of leases as either operating or financial leases is no longer relevant. Instead the standard requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months. Whilst the full implications of the new standard have still to be assessed, there are significant leases for the rental of property that have been entered into by the Company that are likely to require recognition in the financial statements.

Basis of preparation

These 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 or designated as fair value through profit or loss and all derivative contracts are stated at their fair value.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

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

Notes to the financial statements

(forming part of the financial statements)

Going concern

The Company's business activities, together with the principal risks and uncertainties, are set out in the strategic report. In addition, note 2 to the financial statements sets out the strategy and processes for managing the Company's capital and financial risks and provides details of its exposures to credit, market and liquidity risk. The Company has considerable financial 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.

There is, therefore, a strong expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

Investments in subsidiary undertakings

Subsidiary undertakings are all entities which are controlled by the Company. The Company 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiary undertakings are carried at cost less any impairment losses.

Associates and joint arrangements

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

Joint arrangements are where two or more parties, through a contractual arrangement, have joint control over the assets and liabilities of an arrangement. Depending on what those rights and obligations are, the joint arrangement will either be a joint operation (where the parties subject to the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement) or a joint venture (where the parties subject to the arrangement have rights to the net assets of the arrangement). During the year, the Company only had interests in joint ventures.

Investments in associates and joint ventures are carried at cost less any impairment losses.

Foreign exchange

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.

Derivative financial instruments

Derivatives are entered into for trading and risk management purposes and are measured at fair value, with transaction costs recorded immediately in the income statement. Subsequent to initial recognition, changes in fair value are recognised in the income statement.

Notes to the financial statements

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Interest income and expense

Interest income and expense represents interest arising out of lending and borrowing activities, interest on related hedging transactions and interest on debt securities. Interest income and expense is recognised in the income statement using the effective interest rate method.

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

Fee and commission income

The Company 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.

Financial assets and liabilities

The Company initially recognises loans and advances and deposits on the date on which they start. All other financial assets and liabilities are recognised on trade date.

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

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading (i.e. primarily acquired for the purpose of selling in the short term), assets designated as fair value through profit or loss, and derivatives. These financial assets are initially recognised at fair value, with transaction costs recorded immediately in the income statement, and are subsequently measured at fair value. Gains and losses arising from changes in fair value or on derecognition are recognised in the income statement as net trading income. Interest and dividend income from financial assets at fair value through profit or loss is recognised in trading income.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

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

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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 other comprehensive income 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. Translation differences on available-for-sale equities are included in the available-for-sale reserve in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payment is established.

Financial liabilities

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

Financial guarantee contracts

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Rothschild & Co Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee, whereupon the expected amount payable will be recognised.

Derecognition

The Company derecognises a financial asset when:

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

Determination of fair value

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

Securitisation transactions

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

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In general, the assets from these transactions are held on the Company's balance sheet on origination. However, to the extent that substantially all the risks and returns associated with the assets have been transferred to a third party, the assets are derecognised in whole or in part.

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

Impairment of financial assets

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

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

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

Impairment of loans and advances

The Company first assesses whether objective evidence of impairment exists individually for all loans and advances. 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. If no objective evidence of impairment exists for an individually assessed financial asset, it is included in a collective assessment for impairment with other assets with similar risk characteristics.

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

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

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

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

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

When a loan is deemed uncollectable, it is written off against the related allowance for loan impairment. Recoveries received in respect of loans previously written off are recorded as a decrease in the impairment losses on loans and advances and are recorded in the income statement in the year in which the recovery was made. Loans subject to individual impairment assessment whose terms have been renegotiated and which would have been past due or impaired had they not been renegotiated, are reviewed to determine whether they are impaired or past due.

Impairment of available-for-sale assets

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

For equity shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered evidence of impairment. If any such evidence exists, the cumulative loss is removed from other comprehensive income 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 other comprehensive income. However, any further decline in the fair value will be recognised as a further impairment charge.

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 Company to deliver cash (or another financial asset) to another entity. Where there is no such contractual obligation, the Company will classify the financial instrument as equity, otherwise it will be classified as a liability and carried at amortised cost. The terms of the perpetual debt instruments issued by the Company permit interest payments to be waived unless the Company has paid a dividend in the previous six months and are therefore considered to be equity.

Property, plant and equipment

All property, plant and equipment is stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset including, in respect of leasehold improvements, costs incurred in preparing the property for occupation.

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

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

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

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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, those assets are subject to an impairment review. If impaired, the carrying values of assets are written down by the amount of any impairment and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a fixed asset may be reversed when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the fixed asset is only increased up to the amount that it would have been had the original impairment not been recognised.

Finance and operating leases

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

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 cash and balances with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Pensions

The Company's post-retirement benefit arrangements are described in note 21. The Company 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.

Remeasurement gains and losses in the defined benefit schemes are recognised outside the income statement and presented in the statement of comprehensive income. The amount recognised in the balance sheet in respect of defined benefit schemes is the difference, if any, between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan's assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The principal assumptions are set out in note 21. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liabilities.

Employee benefits

The Company operates 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 vesting.

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

Share options are treated as equity-settled share-based payments. They are valued at the date they are granted to employees and that value is recognised in staff costs over the vesting period, with a corresponding adjustment to shareholders' equity. The fair value is calculated on the basis of the overall plan value at the date of grant. In the absence of any market for stock options, models are used to value the share-based payments. The only assumptions revised after the

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initial measurement, and hence resulting in a revaluation of the expense, are those relating to the probability that employees will leave the Rothschild & Co Group.

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.

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 Board of Directors.

Provisions and contingencies

Provisions are recognised only when the Company 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.

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 Company's control, or present obligations that are not recognised either because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be reliably estimated. Contingent liabilities are disclosed unless the possibility of a transfer of economic benefits is remote.

Accounting judgements and estimates

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

Valuation of financial assets and liabilities

Fair value is the price that would be received on selling an asset or paid to transfer a liability in an orderly transaction between market participants. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists (such as a recognised exchange), as this 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 Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

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

Impairment of financial assets

Assets are assessed at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is such objective evidence, and this has a negative effect on the estimated future cashflows from the asset, then an impairment loss is incurred. Management determines the size of the impairment allowance required using a range of factors such as the realisable value of any collateral, the likely

Notes to the financial statements

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recovery on liquidation or bankruptcy, the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

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

The accuracy of the allowances made depends on how accurately the Company estimates future cashflows for specific counterparties, in particular the fair value of any collateral, and the model assumptions and parameters used in determining provisions. While this necessarily involves judgement, the Company believes that its allowances and provisions are reasonable and supportable.

Pensions

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method and the principal assumptions used are set out in note 21. The assumptions that have the greatest impact on the measurement of the pension fund liability, along with their sensitivities, are also set out in note 21.

Deferred tax

Deferred tax assets, including those in relation to tax losses carried forward, are only recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. As part of the assessment of recoverability of deferred tax as at the balance sheet date, and using medium-term profit forecasts, the Company has considered the period over which sufficient taxable profits would arise to utilise the deferred tax assets. The UK government introduced restrictions on the utilisation of historic tax losses which affect the period over which the deferred tax assets will be utilised. Accordingly, to date, the Company has derecognised £6.5 million of deferred tax assets. The Company considers that there will be sufficient profits to utilise deferred tax assets that remain recognised on the balance sheet within a reasonable time frame.

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2. Financial risk management

2.1 Strategy in using financial instruments

The use of financial instruments is fundamental to the Company's banking and treasury activities. The Company provides a range of lending products to its clients and funds these activities from capital resources and borrowing and uses derivatives principally to manage its exposure to interest rate and currency risk. Further information on derivative contracts and the Company's hedging strategies is set out in note 14. The key risks arising from the Company'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 Company 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 Company's lending, trading and investment activities. Limits on credit risk are set by the R&Co Group Executive Committee and by the Credit Committee. The Credit Committee reviews concentrations and makes recommendations on credit decisions to the R&Co 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 Company's lending exposures is secured on property or other assets and the Company monitors the value of this collateral. For internal monitoring purposes, credit exposure on loans and debt securities is measured as the principal amount outstanding plus accrued interest. Credit exposure on derivatives is measured as the current replacement value plus an allowance for the potential change in replacement value.

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

Category 1

Exposures where the payment of interest or principal is not in doubt and which are not designated categories 2 to 5.

