

JPMORGAN CAZENOVE LIMITED

Annual report and financial statements
Year ended 31 December 2006



**ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006**

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Directors' report

The directors submit their annual report and the audited financial statements of JPMorgan Cazenove Limited ('the Company') for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

The Company's main activities are investment banking and corporate broking. The Company, which also has a branch in Paris, is a member of The London Stock Exchange and is regulated by the Financial Services Authority.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The main risks and uncertainties facing the Company's business are market risk, in particular the risk of a downturn in the market, which has historically resulted in downturns in both primary and secondary business, competition from other investment banking organisations, and reputational risk.

Key performance indicators of the JPMorgan Cazenove Holdings Group are deemed by management to be more relevant at Group level rather than at the level of individual statutory entities. Key performance indicators in the respect of the JPMorgan Cazenove Holdings Group are shown below:

	2006	2005
Staff costs as a % of revenue	50	53
Costs as a % of income	64	69
Return on equity pre exceptional items and reserve movements as a %	116	92

These indicators are based upon a management view of the accounts whereby bonus share awards made over vesting periods just after a year end are seen as a cost in full for that year, and amortisation charges over vesting periods are consequently excluded.

No significant change in the Company's principal business activities is anticipated.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 4. Dividends of £72,000,000 were paid in respect of the year ended 31 December 2006 (31 December 2005: nil). The directors recommend an interim dividend of £112,000,000. The payment, if confirmed, will be presented in the Company's results in the year to 31 December 2007.

DIRECTORS

The following directors served throughout the year:

D L Mayhew
R M Pickering
M R P Power

DIRECTORS' INTERESTS

None of the directors has any direct beneficial interest in the shares of the Company. None of the directors held any interests in the shares or debentures of JPMorgan Cazenove Holdings and its subsidiaries or the shares or debentures in JPMorgan Chase & Co. and its subsidiaries, pursuant to Sections 324 and 328 of the Companies Act 1985.

EMPLOYEES

The Company did not have any UK employees during the year under review, but received services from JPMorgan Cazenove Service Company, the employer of UK based employees within the JPMorgan Cazenove Group. The Company has employees working in its Paris branch.

Directors' report

DONATIONS

The Company made no charitable donations during the year (2005 £9,333.42). No contributions or payments were made to any political organisation.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The financial statements are required by law to 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 year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each director (as at the date of this report) is responsible for ensuring that:

- a) so far as he is aware, there is no relevant audit information of which the auditors are unaware, and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

An elective resolution was passed on 24 January 2002, under the provisions of section 366A and section 252 of the Companies Act 1985, to dispense with holding annual general meetings and the laying of financial statements before the Company in a general meeting. The Company has also elected to dispense with the obligation to appoint auditors annually and, accordingly, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

By order of the Board



Jane Earl
Company Secretary

26 February 2007

Independent auditors' report to the members of JPMorgan Cazenove Limited

We have audited the financial statements of JPMorgan Cazenove Limited for the year ended 31st December 2006 which comprise the profit and loss account, the balance sheet, the reconciliation of movements of shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 February 2007

Profit and loss account

Year ended 31 December 2006

	Note	Year ended 31 12 06 £'000	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000	Year ended 31 12 05 £'000
TURNOVER	2		410,888		317,814
Staff costs	3	(188,680)		(142,044)	
Other administrative expenses		<u>(61,986)</u>		<u>(60,335)</u>	
Administrative expenses			<u>(250,666)</u>		<u>(202,379)</u>
OPERATING PROFIT	8		160,222		115,435
Interest receivable and similar income	5	10,765		6,022	
Gain on disposal of investments	12	1,549		1,055	
Interest payable and similar charges	6	(4,038)		(4,820)	
Cost of early redemption of subordinated debt	7	<u>-</u>		<u>(10,170)</u>	
			<u>8,276</u>		<u>(7,913)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			168,498		107,522
Tax charge on profit on ordinary activities	9		<u>(49,351)</u>		<u>(30,761)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			119,147		76,761
Dividends	10		<u>(72,000)</u>		<u>-</u>
RETAINED PROFIT FOR THE YEAR	23		<u>47,147</u>		<u>76,761</u>

All activities derive from continuing operations

There were no recognised gains or losses during the current or preceding year other than the retained profit disclosed above. Accordingly, no statement of total recognised gains or losses is presented.