Category 2

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

Category 3

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

Past due but not impaired

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

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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.

| | 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 2017 | | | | | | | |
| Cash and balances at central banks | 16 | - | - | - | - | - | 16 |
| Derivatives | 942 | - | - | - | - | - | 942 |
| Loans and advances to banks | 159,420 | - | - | - | - | - | 159,420 |
| Loans and advances to customers | 62,094 | 2,448 | 16,503 | 11,258 | 69,044 | (30,636) | 130,711 |
| Debt securities | 68,030 | - | 324 | - | 2,145 | (938) | 69,561 |
| Commitments and guarantees | 162,510 | - | - | - | - | - | 162,510 |
| Other financial assets | 90,689 | - | - | 19,544 | 3,081 | (3,081) | 110,233 |
| Total | 543,701 | 2,448 | 16,827 | 30,802 | 74,270 | (34,655) | 633,393 |
| At 31 March 2016 | | | | | | | |
| Cash and balances at central banks | 400,097 | - | - | - | - | - | 400,097 |
| Derivatives | 3,034 | - | - | - | - | - | 3,034 |
| Loans and advances to banks | 13,907 | - | - | - | - | - | 13,907 |
| Loans and advances to customers | 41,831 | 2,830 | 56,496 | 1,288 | 73,407 | (52,109) | 123,743 |
| Debt securities | 208,196 | - | 4,461 | - | 1,088 | (1,088) | 212,657 |
| Commitments and guarantees | 119,544 | - | 143 | 112 | - | - | 119,799 |
| Other financial assets | 70,831 | - | - | 21,272 | 2,464 | (2,464) | 92,103 |
| Total | 857,440 | 2,830 | 61,100 | 22,672 | 76,959 | (55,661) | 965,340 |

The table below analyses amounts past due but not impaired:

| | Past due by < 6 months £'000 | Past due by > 6 months £'000 | Total £'000 |
|---------------------------------|------------------------------------|------------------------------------|----------------|
| At 31 March 2017 | | | |
| Loans and advances to customers | - | 11,258 | 11,258 |
| Other financial assets | 10,107 | 9,437 | 19,544 |
| Total | 10,107 | 20,695 | 30,802 |
| At 31 March 2016 | | | |
| Loans and advances to customers | - | 1,288 | 1,288 |
| Commitments and guarantees | 112 | - | 112 |
| Other financial assets | 10,165 | 11,107 | 21,272 |
| Total | 10,277 | 12,395 | 22,672 |

b. Collateral

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

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

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

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Unimpaired loans (categories 1 to 3) are covered by both specific and general collateral. Unimpaired amounts covered by specific collateral include property lending of £19.6m. Where a loan is deemed to be impaired (category 4 and 5 assets), the level of the impairment charge is primarily driven by any expected shortfall in the collateral value, although it is also influenced by the ability of the borrower to service the debt.

Collateral is valued independently at the time the loan is made and periodically thereafter depending on the specific circumstances. Management are able to roll forward a valuation for reporting purposes via a combination of specific knowledge of the collateral, the market and the application of general indices.

The table below gives an estimate of the fair value of collateral, all of which is property related, that could be realised by the Company as security against exposures to customers that are individually impaired and past due but not impaired. There is no collateral recognised for other asset classes.

| | Past due but not impaired 2017 £'000 | Individually impaired 2017 £'000 | Past due but not impaired 2016 £'000 | Individually impaired 2016 £'000 |
|--------------------------------|--|---|--|---|
| Property | 11,258 | 43,442 | 1,288 | 35,962 |
| Amount of loans collateralised | 11,258 | 48,954 | 1,288 | 37,022 |

c. Forbearance

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

Unimpaired loans extended in this manner are not categorised as either past due or as forborne. As at 31 March 2017, loans with a carrying value of £17.2m had been extended (2016: £33.4m), all of which were property loans.

There are a small number of loans which are overdue but not impaired pending an extension of maturity. As at 31 March 2017 these amounted to £11.3m (2016: £1.3m).

Some loans were renegotiated on substantially different terms than before. Typically these loans include revised covenants and higher margins to reflect higher credit risk as well as having extended maturities. But for these renegotiations the loans would have been deemed to have been impaired. Once a loan is forborne, it will continue to be recognised as forborne until the loan matures or is otherwise derecognised. As at 31 March 2017 the carrying value of all loans forborne was £1.8m (2016: £25.4m).

d. Credit risk concentrations

The Company monitors concentrations of credit risk by geographic location and by industry sector. The following tables show an analysis of credit risk by location and by sector. The location for loans and advances is determined by reference to the location of the borrower, and debt securities are recorded based on the location of the issuer of the security.

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(forming part of the financial statements)

| | UK and Channel Islands £'000 | Other Europe £'000 | US and Canada £'000 | Other £'000 | Total £'000 |
|------------------------------------|---------------------------------------|--------------------------|---------------------------|----------------|----------------|
| Credit risk by location | | | | | |
| At 31 March 2017 | | | | | |
| Cash and balances at central banks | 16 | - | - | - | 16 |
| Derivatives | 942 | - | - | - | 942 |
| Loans and advances to banks | 28,327 | 129,113 | 1,976 | 4 | 159,420 |
| Loans and advance to customers | 91,636 | 35,010 | - | 4,065 | 130,711 |
| Debt securities | 52,655 | 1,207 | 15,699 | - | 69,561 |
| Commitments and guarantees | 162,510 | - | - | - | 162,510 |
| Other financial assets | 35,144 | 55,774 | 3,188 | 16,127 | 110,233 |
| Total | 371,230 | 221,104 | 20,863 | 20,196 | 633,393 |
| At 31 March 2016 | | | | | |
| Cash and balances at central banks | 400,097 | - | - | - | 400,097 |
| Derivatives | 3,020 | 14 | - | - | 3,034 |
| Loans and advances to banks | 1,144 | 361 | 12,385 | 17 | 13,907 |
| Loans and advance to customers | 88,777 | 34,955 | - | 11 | 123,743 |
| Debt securities | 191,588 | 14,240 | 6,829 | - | 212,657 |
| Commitments and guarantees | 119,799 | - | - | - | 119,799 |
| Other financial assets | 39,877 | 37,102 | 3,690 | 11,434 | 92,103 |
| Total | 844,302 | 86,672 | 22,904 | 11,462 | 965,340 |

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Credit risk by industry sector | | |
| Materials | - | 11 |
| Financial (see below) | 73,460 | 54,758 |
| Real estate (see below) | 72,592 | 82,335 |
| Governments and Central Banks | 39,058 | 576,067 |
| Private persons | 674 | 1,082 |
| Related party loans, commitments and guarantees | 337,376 | 158,984 |
| Total | 523,160 | 873,237 |

Financial and real estate sector exposures are analysed as follows:

| | 2017 £'000 | 2016 £'000 |
|--------------------------------|---------------|---------------|
| Financial sector | | |
| Short term interbank exposures | 10,694 | 13,907 |
| Other | 62,766 | 40,851 |
| Total | 73,460 | 54,758 |

Short term interbank lending is held for liquidity management purposes.

| | 2017 £'000 | 2016 £'000 |
|---------------------------|---------------|---------------|
| Real estate sector | | |
| Senior loans | 64,909 | 69,781 |
| Subordinated/mezzanine | 7,683 | 12,554 |
| Total | 72,592 | 82,335 |

Real estate exposures are generally supported by income generated by a large number of tenants from a wide variety of industry sectors. Exposures are broadly evenly split between the major property types (retail, office and industrial) and are located predominantly within the UK. There are no material exposures to loans with elements of development financing.

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2.3 Market risk

Market risk arises as a result of the Company's activities in interest rate, currency, equity and debt markets and comprises interest rate, foreign exchange and equity and debt price risk. Exposure to market risk continues to be small in relation to capital.

Limits on market risk exposure are set by the R&Co Group Assets and Liabilities Committee and are independently monitored.

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

Equities

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

| | UK £'000 | Other Europe £'000 | North America £'000 | Total £'000 |
|--------------------------------------|-------------|--------------------------|---------------------------|----------------|
| Equity price risk by location | | | | |
| At 31 March 2017 | | | | |
| Equity investments and securities | 204,672 | 77,927 | 588 | 283,187 |
| At 31 March 2016 | | | | |
| Equity investments and securities | 25,052 | 67,559 | - | 92,611 |

£179,621,000 of the UK equities relate to investments in AAA rated money market funds which are held for liquidity diversification purposes. The underlying assets of the funds consist of a diversified portfolio of high quality Sterling denominated short term debt and debt related instruments. The funds are actively managed by third party investment teams and are defined as "Short-Term money Market Fund" by the European Securities and Markets Authority.

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

Excluding the money market funds which can be redeemed on demand, if the price of the remaining equities were to fall by 5 per cent, then there would be a post-tax charge to the income statement of £1,057,000 and a post-tax charge to equity of £3,907,000 (2016: £481,000 and £4,029,000 respectively). Similarly, if the price of the remaining equities were to rise by 5 per cent, then there would be a post-tax credit to the income statement of £1,057,000 and a post-tax credit to the equity of £3,907,000 (2016: £481,000 and £4,029,000 respectively).

Currency risk

The table below summarises net exposure to foreign currency exchange rate risk measured by reference to the foreign currency exposures of monetary assets and liabilities after taking account of positions in derivatives. The net exposure reflects timing differences between the recognition of foreign currency revenues and subsequent hedging transactions.

| | Long/(short) 2017 2016* £'000 £'000 | |
|-------|---|-------|
| US\$ | 10,064 | 1,208 |
| Euro | 1,273 | (289) |
| Other | 317 | 8 |

*The prior year figure has been restated

If the value of these currencies fell by 5 per cent against sterling, then there would be a post-tax charge to the income statement of £472,000 (2016: charge of £38,000). There would be no material impact on equity.

If the value of these currencies rose by 5 per cent against sterling, then there would be a post-tax credit to the income statement of £472,000 (2016: credit of £38,000). There would be no material impact on equity.

Notes to the financial statements

(forming part of the financial statements)

Interest rate risk

The following table summarises exposure to interest rate risk by showing the impact on the fair value of interest-bearing assets and liabilities, and of interest rate derivatives, if base interest rates in each currency shown moved up or down by 1 per cent. This table includes all interest rate risk, including that within the treasury and banking businesses and also the structural interest rate exposure that arose from the reinvestment of shareholders' funds.

| | Sterling £'000 | Euro £'000 | US\$ £'000 |
|-------------------------|-------------------|---------------|---------------|
| At 31 March 2017 | | | |
| + 1% | (396) | 69 | 31 |
| - 1% | 396 | (69) | (31) |
| At 31 March 2016 | | | |
| + 1% | (272) | (66) | (18) |
| - 1% | 272 | 66 | 18 |

2.4 Liquidity risk

Liquidity risk is defined as the risk that an entity cannot meet its cash obligations as they fall due. Liquidity risk arises principally from the mismatch of contractual maturities of assets and liabilities inherent in the business, including contingent liabilities. The Company's policy is to ensure that it has sufficient resources to meet its financial commitments as they are expected to fall due and this is monitored on a daily basis. This is overseen by the NMR Balance Sheet and Treasury Committee which, along with approving the types of liquid assets held by the Company, monitors projected cash positions over the next 18 months.

The tables below analyse the Company's financial assets and liabilities based on contractual maturity, apart from the equity investments in the money market funds which can be called upon for settlement on demand. Loan commitments and guarantees are included at the earliest date they can be drawn down or called upon.

| | Demand/ next day £'000 | 2 days - 3m £'000 | 3m - 1 yr £'000 | > 1 year £'000 | No fixed maturity £'000 | Total £'000 |
|------------------------------------|------------------------------|----------------------|--------------------|-------------------|-------------------------------|----------------|
| At 31 March 2017 | | | | | | |
| Cash and balances at central banks | 16 | - | - | - | - | 16 |
| Loans and advances to banks | 34,420 | 125,000 | - | - | - | 159,420 |
| Derivatives | - | 196 | 746 | - | - | 942 |
| Loans and advances to customers | 59,668 | 12,150 | 24,279 | 45,159 | (10,545) | 130,711 |
| Debt and equity securities | 179,621 | 35,038 | 4,074 | 30,449 | 103,566 | 352,748 |
| Other financial assets | - | 110,233 | - | - | - | 110,233 |
| Total | 273,725 | 282,617 | 29,099 | 75,608 | 93,021 | 754,070 |
| Due to banks | 23,524 | - | - | 9,089 | - | 32,613 |
| Due to customers | 32,533 | - | - | - | - | 32,533 |
| Derivatives | - | 6 | - | - | - | 6 |
| Commitments and guarantees | - | 162,510 | - | - | - | 162,510 |
| Other financial liabilities | - | 9,098 | 13,623 | - | - | 22,721 |
| Total | 56,057 | 171,614 | 13,623 | 9,089 | - | 250,383 |
| At 31 March 2016 | | | | | | |
| Cash and balances at central banks | 400,095 | 2 | - | - | - | 400,097 |
| Loans and advances to banks | 13,907 | - | - | - | - | 13,907 |
| Derivatives | - | 3,020 | - | 14 | - | 3,034 |
| Loans and advances to customers | 19,575 | 23,736 | 60,213 | 35,944 | (15,725) | 123,743 |
| Debt and equity securities | - | 101,082 | 70,909 | 40,666 | 92,611 | 305,268 |
| Other financial assets | - | 92,103 | - | - | - | 92,103 |
| Total | 433,577 | 219,943 | 131,122 | 76,624 | 76,886 | 938,152 |
| Due to banks | 8,460 | - | - | - | - | 8,460 |
| Due to customers | 67,826 | 148,599 | - | 48,946 | - | 265,371 |
| Derivatives | - | 1,604 | 608 | - | - | 2,212 |
| Commitments and guarantees | - | 119,799 | - | - | - | 119,799 |
| Other financial liabilities | - | 4,635 | 815 | - | - | 5,450 |
| Total | 76,286 | 274,637 | 1,423 | 48,946 | - | 401,292 |

Notes to the financial statements

(forming part of the financial statements)

2.5 Maturity of financial liabilities

The following table shows undiscounted contractual cash flows, including interest, payable by 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 Company.

| | Demand/ next day £'000 | 2 days - 3m £'000 | 3m - 1 yr £'000 | 1 yr - 5 yr £'000 | > 5yr | Total £'000 |
|-----------------------------------|------------------------------|----------------------|--------------------|----------------------|----------|----------------|
| At 31 March 2017 | | | | | | |
| Due to banks | 23,524 | 14 | - | 9,089 | - | 32,627 |
| Due to customers | 32,533 | - | - | - | - | 32,533 |
| Other financial liabilities | - | 9,098 | 13,623 | - | - | 22,721 |
| Total | 56,057 | 9,112 | 13,623 | 9,089 | - | 87,881 |
| Commitments and guarantees | - | 162,510 | - | - | - | 162,510 |
| At 31 March 2016 | | | | | | |
| Due to banks | 8,460 | - | - | - | - | 8,460 |
| Due to customers | 67,826 | 152,679 | - | 50,671 | - | 271,176 |
| Other financial liabilities | - | 4,635 | 815 | - | - | 5,450 |
| Total | 76,286 | 157,314 | 815 | 50,671 | - | 285,086 |
| Commitments and guarantees | - | 119,799 | - | - | - | 119,799 |

2.6 Capital management

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

The Financial Conduct Authority ("FCA") is responsible for setting and monitoring the Company's capital requirements. 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 that the Company is required to hold is largely determined by its balance sheet and off-balance sheet positions weighted according to the credit rating and type of exposure to counterparties. Processes are in place to ensure compliance with the minimum capital requirements.

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

Notes to the financial statements

(forming part of the financial statements)

The table below summarises the composition of regulatory capital.

| | 2017 £m | 2016 £m |
|--|--------------|----------------|
| Tier 1 capital | | |
| Called up share capital | 57.7 | 57.7 |
| Share premium account | 97.9 | 97.9 |
| Retained earnings and other reserves (excluding current year earnings) | 273.0 | 219.7 |
| Deductions from tier 1 capital* | (114.1) | (88.7) |
| Common equity tier 1 capital | 314.5 | 286.6 |
| Total tier 1 capital | 314.5 | 286.6 |
| Tier 2 capital | | |
| Perpetual subordinated notes | 124.3 | 124.3 |
| Deductions from tier 2 capital* | - | (61.2) |
| Total tier 2 capital | 124.3 | 63.1 |
| Total capital resources | 438.8 | 349.7 |
| Risk weighted assets (notional - unaudited) | | |
| Credit risk | 783.2 | 655.6 |
| Market and counterparty risk | 83.0 | 49.0 |
| Operational risk | - | 617.0 |
| | 866.2 | 1,321.6 |
| Capital ratios (unaudited) | | |
| Common equity tier 1 capital | 36.3% | 21.7% |
| Tier 1 capital | 36.3% | 21.7% |
| Total capital | 50.7% | 26.5% |

* Deductions from tier 1 and tier 2 capital relate to deferred tax assets and equity or loan investments in or to subsidiaries or other related parties.

3. Fair value of financial assets and liabilities

Fair value is the price that would be received on selling an asset or paid to transfer a liability in an orderly transaction between market participants. 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 this 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 Company. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date. The valuation may be derived from quotations received from various sources. Where the market is illiquid, the quotations may not be supported by prices from actual market transactions.

Valuation techniques are generally applied to over the counter derivative transactions and unlisted debt and equity securities. The most frequently applied pricing models and valuation techniques use discounted cashflows. The values derived from modelling discounted cashflows are significantly affected by judgements and assumptions made concerning factors such as the amounts and timing of future cashflows, discount rates, and credit quality.

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

- **Cash and balances at central banks, loans and advances to banks and due to banks.** The fair values of these instruments are materially the same as their carrying values due to their short term nature.
- **Loans and advances to customers.** The fair values of loans and advances to customers are based on observable market transactions, obtained from market data providers where available. Where observable market transaction data is not available, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions include estimates of current market pricing and valuations of collateral held, adjusted by appropriate indices.
- **Due to customers.** The fair values of these instruments are determined by discounting the future cashflows at current market interest rates for instruments of similar remaining maturities, adjusted for the appropriate credit spread.

Notes to the financial statements

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- **Other financial assets and liabilities.** Fair value is considered to be the same as carrying value for these assets.
- **Derivatives and debt and equity securities.** These are carried in the balance sheet at fair value, usually determined using quoted market prices or other observable inputs. 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 or using other valuation techniques.

The fair values of financial assets and liabilities have been classified into a three level valuation hierarchy, whereby the valuation level is determined using the following criteria:

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 (i.e. as prices) or indirectly (i.e. derived from market data to a significant extent). This category includes instruments that are valued based on quoted prices for similar instruments and for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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.