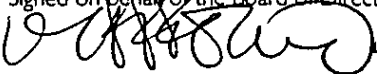
Balance sheet

31 December 2006

	Note	31 12 06 £'000	31 12 06 £'000	31 12 05 £'000	31 12 05 £'000
FIXED ASSETS					
Tangible assets	11	43,760		49,818	
Investment in subsidiaries	12	2,459		2,592	
			46,219		52,410
CURRENT ASSETS					
Financial assets held at fair value through the profit and loss account		92,105		68,346	
Available for sale investments	12	25		25	
Money paid against stock borrowed		128,705		103,962	
Margin held with clearing houses		4,560		2,659	
Market and client debtors	14	398,136		257,300	
Other debtors	15	31,578		51,906	
Cash at bank and in hand		142,452		83,436	
		797,561		567,634	
CREDITORS: Amounts falling due within one year					
Financial liabilities held at fair value through the profit and loss account		69,850		55,293	
Amounts due against stock lending		7,874		-	
Market and client creditors	16	344,207		228,138	
Other creditors including taxation and social security	17	90,407		52,794	
Bank overdraft		35,209		34,882	
		(547,547)		(371,107)	
NET CURRENT ASSETS			250,014		196,527
TOTAL ASSETS LESS CURRENT LIABILITIES			296,233		248,937
CREDITORS: Amounts falling due after more than one year					
Subordinated loans	26	50,000		50,000	
Other	19	11,284		12,582	
			(61,284)		(62,582)
PROVISIONS FOR LIABILITIES AND CHARGES	20		(15,898)		(14,451)
NET ASSETS			219,051		171,904
CAPITAL AND RESERVES					
Called up share capital	22		48,303		48,303
Share premium account			45,880		45,880
Revaluation reserve			393		393
Profit and loss account	23		124,475		77,328
EQUITY SHAREHOLDERS' FUNDS			219,051		171,904

These financial statements were approved by the Board of Directors on 26 February 2007

Signed on behalf of the Board of Directors


M R P Power
Director

Reconciliation of movements in shareholders' funds

Year ended 31 December 2006

	Note	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Profit for the financial year		119,147	76,761
Dividends	10	(72,000)	-
Net increase in shareholders' funds	23	47,147	76,761
Opening shareholders' funds		171,904	95,143
Closing shareholders' funds		219,051	171,904

Notes to the financial statements

I ACCOUNTING POLICIES

The financial statements are prepared on a going concern basis in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below.

Accounting convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and financial instruments in accordance with the Companies Act 1985 and applicable accounting standards.

Accounting period

The Company's financial period was the year ended 31 December 2006. The comparative amounts are for the year ended 31 December 2005.

Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the closing rates of exchange. Any foreign exchange differences are taken directly to the profit and loss account.

Leasehold improvements

Leasehold improvements are capitalised and depreciated over their useful estimated economic lives. This is restricted to the length of the relevant lease or to the date of the next break if the lease is shorter. This ranges from three years to the minimum lease term (25th December 2018).

Fixtures, fittings and equipment

Fixtures, fittings and equipment are held at cost less depreciation. The assets are depreciated over their useful economic lives which range from three to five years.

Reinstatement costs of leasehold properties

Costs of reinstating leasehold properties are capitalised and amortised over the life of the relevant lease. A related provision has been established.

Trading revenue

Turnover comprises

- i) Gains and losses on market making and other security transactions, which are arrived at after taking into account attributable dividends and interest payable and receivable. This is recorded on trade date.
- ii) Gross commissions from acting as agent in investment business, less rebates and commissions paid away. This is recorded on trade date.
- iii) Gross underwriting commissions received, less commissions paid away. This is recorded on the date on which it is entitled to be received and can be reliably measured.
- iv) Corporate finance and other fees. These are recognised when they are contractually due.

Interest receivable and payable

Interest receivable and payable are recognised on an accruals basis.

Operating leases – leasehold properties

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Contribution to fit-out costs

The contribution to the fit-out costs of 20 Moorgate from the former partners of Cazenove & Co. will be released to the profit and loss account over the useful economic lives of the underlying assets.

Notes to the financial statements

1 ACCOUNTING POLICIES (continued)

Clients' deposits

The firm holds money on behalf of clients in accordance with the Client Asset Rules of the Financial Services Authority. Such monies and the corresponding liability to clients are not shown on the face of the balance sheet, as the firm is not beneficially entitled to them. The amount held on behalf of clients at the year end is disclosed in note 24.