Financial assets and liabilities carried at amortised cost

| | Carrying value £'000 | Fair value £'000 | Measured using | | |
|---------------------------------|-------------------------|---------------------|------------------|------------------|------------------|
| | | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
| At 31 March 2017 | | | | | |
| Financial assets | | | | | |
| Loans and advances to banks | 159,420 | 159,420 | - | 159,420 | - |
| Loans and advances to customers | 130,711 | 122,599 | - | 73,645 | 48,954 |
| Other financial assets | 110,233 | 110,233 | - | 110,233 | - |
| Total | 400,364 | 392,252 | - | 343,298 | 48,954 |
| Financial liabilities | | | | | |
| Due to banks | 32,613 | 32,613 | - | 32,613 | - |
| Due to customers | 32,533 | 32,533 | - | 32,533 | - |
| Other financial liabilities | 22,721 | 22,721 | - | 22,721 | - |
| Total | 87,867 | 87,867 | - | 87,867 | - |
| At 31 March 2016 | | | | | |
| Financial assets | | | | | |
| Loans and advances to banks | 13,907 | 13,907 | - | 13,907 | - |
| Loans and advances to customers | 123,743 | 122,228 | - | 85,206 | 37,022 |
| Other financial assets | 92,103 | 92,103 | - | 92,103 | - |
| Total | 229,753 | 228,238 | - | 191,216 | 37,022 |
| Financial liabilities | | | | | |
| Due to banks | 8,460 | 8,460 | - | 8,460 | - |
| Due to customers | 265,371 | 266,346 | - | 266,346 | - |
| Other financial liabilities | 5,450 | 5,450 | - | 5,450 | - |
| Total | 279,281 | 280,256 | - | 280,256 | - |

Notes to the financial statements

(forming part of the financial statements)

Financial assets and liabilities carried at fair value

| | Carrying value equal to fair value £'000 | Measured using | | |
|------------------------------|--|------------------|------------------|------------------|
| | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
| At 31 March 2017 | | | | |
| Financial assets | | | | |
| Derivatives | 942 | - | 942 | - |
| Debt securities | 69,561 | 39,058 | 30,503 | - |
| Equity securities | 283,187 | 213,298 | 22,577 | 47,312 |
| Total | 353,690 | 252,356 | 54,022 | 47,312 |
| Financial liabilities | | | | |
| Derivatives | 6 | - | 6 | - |
| Total | 6 | - | 6 | - |
| At 31 March 2016 | | | | |
| Financial assets | | | | |
| Derivatives | 3,034 | - | 3,034 | - |
| Debt securities | 212,657 | 176,019 | 36,638 | - |
| Equity securities | 92,611 | 30,176 | 12,112 | 50,323 |
| Total | 308,302 | 206,195 | 51,784 | 50,323 |
| Financial liabilities | | | | |
| Derivatives | 2,212 | - | 2,212 | - |
| Total | 2,212 | - | 2,212 | - |

Assets measured at fair value based on Level 3

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

| Available-for-sale financial assets | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Opening balance | 50,323 | 72,351 |
| Total gains and (losses): | | |
| - in income statement (as "other operating income") | - | (506) |
| - through other comprehensive income ("change in fair value of assets classified as available for sale") | (3,011) | 4,851 |
| Settlements | - | (26,275) |
| Exchange | - | 13 |
| Other | - | (111) |
| Closing balance | 47,312 | 50,323 |

The amount recognised in the income statement includes £nil (2016: gains of £nil) in respect of assets held at the end of the reporting period.

The table below sets out information about significant unobservable inputs used at 31 March 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Description | Fair value £'000 | Valuation technique | Unobservable input | Fair value measurement sensitivity to unobservable inputs |
|--------------------------------------|---------------------|---|---|--|
| Available-for-sale equity securities | 25,000 | External valuation based on asset value | n/a | n/a |
| | 22,312 | Valuations of the underlying businesses | Discount to price to tangible book value of comparable listed companies (16%) | 10% increase in discount to 26% would reduce fair value by £827,000. |
| | | | Liquidity discount (20%) | 10% increase in the liquidity discount would reduce fair value by £2,789,000 |

Notes to the financial statements

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4. Net interest income

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Interest income | | |
| Interest earned on loans and advances | 4,761 | 14,469 |
| Interest earned on investment securities | 1,920 | 1,636 |
| Other | 203 | 209 |
| | 6,884 | 16,314 |
| Interest expense | | |
| Interest on amounts due to banks and customers | 2,053 | 11,265 |
| | 2,053 | 11,265 |

Included within interest income is £1,176,000 (2016: £1,633,000) in respect of interest income accrued on impaired financial assets.

5. Net fee and commission income

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Fee and commission income | | |
| Banking and credit related fees and commissions | 1,417 | 1,249 |
| Global advisory fees receivable | 398,313 | 334,719 |
| Other fees | 18,161 | 15,476 |
| | 417,891 | 351,444 |
| Fee and commission expense | | |
| Global advisory fees payable | 80,313 | 36,472 |
| Other fees paid | 540 | 585 |
| | 80,853 | 37,057 |

Global financial advisory fees payable represent fees paid to other members of the Rothschild & Co Group where the Company has worked in collaboration with another group company on a transaction, or fees paid to any subcontracted third parties.

6. Dividend income

| | 2017 £'000 | 2016 £'000 |
|--|---------------|----------------|
| Dividends from subsidiary undertakings | 27,218 | 116,080 |
| Dividends from associated undertakings | 2,093 | 2,384 |
| Dividends from joint ventures | - | 2,235 |
| Dividends from other group companies | 3,014 | 26,196 |
| Other dividends | 161 | - |
| | 32,486 | 146,895 |

Dividend income includes £14.8m (2016: £25.0m) of distributions following capital reductions. Additionally, in the year to March 2016, a dividend of £107.5m was received following the disposal of a subsidiary, Five Arrows Leasing Group Limited.

Notes to the financial statements

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7. Net trading income

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Foreign exchange gains | 1,138 | 767 |
| Interest rate instruments - trading | - | 437 |
| Interest rate instruments - hedging | - | (3) |
| Equities designated as fair value through profit and loss | 984 | (258) |
| | 2,122 | 943 |

Net trading income arises from foreign exchange revaluations and the revaluation of equities designated as fair value through profit or loss.

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

8. Other operating income

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Other operating income | | |
| Rental income | 137 | 85 |
| Gains less losses from disposals of loans and available-for-sale financial assets | 2,237 | 956 |
| Other | 4,101 | 1,036 |
| | 6,475 | 2,077 |

9. Operating expenses

| | Note | 2017 £'000 | 2016 £'000 |
|-------------------------|------|----------------|----------------|
| Staff costs | 10 | 258,785 | 234,322 |
| Administrative expenses | | 32,843 | 34,287 |
| | | 291,628 | 268,609 |

The auditor's remuneration was as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Audit fees relating to the Company | 132 | 156 |
| Audit fees relating to subsidiary undertakings and other affiliates | 96 | 99 |
| | 228 | 255 |

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

| | 2017 £'000 | 2016 £'000 |
|----------------------------------|---------------|---------------|
| Audit-related assurance services | 78 | 50 |
| Tax services | - | 9 |
| Other services | 9 | 91 |
| | 87 | 150 |

Notes to the financial statements

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10. Staff costs

| | Note | 2017 £'000 | 2016 £'000 |
|--------------------------------------|------|----------------|----------------|
| Fixed and variable remuneration | | 199,660 | 181,104 |
| Social security costs | | 26,430 | 24,004 |
| Staff benefits and other staff costs | | 20,666 | 17,425 |
| Pension costs | | | |
| - defined benefit plans | 21 | 6,286 | 6,680 |
| - defined contribution plans | 21 | 4,845 | 4,337 |
| Post-retirement benefits | | 898 | 772 |
| Total staff costs | | 258,785 | 234,322 |

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

| | 2017 | 2016* |
|------------------------------|------------|------------|
| Global Advisory | 414 | 422 |
| Banking and Merchant Banking | 61 | 65 |
| Support and other | 227 | 219 |
| | 702 | 706 |

*The prior year figure has been restated

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

| | 2017 | 2016* |
|------------------------------|------------|------------|
| Global Advisory | 426 | 414 |
| Banking and Merchant Banking | 57 | 65 |
| Support and other | 224 | 215 |
| | 707 | 694 |

*The prior year figure has been restated

Deferred remuneration and share-based payments

As part of its variable pay strategy, the Company operates various incentive schemes for the benefit of employees. These schemes consist of deferred cash bonuses and, for certain key staff, various deferred share-based payment awards.

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

A commitment to employees exists in connection with deferred remuneration. Some of this has not yet accrued because it relates to a future service period. The amount of potential future payments that have not yet accrued is £27,878,000 (2016: £26,204,000).

The objective of the deferred share-based payment awards is to link the reward of certain key staff with the performance of the Company. In addition to the requirement to remain employed by the Company, these awards may also be cancelled under specific circumstances.

The terms of the different share-based payment awards are as follows:

Rothschild & Co equity scheme

Rothschild & Co has granted options in Rothschild & Co shares to a number of key staff. Under the equity scheme rules, the equity scheme participants have been required to invest in Rothschild & Co shares and, for each share owned, Rothschild & Co has granted four share-options. Shares invested in are subject to a four-year lock-up period and the share-options granted are subject to a vesting period before exercise. A quarter of the share-options vest on each of the third, fourth, fifth and sixth anniversaries of the equity scheme and the share-options are exercisable on the vesting dates, but not later than the tenth anniversary of the award, at various prices according to when the options were issued.

Notes to the financial statements

(forming part of the financial statements)

Movements in the number of share-options outstanding are as follows:

| | 2017 | | 2016 | |
|--------------------------------------|-----------|-----------------------------------|-----------|-----------------------------------|
| | Number | Weighted average exercise price € | Number | Weighted average exercise price € |
| At 1 April | 1,500,000 | 19.45 | 1,300,000 | 18.63 |
| Issued | - | - | 200,000 | 24.75 |
| Forfeited | - | - | - | - |
| Expired | - | - | - | - |
| Cancelled | - | - | - | - |
| Exercised | - | - | - | - |
| At 31 March | 1,500,000 | 19.45 | 1,500,000 | 19.45 |
| Exercisable at the end of the period | - | - | - | - |

Share-options outstanding at 31 March were as follows:

| Exercise price range € | 2017 | | 2016 | |
|------------------------|-------------------------------|---|-------------------------------|---|
| | Number of options outstanding | Weighted average contractual life (years) | Number of options outstanding | Weighted average contractual life (years) |
| 17.50 | 325,000 | 6.5 | 325,000 | 7.5 |
| 18.00 | 325,000 | 6.5 | 325,000 | 7.5 |
| 19.00 | 325,000 | 6.5 | 325,000 | 7.5 |
| 20.00 | 325,000 | 6.5 | 325,000 | 7.5 |
| 23.62 | 50,000 | 8.7 | 50,000 | 9.7 |
| 24.12 | 50,000 | 8.7 | 50,000 | 9.7 |
| 25.12 | 50,000 | 8.7 | 50,000 | 9.7 |
| 26.12 | 50,000 | 8.7 | 50,000 | 9.7 |
| | 1,500,000 | 6.8 | 1,500,000 | 7.8 |

The options were valued by an independent valuer using a Black-Scholes option valuation model. The key inputs into this model were the price of the underlying Rothschild & Co shares, the expected volatility of the share price (for which the historic volatility has been the primary consideration), and the estimated exercise date of the options (which is the mid-point between the dates of vesting and expiry). The valuation was based on the assumption that all recipients will remain with the Group.

The fair value of the share-based payments made in the year was £nil (2016: £0.6m). This amount is charged to the income statement over the period of employee service required under the vesting conditions. As the options are equity-settled, there is no liability booked in the balance sheet in respect of these options, and there is no periodic charge or credit in the income statement as the options change in value.

Rothschild & Co share-based payments

The Company has committed to pay a number of staff deferred awards in the form of Rothschild & Co shares. The shares will be delivered to employees in October 2017 and November 2019 as long as the recipients are still employed by the Rothschild & Co Group at that time. The value of the shares at the date of award is expensed over the service period, until vesting. The liability is treated as a cash-settled share-based payment and revalued at each reporting period, with the changes in value recognised in the income statement.

The charge for the year arising from share-based payment schemes was as follows:

| | 2017 £'000 | 2016 £'000 |
|--------------------------------------|---------------|---------------|
| Rothschild & Co equity scheme | 1,221 | 622 |
| Rothschild & Co share-based payments | 3,524 | 1,699 |
| | 4,745 | 2,321 |

Notes to the financial statements

(forming part of the financial statements)

11. Tax

Tax charged to the income statement:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Current tax: | | |
| - Current period | 5,900 | 4,642 |
| - Prior year adjustments | 60 | (39) |
| Total current tax | 5,960 | 4,603 |
| Deferred tax: | | |
| - Origination and reversal of timing differences | 5,987 | 6,786 |
| - Prior year adjustments | (281) | (84) |
| Total deferred tax | 5,706 | 6,702 |
| Total tax charged to income statement | 11,666 | 11,305 |

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

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Deferred tax on available-for-sale financial assets | 603 | (187) |
| Current tax on available-for-sale financial assets | (46) | (244) |
| Deferred tax on cash flow hedges | - | (1) |
| Deferred tax on actuarial gains and losses on defined benefit pension schemes | 856 | 7,408 |
| Total tax charged to other comprehensive income | 1,413 | 6,976 |

Tax on items credited to equity:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Current tax on distributions to holders of perpetual instruments | (1,798) | (1,718) |

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

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Profit before tax | 73,717 | 150,857 |
| Tax calculated at the UK corporation tax rate of 20% (2016: 20%) | 14,743 | 30,171 |
| Adjustment to tax charge in respect of prior years | (221) | (123) |
| Impact on deferred tax of corporation tax rate change | (1,163) | (490) |
| Non tax deductible expenses | 1,058 | 893 |
| Group dividends not subject to tax | (6,465) | (28,798) |
| Other income not subject to tax | (487) | - |
| Irrecoverable dividend withholding tax | 479 | 887 |
| Non tax deductible impairment provisions | 2,950 | 9,217 |
| Other | 772 | (452) |
| Total tax charged to income statement | 11,666 | 11,305 |

Further information about deferred tax is presented in note 20.

Notes to the financial statements

(forming part of the financial statements)

12. Loans and advances

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Loans and advances to banks: | | |
| Included in cash and cash equivalents | 159,420 | 13,907 |
| | 159,420 | 13,907 |
| | | |
| | 2017 £'000 | 2016 £'000 |
| Loans and advances to customers: | | |
| Loans and advances to customers - at amortised cost | 158,819 | 172,871 |
| Allowance for credit losses | (30,636) | (52,109) |
| Accrued interest | 2,528 | 2,981 |
| | 130,711 | 123,743 |

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

| | Specific £'000 | Collective £'000 | Total £'000 |
|-------------------------------------|-------------------|---------------------|----------------|
| At 1 April 2016 | 36,384 | 15,725 | 52,109 |
| Charge/(credit) to income statement | 4,479 | (5,180) | (701) |
| Amounts written off | (23,727) | - | (23,727) |
| Recoveries | 263 | - | 263 |
| Exchange movements | 2,692 | - | 2,692 |
| At 31 March 2017 | 20,091 | 10,545 | 30,636 |
| At 1 April 2015 | 52,500 | 17,820 | 70,320 |
| Charge/(credit) to income statement | 3,419 | (2,095) | 1,324 |
| Amounts written off | (20,205) | - | (20,205) |
| Recoveries | 387 | - | 387 |
| Exchange movements | 283 | - | 283 |
| At 31 March 2016 | 36,384 | 15,725 | 52,109 |

13. Debt and equity securities

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Debt securities - available-for-sale | 70,402 | 213,603 |
| Allowance for impairment | (938) | (1,088) |
| Accrued interest | 97 | 142 |
| Total debt securities - available-for-sale | 69,561 | 212,657 |
| Equity securities - available-for-sale | 292,036 | 116,411 |
| Allowance for impairment | (34,153) | (35,823) |
| Total equity securities - available-for-sale | 257,883 | 80,588 |
| Equity securities - fair value through profit and loss | 25,304 | 12,023 |
| Total debt and equity securities | 352,748 | 305,268 |

Available-for-sale debt and equity securities may be analysed as follows:

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Debt securities | | |
| - Listed | 69,561 | 212,657 |
| - Unlisted | - | - |
| Total debt securities | 69,561 | 212,657 |
| Equity securities | | |
| - Listed | 33,703 | 31,370 |
| - Unlisted | 249,484 | 61,241 |
| Total equity securities | 283,187 | 92,611 |
| Total debt and equity securities | 352,748 | 305,268 |

Equity securities include shares in Rothschild & Co SCA, Third New Court Limited and Rothschild Holding AG, fellow subsidiaries of Rothschild Concordia SAS.

Notes to the financial statements

(forming part of the financial statements)

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

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Debt securities | | |
| At 1 April | 1,088 | 3,691 |
| Charge/(credit) to the income statement | (238) | 187 |
| Exchange movements | 88 | 285 |
| Amounts written off | - | (3,075) |
| At 31 March | 938 | 1,088 |
| Equity securities | | |
| At 1 April | 35,823 | 10,830 |
| Charge to the income statement | - | 24,993 |
| Exchange movements | 402 | - |
| Realised on disposal | (2,072) | - |
| At 31 March | 34,153 | 35,823 |

The movement in debt and equity securities is as follows:

| | 2017 £'000 | 2016 £'000 |
|--------------------------------------|----------------|----------------|
| At 1 April | 305,268 | 206,425 |
| Additions | 369,280 | 205,110 |
| Disposals (sale and redemption) | (334,711) | (91,276) |
| Gains from changes in fair value | 8,818 | 8,122 |
| Movement in allowance for impairment | 240 | (25,181) |
| Unwinding of discount | (5) | (17) |
| Movement in accrued interest | (45) | (362) |
| Exchange differences | 3,903 | 2,447 |
| At 31 March | 352,748 | 305,268 |

Interests in structured entities

The Company enters into transactions, in the normal course of business, with structured entities that are not controlled by the Company. The Company invests in these structured entities in conjunction with its role as collateral manager to these entities. These investments are held as available-for-sale debt securities with a carrying value, as at 31 March 2017, of £15,165,000 (2016: £13,312,000). The total assets of the structured entities as at 31 March 2017 were £297,218,000 (2016: £277,069,000).

14. Derivatives

The Company'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 Company and its counterparties, and are known as "over the counter" ("OTC") derivatives. The remainder are standardised in terms of their amounts and settlement dates and are bought and sold in organised markets and are known as exchange traded derivatives. Derivative instruments are carried at fair value, shown in the balance sheet as separate totals of positive fair values (assets) and negative fair values (liabilities). Positive fair values represent the cost to the Company of replacing all transactions with a fair value in the Company's favour if the counterparties default. Negative fair values represent the cost to the Company's counterparties of replacing all their transactions with the Company with a fair value in the counterparties' favour if the Company were to default. Positive and negative fair values on different transactions are only netted if there is a legal right of set-off, the transactions are with the same counterparty and the cashflows will be settled on a net basis. Changes in fair values of derivative instruments are recognised in trading income.

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

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

Derivatives may be transacted for hedging or trading purposes although the Company primarily enters into derivative transactions to hedge exposures in the non-trading book.

| | Notional principal | | Positive fair value | | Negative fair value | |
|--|--------------------|---------|---------------------|-------|---------------------|---------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Contracts held for risk management purposes | | | | | | |
| Derivatives designated as hedges: | | | | | | |
| Fair value interest rate swaps | - | 150,000 | - | 2,212 | - | - |
| | - | 150,000 | - | 2,212 | - | - |
| Contracts held for trading purposes | | | | | | |
| Forward foreign exchange contracts | 63,576 | 158,788 | 942 | 808 | (6) | (2,212) |
| Interest rate swaps | - | 600 | - | 14 | - | - |
| | 63,576 | 159,388 | 942 | 822 | (6) | (2,212) |
| | 63,576 | 309,388 | 942 | 3,034 | (6) | (2,212) |

15. Other assets

| | 2017 | 2016 |
|-------------------------------------|---------|---------|
| | £'000 | £'000 |
| Accounts receivable and prepayments | 81,089 | 63,439 |
| Accrued income | 9,762 | 6,815 |
| Intra-group receivables | 32,024 | 34,893 |
| Stock | 6 | 33 |
| Other | 3,846 | 2,523 |
| | 126,727 | 107,703 |

Accounts receivable are net of allowances of £3,081,000 (2016: £2,464,000).

16. Investments in subsidiary undertakings

| | 2017 | 2016 |
|-----------------------|----------|----------|
| | £'000 | £'000 |
| Cost at 1 April | 21,582 | 40,022 |
| Reclassification | - | 530 |
| Additions | 4,578 | 350 |
| Impairment provisions | (14,749) | (19,320) |
| Cost at 31 March | 11,411 | 21,582 |

During the year, the Company completed the acquisition of Scott Harris UK Limited, an independent equity advisory business for initial consideration of £3,577,000 plus deferred consideration which is contingent upon business performance. Based on business plans at the date of acquisition, £1,001,000 of that deferred consideration has been treated as part of the cost of acquisition. Part of the deferred consideration, payable to employees and directors of Scott Harris UK Limited, is not only contingent upon business performance but also that they remain in the employment of the company. This cost will be amortised as part of staff costs over the 3 year period to which the deferred remuneration relates. The amount charged during the year to March 2017 was £2,358,000 (2016: £nil).

The impairment provision of £14,749,000 followed a capital reduction and subsequent distribution by Five Arrows Finance Limited. Following the disposal of its subsidiary, Five Arrows Leasing Group Limited, in November 2015, the Company no longer required all of its capital.

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The subsidiary undertakings of the Company are detailed below. All subsidiary undertakings are registered in England and Wales except where otherwise indicated.

| | Percentage ownership | |
|---|----------------------|-----|
| | % | % |
| <i>The following companies are incorporated in England and Wales and have their registered offices at New Court, St Swithin's Lane, London EC4N 8AL:</i> | | |
| Five Arrows Managers LLP (formerly Elgin LLP) | | 100 |
| Five Arrows Finance Limited | | 100 |
| Five Arrows Leasing Holdings Limited | | 100 |
| Investor Perceptions Limited | | 100 |
| Lanebridge Holdings Limited | | 100 |
| Lanebridge Investment Management Limited | | 100 |
| Marplace (Number 480) Limited | | 100 |
| O C Investments Limited | | 100 |
| Rothschild Australia Holdings Limited | | 100 |
| Rothschild Credit Management Limited | | 100 |
| Rothschild Gold Limited | | 100 |
| Rothschild Limited | | 100 |
| Rothschild Reserve Limited | | 100 |
| Rothschilds Continuation Finance PLC | | 100 |
| Shield Trust Limited | | 100 |
| Scott Harris UK Limited | | 100 |
| Shield MBCA Limited | | 100 |
| <i>The following companies are incorporated overseas:</i> | | |
| Rothschild Australia Limited (incorporated in Australia with registered office at Level 41, 50 Bridge Street, Sydney, NSW 2000) | | 100 |
| Rothschild & Co Proprietary Limited (incorporated in Australia with registered office at Level 41, 50 Bridge Street, Sydney, NSW 2000) | | 100 |
| Elsinoré Part. e Serv. Ltda. (incorporated in Brazil with registered office at Av. Brigadeiro Faria Lima 2055/180. Andar, Jardim Paulistano - São Paulo, SP - 01451-000) | | 100 |
| Lanebridge (Arena Plaza) Jersey GP Limited (incorporated in Jersey, C.I. with registered office at Whiteley Chambers, Don Street, St. Helier, Jersey JE4 9WG) | | 100 |
| Rothschild Europe BV (incorporated in The Netherlands with registered office at Ankersmidplein 2, 1506 CK Zaandam), which owns the following subsidiaries: | | 50 |
| Rothschild GmbH (incorporated in Germany with registered office at Börsenstrasse 2-4, 60313 Frankfurt.) | | 100 |
| Rothschild SpA (incorporated in Italy with registered office at Via Santa Radegonda 8, 20123 - Milan) | 90.45 | |
| Rothschild & Co S.R.L. (incorporated in Italy with registered office at Via Santa Radegonda 8, 20123 - Milan) | 90.45 | |
| Rothschild S.A. (incorporated in Spain with registered office at Paseo de la Castellana 35, 3 planta, 28046 Madrid) | 98 | |
| Rothschild Portugal Limitada (incorporated in Portugal with registered office at Calçada Marquês de Abrantes, 40 - 1 Esq., 1200 - 719 Lisboa) | 99.89 | |
| Rothschild - Kurumsal Finansman Hizmetleri Limited Sirketi (incorporated in Turkey with registered office at Akmerkez Rezidans Apart Otel No. 14D2, Akmerkez IS Mekezi Yani, Nispetiye Caddesi, 34340 Etiler, Istanbul) | 99 | |
| Rothschild Polska Sp. z o.o. (incorporated in Poland with registered office at Rzymowskiego 34, 02-697 Warsaw) | 100 | |
| RCF (Russia) BV (incorporated in The Netherlands with registered office at Ankersmidplein 2, 1506 CK Zaandam) | 100 | |
| Rothschild (Middle East) Limited (incorporated in Dubai with registered office at Office 203, Level 2, Burj Daman, DIFC, PO Box 506570, Dubai) | 100 | |
| Rothschild (Qatar) LLC (incorporated in Qatar with registered office at PO Box 31316, Al Fardan Office Tower, West Bay 8th - 9th Floor, Doha) | 100 | |
| RCF (Israel) BV (incorporated in The Netherlands with registered office at Ankersmidplein 2, 1506 CK Zaandam) | 100 | |
| Rothschild Nordic AB (incorporated in Sweden with registered office at Strandvägen 7 A, 114 56 Stockholm) | 100 | |

Notes to the financial statements

(forming part of the financial statements)

17. Investments in associates and joint ventures

| | 2017 £'000 | 2016 £'000 |
|------------------|---------------|---------------|
| Cost at 1 April | 30,280 | 34,766 |
| Reclassification | - | (530) |
| Disposals | - | (3,956) |
| Cost at 31 March | 30,280 | 30,280 |

The Company's interests in associates and joint ventures are as follows:

| | Country of residence | Ownership interest | Description of business |
|-----------------------------------|--|--------------------|--------------------------|
| Rothschild & Cie Banque | France, with registered office at 29 Avenue de Messine, 75008, Paris. | 9.38% | Limited partnership bank |
| N M Rothschild Europe Partnership | England and Wales, with registered office at New Court, St. Swithin's Lane, London EC4N 8AL. | 50% | Financial advisory |

18. Property, plant and equipment

| | Leasehold improvements £'000 | Cars, fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
|--|---------------------------------|--------------------------------------|-----------------------------|----------------|
| Cost at 1 April 2016 | 48,602 | 1,905 | 9,428 | 59,935 |
| Additions | - | 456 | - | 456 |
| At 31 March 2017 | 48,602 | 2,361 | 9,428 | 60,391 |
| Accumulated depreciation at 1 April 2016 | 15,582 | 1,154 | 7,316 | 24,052 |
| Depreciation charge | 2,891 | 218 | 688 | 3,797 |
| At 31 March 2017 | 18,473 | 1,372 | 8,004 | 27,849 |
| Net book value at 31 March 2017 | 30,129 | 989 | 1,424 | 32,542 |
| Cost at 1 April 2015 | 48,602 | 1,448 | 9,428 | 59,478 |
| Additions | - | 457 | - | 457 |
| At 31 March 2016 | 48,602 | 1,905 | 9,428 | 59,935 |
| Accumulated depreciation at 1 April 2015 | 12,692 | 1,028 | 6,271 | 19,991 |
| Depreciation charge | 2,890 | 126 | 1,045 | 4,061 |
| At 31 March 2016 | 15,582 | 1,154 | 7,316 | 24,052 |
| Net book value at 31 March 2016 | 33,020 | 751 | 2,112 | 35,883 |

19. Other liabilities

| | Note | 2017 £'000 | 2016 £'000 |
|-------------------------------------|------|---------------|---------------|
| Accounts payable | | 7,549 | 1,965 |
| Intra-group payables | | 25,312 | 21,518 |
| Defined benefit pension liabilities | 21 | 30,361 | 61,411 |
| Other liabilities | | 9,638 | 6,536 |
| | | 72,860 | 91,430 |

Notes to the financial statements

(forming part of the financial statements)

20. Deferred income taxes

Deferred taxes are calculated on all temporary differences under the liability method using tax rates that have been substantively enacted at the balance sheet date and that are expected to apply when the temporary difference is realised. The current UK corporation tax rate is 20 per cent (2016: 20 per cent) although reductions in the rate to 19 per cent from April 2017 and to 17 per cent from April 2020 had been substantively enacted at the balance sheet date and are reflected in the carrying value of deferred tax.

The movement on the deferred tax account is as follows:

| | 2017 £'000 | 2016 £'000 |
|--------------------------------------|---------------|---------------|
| At 1 April | 40,423 | 54,345 |
| Recognised in Income | | |
| Income statement charge | (5,706) | (6,702) |
| Recognised in equity | | |
| Defined benefit pension arrangements | (856) | (7,408) |
| Available-for-sale securities | | |
| - fair value measurement | (603) | 187 |
| Cash flow hedges | | |
| - fair value measurement | - | 1 |
| At 31 March | 33,258 | 40,423 |

Deferred tax assets less liabilities are attributable to the following items:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Accelerated tax depreciation | 3,031 | 4,439 |
| Deferred profit share arrangements | 16,261 | 14,267 |
| Pension and other post retirement benefits | 6,061 | 11,744 |
| Available-for-sale securities | (622) | (19) |
| Tax losses | 8,527 | 9,992 |
| | 33,258 | 40,423 |

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

| | 2017 £'000 | 2016 £'000 |
|---|----------------|----------------|
| Accelerated tax depreciation | (1,408) | (1,880) |
| Deferred profit share arrangements | 1,994 | (2,328) |
| Available-for-sale securities | - | 99 |
| Pensions and other post retirement benefits | (4,827) | 206 |
| Tax losses | (1,465) | (2,423) |
| Other temporary differences | - | (376) |
| | (5,706) | (6,702) |

Deferred tax assets of £6,500,000 (2016: £6,500,000) have not been recognised. These represent £34,210,000 of unutilised tax losses.

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(forming part of the financial statements)

21. Defined benefit pension plans and other post-retirement benefits

The Company operates a pension scheme, the NMR Pension Fund ("the Fund"), for the benefit of employees of the Company as well as certain other Rothschild & Co 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 section established with effect from April 2003. The Company also has £1,559,000 (2016:£1,298,000) of unfunded obligations in respect of pensions and other post-retirement benefits.

For the defined benefit section, benefits are based on actual service and final pensionable salary. The weighted average duration of the expected benefit payments from the Fund is 20.5 years. The Fund is registered with HMRC for tax purposes, and is operated separately from the Company and managed by independent trustees. The trustees are responsible for payment of the benefits and management of the Fund's assets. The Fund is subject to UK regulations, which require the Company and trustees to agree a funding strategy and contribution schedule for the Fund.

As with most defined benefit schemes, the defined benefit section of the Fund exposes the Company to a number of risks including longevity, inflation, interest rate and investment performance. These risks are mitigated by an investment strategy for the Fund which aims to minimise the long term costs of the Fund. This is achieved by investing in a diversified selection of asset classes, which aims to reduce the volatility of returns and also achieves a level of matching with the underlying liabilities.

The matching assets that the Fund invests in include corporate bonds, government securities and a specific liability driven investment ("LDI") mandate. Overall the matching portfolio provides roughly a 35% hedge of the Fund's interest rate exposure and 50% of the Fund's inflation exposure. The LDI manager invests in a combination of bonds and swaps, depending on the relative attractiveness of each instrument.

Overall, the objective is to select assets which will generate income and capital growth to meet, together with new contributions, the cost of current and future benefits payable by the Fund.

The latest formal actuarial valuation of the Fund was carried out as at 31 March 2016 and has been updated for IAS 19 purposes to 31 March 2017 by qualified independent actuaries. As required by IAS 19, the values of the defined benefit obligation and current service cost have been measured using the projected unit credit method. The net charge to the income statement comprises current and past service costs, the net interest charge on the net defined benefit liability and administration expenses relating to the management of the pension funds. Remeasurement gains and losses are recognised in full, in the period in which they occur, outside the income statement and presented in other comprehensive income.

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

| | 2017 | 2016 | 2015 |
|--|-------|-------|-------|
| Discount rate | 2.80% | 3.60% | 3.40% |
| Retail price inflation | 3.20% | 2.90% | 3.00% |
| Consumer price inflation | 2.10% | 1.90% | 2.00% |
| Expected rate of uncapped salary increases | 2.00% | 2.00% | 2.00% |
| Expected rate of increase in pensions in payments: | | | |
| Capped at 5.0% per annum | 3.10% | 2.80% | 2.90% |
| Capped at 2.5% per annum | 2.10% | 2.00% | 2.00% |
| Life expectancy of a pensioner aged 60: | | | |
| Male | 29.2 | 28.7 | 28.6 |
| Female | 30.4 | 29.5 | 29.5 |
| Life expectancy of a future pensioner aged 60 in 20 years' time: | | | |
| Male | 31.1 | 30.7 | 30.6 |
| Female | 32.3 | 30.7 | 30.7 |

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The value placed on the defined benefit liabilities is sensitive to the actuarial assumptions used above. Those assumptions that have the most significant impact on the measurement of the liability, along with an indication of the sensitivity of the assumption, are as follows:

| | 2017 | 2016 |
|------------------------------------|----------|----------|
| | £'000 | £'000 |
| 0.5% increase in discount rate | (80,000) | (61,400) |
| 0.5% increase in price inflation | 63,900 | 50,900 |
| 1 year increase in life expectancy | 29,600 | 21,300 |

The sensitivities shown above reflect only the change in the assessed defined benefit obligation for the Fund. In practice, any movement leading to a change in the discount rate or price inflation is likely to be partially offset by a change in asset values, and the corresponding overall impact on the net liability is therefore likely to be lower than the amounts above.

The movement in the net defined benefit obligation is as follows:

| | Plan assets £'000 | Defined benefit obligations £'000 | Net defined benefit liability £'000 |
|---|----------------------|--------------------------------------|--|
| At 1 April 2016 | 652,382 | (713,793) | (61,411) |
| Current service cost (net of contributions paid by other plan participants) | - | (3,121) | (3,121) |
| Current service cost relating to other plan participants | - | (384) | (384) |
| Interest income/(cost) | 23,382 | (25,200) | (1,818) |
| Remeasurements due to: | | | |
| - actual return less interest on plan assets | 143,052 | - | 143,052 |
| - changes in financial assumptions | - | (148,583) | (148,583) |
| - changes in demographic assumptions | - | (10,985) | (10,985) |
| - experience gains/(losses) | - | 11,123 | 11,123 |
| Benefits paid | (30,166) | 30,166 | - |
| Contributions by the Company | 42,729 | - | 42,729 |
| Contributions by other plan participants | 384 | - | 384 |
| Administration expenses | (1,347) | - | (1,347) |
| At 31 March 2017 | 830,416 | (860,777) | (30,361) |

| | Plan assets £'000 | Defined benefit obligations £'000 | Net defined benefit liability £'000 |
|---|----------------------|--------------------------------------|--|
| At 1 April 2015 | 659,265 | (753,994) | (94,729) |
| Current service cost (net of contributions paid by other plan participants) | - | (2,649) | (2,649) |
| Current service cost relating to other plan participants | - | (1,572) | (1,572) |
| Interest income/(cost) | 22,391 | (25,255) | (2,864) |
| Remeasurements due to: | | | |
| - actual return less interest on plan assets | (27,658) | - | (27,658) |
| - changes in financial assumptions | - | 35,257 | 35,257 |
| - changes in demographic assumptions | - | - | - |
| - experience gains/(losses) | - | 11,715 | 11,715 |
| Benefits paid | (22,705) | 22,705 | - |
| Contributions by the Company | 20,684 | - | 20,684 |
| Contributions by other plan participants | 1,572 | - | 1,572 |
| Administration expenses | (1,167) | - | (1,167) |
| At 31 March 2016 | 652,382 | (713,793) | (61,411) |

Notes to the financial statements

(forming part of the financial statements)

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

| | 2017 £'000 | 2016 £'000 |
|------------------------------------|----------------|----------------|
| Quoted | | |
| Corporate bonds | 93,273 | 85,126 |
| Index-linked gilts | 28,353 | 36,008 |
| Liability driven investments (LDI) | 184,562 | 112,812 |
| Equities | 276,023 | 225,191 |
| Emerging market currency | - | 6,799 |
| Emerging market debt | 40,429 | 26,951 |
| Private markets | 25,868 | 22,741 |
| Structured credit | 19,559 | - |
| Unquoted | | |
| Fund of hedge funds | 49,033 | 56,717 |
| Private markets - unquoted | 69,905 | 48,670 |
| Leveraged loans | 8,680 | 7,744 |
| Equities | 670 | 676 |
| Cash and net current assets | 34,061 | 22,947 |
| | 830,416 | 652,382 |

Equities includes £670,000 (2016: £676,000) of shares in companies that are related parties of the Company.

Amounts recognised in the income statement are as follows:

| | Note | 2017 £'000 | 2016 £'000 |
|---|-----------|---------------|---------------|
| Employers' part of current service cost | | 3,121 | 2,649 |
| Net interest cost | | 1,818 | 2,864 |
| Administration expenses | | 1,347 | 1,167 |
| Total (included in staff costs) | 10 | 6,286 | 6,680 |

Amounts recognised in the statement of comprehensive income:

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Actuarial (losses) and gains recognised in the year | (5,393) | 19,314 |
| Cumulative actuarial losses recognised in the statement of comprehensive income | (182,640) | (177,247) |

Following the March 2016 triennial actuarial valuation of the Fund, the Company agreed a contribution plan with the trustees to reduce the resulting deficit in accordance with pensions regulation. The aim is to eliminate the funding deficit by 2023 with annual contributions of £15.0m along with an additional £22.0m contribution which was paid in March 2017. In addition, participating employers in the Fund have agreed to pay 46.6% of in-service members' pensionable salaries in respect of future accrual.

It is estimated that total contributions of £19.0m will be paid to the defined benefit pension schemes in the year ending 31 March 2018, of which it is estimated that the Company will pay £18.6m.

The Company has assessed that no further liability arises under IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This conclusion was reached because the trustees of the Fund do not have a unilateral power to wind up the Fund and the Fund's rules allow the Company an unconditional right to a refund assuming the gradual settlement of plan liabilities over time until all members have left the Fund.

Defined contribution schemes

| | Note | 2017 £'000 | 2016 £'000 |
|--------------------|------|---------------|---------------|
| Contributions paid | 10 | 4,845 | 4,337 |

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

Notes to the financial statements

(forming part of the financial statements)

22. Contingent liabilities and commitments

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Guarantees | | |
| Guarantees and irrevocable letters of credit | 145,674 | 119,210 |
| Commitments | | |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 16,836 | 589 |

From time to time the Company 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 Company's financial position.

23. Operating lease commitments

At 31 March 2017, the Company was obligated under a number of non-cancellable operating leases used for business purposes. The significant premises leases usually include renewal options and escalation clauses in line with normal office rental market terms.

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

| | 2017 £'000 | 2016 £'000 |
|-----------------------|----------------|----------------|
| Up to 1 year | 11,589 | 11,253 |
| Between 1 and 5 years | 43,426 | 44,986 |
| More than 5 years | 223,266 | 229,750 |
| | 278,281 | 285,989 |

Operating expenses include operating lease rentals of £9,454,000 (2016: £8,917,000).

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

| | 2017 £'000 | 2016 £'000 |
|-----------------------|---------------|---------------|
| Up to 1 year | 132 | 157 |
| Between 1 and 5 years | 599 | 600 |
| More than 5 years | 262 | 412 |
| | 993 | 1,169 |

24. Distributions

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Other equity interests | | |
| Perpetual Floating Rate Subordinated Loan (US\$100 million) | 1,128 | 590 |
| Perpetual Fixed Rate Subordinated Loan (£75 million) | 6,743 | 6,780 |
| Perpetual Floating Rate Subordinated Loan (€150 million) | 1,119 | 1,223 |
| | 8,990 | 8,593 |
| Tax credit thereon | (1,798) | (1,718) |
| | 7,192 | 6,875 |
| Ordinary shares | | |
| Interim dividends (paid) | 50,000 | 50,000 |
| | 57,192 | 56,875 |

The dividends per ordinary share were 87p (2016: 87p).

25. 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.

| | 2017 £'000 | 2016 £'000 |
|------------------------------------|----------------|----------------|
| Cash and balances at central banks | 16 | 400,097 |
| Loans and advances to banks | 159,420 | 13,907 |
| | 159,436 | 414,004 |

Notes to the financial statements

(forming part of the financial statements)

26. Transactions with related parties

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

| At 31 March | 2017 £'000 | 2016 £'000 |
|----------------------------|---------------|---------------|
| Loans and accrued interest | 8 | 7 |
| Due to customers | - | 231 |

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

Loans are made to directors for the purchase of travel season tickets and are provided on an interest-free basis.

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Key management personnel compensation: | | |
| Short-term employee benefits | 6,588 | 6,554 |
| Post-retirement benefits | 23 | 23 |
| Other deferred benefits | 5,228 | 5,096 |

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

| | 2017 | | 2016 | |
|--|-----------------------------|-----------------------|-----------------------------|-----------------------|
| | Loans and advances £'000 | Other assets £'000 | Loans and advances £'000 | Other assets £'000 |
| At 31 March | | | | |
| Amounts due from parent companies | 34,322 | 186 | 34,344 | 679 |
| Amounts due from subsidiary undertakings | 11,390 | 9,324 | 1,902 | 5,710 |
| Amounts due from associates and joint ventures | - | 1,312 | - | 1,022 |
| Amounts due from other related parties | 164,034 | 26,816 | 3,528 | 35,344 |

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:

| | 2017 | | | 2016 | | |
|--|-------------------------------------|--------------------------------|----------------------------|-------------------------------------|--------------------------------|----------------------------|
| | Due to banks and customers £'000 | Perpetual instruments £'000 | Other liabilities £'000 | Due to banks and customers £'000 | Perpetual instruments £'000 | Other liabilities £'000 |
| At 31 March | | | | | | |
| Amounts due to parent companies | 3,376 | - | - | 1,810 | - | - |
| Amounts due to subsidiary undertakings | | | | | | |
| - subordinated | - | 51,725 | - | - | 51,725 | - |
| - other | 10,799 | - | 5,133 | 25,439 | - | 7,858 |
| Amounts due to associates and joint ventures | - | - | 247 | 3,162 | - | 7,494 |
| Amounts due to pension funds | - | - | - | 3,843 | - | - |
| Amounts due to other related parties | | | | | | |
| - subordinated | - | 72,610 | - | - | 72,610 | - |
| - other | 41,893 | - | 8,243 | 23,034 | - | 7,162 |

Amounts payable include intra group borrowings and bank account balances held in the ordinary course of business.

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

| At 31 March | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Guarantees made on behalf of subsidiary undertakings | 145,674 | 118,733 |
| Guarantees made on behalf of other related parties | 128 | - |
| Guarantees received from other related parties | 4,065 | 2,360 |

Included in the above is a guarantee of £128,667,000 (2016: £118,733,000) of perpetual floating rate subordinated 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.

Notes to the financial statements

(forming part of the financial statements)

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

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

| At 31 March | 2017 £'000 | 2016 £'000 |
|----------------------------|---------------|---------------|
| Undrawn credit commitments | 5,930 | 607 |

The Company has entered into a lease agreement with a fellow subsidiary of Rothschild Concordia SAS for the rental of office space. The lease agreement expires in 2040 and is on normal commercial terms.

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

| | Parent companies £'000 | Subsidiary undertakings £'000 | Associates and joint ventures £'000 | Other related parties £'000 | Total £'000 |
|---------------------------------|------------------------------|-------------------------------------|--|--------------------------------------|----------------|
| 2017 | | | | | |
| Interest receivable | 677 | 357 | - | 142 | 1,176 |
| Interest payable | (1) | (7) | (2) | (12) | (22) |
| Fees and commissions receivable | 1,000 | 18,610 | - | 34,698 | 54,308 |
| Fees and commissions payable | - | (21,459) | (19,702) | (29,251) | (70,412) |
| Dividend income | 807 | 27,232 | 2,078 | 2,207 | 32,324 |
| Rent payable | - | - | - | (10,279) | (10,279) |
| Recoverable expenses | 7,883 | 337 | 180 | 12,321 | 20,721 |
| 2016 | | | | | |
| Interest receivable | 956 | 3,660 | - | 87 | 4,703 |
| Interest payable | (28) | (30) | (14) | (1,541) | (1,613) |
| Fees and commissions receivable | 1,000 | 6,934 | 37 | 22,607 | 30,578 |
| Fees and commissions payable | - | (14,706) | (12,157) | (8,340) | (35,203) |
| Dividend income | 810 | 116,080 | 4,619 | 25,386 | 146,895 |
| Rent payable | - | - | - | (10,138) | (10,138) |
| Recoverable expenses | 5,525 | 330 | 120 | 8,993 | 14,968 |

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

27. Share capital

| | 2017 | 2016 |
|---|-------------|-------------|
| Authorised | 199,900,000 | 199,900,000 |
| Allotted, called up and fully paid ordinary shares of £1 each | 57,654,551 | 57,654,551 |

28. Perpetual instruments

| | 2017 £'000 | 2016 £'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 |
| | 124,335 | 124,335 |

Notes to the financial statements

(forming part of the financial statements)

29. Parent undertaking and ultimate holding company

The largest group in which the results of the Company are consolidated is that headed by Rothschild Concordia SAS, incorporated in France, and whose registered office is at 23bis, Avenue de Messine, 75008 Paris. The smallest group in which they are consolidated is that headed by Rothschild & Co SCA, a French public limited partnership whose registered office is also at 23bis, Avenue de Messine, 75008 Paris. The accounts are available on Rothschild & Co website at www.rothschildandco.com.

The Company's immediate parent company is N M Rothschild Holdings Limited, a private company limited by shares and incorporated in England and Wales whose registered office is at New Court, St Swithin's Lane, London, EC4N 8AL.

30. Remuneration of directors

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Directors' emoluments | 3,641 | 3,628 |
| Amounts receivable under deferred profit share schemes | 270 | 502 |
| | 3,911 | 4,130 |
| Pension contributions to money purchase schemes | 23 | 23 |
| | 3,934 | 4,153 |

The emoluments of the highest paid director were £1,250,000 (2016: £1,250,000).

| | 2017 | 2016 |
|---|------|------|
| Retirement benefits are accruing to the following number of directors under | | |
| Money purchase schemes | 2 | 2 |
| Defined benefit schemes | 1 | 1 |