Fixed asset investments

Fixed asset investments held in subsidiary undertakings are valued at cost less any provision for impairment in value that the directors consider necessary.

Financial instruments

Financial instruments are recognised and derecognised on a trade date basis. They are measured at fair value, with movements in fair value going through the profit and loss account for instruments held for trading. Income on financial instruments is recognised when contractually due.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more or less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are recognised in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2 TURNOVER

	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Equities income	158,888	120,089
Corporate Finance/ Capital Markets Income	252,000	197,725
Total Income	410,888	317,814

Turnover is almost entirely derived from UK operations.

3 STAFF COSTS

JPMorgan Cazenove Service Company is the employer of all the UK based employees working for JPMorgan Cazenove Holdings and its subsidiaries. The average number of employees employed in the UK during the year was 788 (2005: 798). JPMorgan Cazenove Limited pays a majority of the total staff cost via management recharges from JPMorgan Cazenove Service Company. In the year ended 31 December 2006 this amounted to £185,682,000 (2005: £140,310,000). Staff costs of £2,998,000 (2005: £1,734,000) were incurred in respect of those employees working in the Company's overseas branch. The average number of overseas based employees for the year was 8 (2005: 7).

Pension disclosures are contained in the financial statements of JPMorgan Cazenove Service Company and JPMorgan Cazenove Holdings. JPMorgan Cazenove Service Company, as the employer of all JPMorgan Cazenove Holdings employees in the UK, makes contributions to a defined benefit pension scheme and a defined contribution scheme for all employees in respect of pensions.

Notes to the financial statements

4 DIRECTORS

	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Directors' emoluments		
Total emoluments (excluding pension contributions)	4,702	3,224
Highest paid director	2,051	1,502
Number of directors who are current members of a defined benefit pension scheme	No 1	No 2
Number of directors who are current members of a defined contribution scheme	0	0

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Interest receivable	9,287	6,019
Interest receivable from subsidiary undertakings	92	-
Dividends from subsidiary undertaking	1,382	-
Other income	4	3
	10,765	6,022

6 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Interest payable to group undertaking: JPMorgan Europe subordinated loan	2,570	2,170
Interest payable to group undertaking other	419	299
Interest payable on 8 1/2% subordinated loan stock	-	1,533
Other	1,049	818
	4,038	4,820

The 8 1/2% subordinated loan stock was redeemed on 28th February 2005

7 COSTS OF EARLY REDEMPTION OF SUBORDINATED DEBT

The cost of early redemption of the subordinated debt in the prior year represented the cost arising from the early redemption of JPMorgan Cazenove Limited's £100m subordinated loan in February 2005

Notes to the financial statements

8 OPERATING PROFIT

	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000
Operating profit is stated after charging/ (crediting)		
Depreciation	6,957	8,180
Foreign exchange differences	(1,683)	(934)
Operating lease rentals		
• land and buildings	7,015	7,018

Fees paid to auditors in respect of audit and non-audit services were borne by an affiliated company in the current and prior years

9 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax. The differences are explained below

9.1 ANALYSIS OF TAX CHARGE

	Year ended 31 12 06 £'000	Year ended 31 12 06 £'000	Year ended 31 12 05 £'000	Year ended 31 12 05 £'000
Corporation tax				
UK corporation tax at 30% (Year ended 31 12 05 30%)	28,428		18,221	
Consortium relief	21,301		12,454	
Adjustments in respect of prior years	(1,283)		161	
Current tax charge for the year		48,446		30,836
Deferred tax				
Timing differences, origination and reversal	(227)		(90)	
Adjustments in respect of prior years	1,132		15	
Total deferred tax charge		905		(75)
Tax on profit on ordinary activities		49,351		30,761

Notes to the financial statements

9.2 FACTORS AFFECTING TAX CHARGE FOR THE CURRENT YEAR

	31.12.06 £'000	31.12.05 £'000
Profit on ordinary activities before tax	168,498	107,522
Tax on profit on ordinary activities at 30% (Year ended 31.12.05 30%)	50,549	32,257
Factors affecting charge		
Prior year cost of redeeming subordinated debt now deductible for tax purposes	-	(1,078)
Dilapidations/amortisation not deductible for tax purposes	238	226
Other expenses not deductible for tax purposes	69	49
Non-taxable reverse premium	(258)	(387)
Non-taxable release of contribution to fit out	(558)	(722)
Non-taxable profit on disposal of subsidiary undertakings	-	(317)
Non-taxable write back of investment in subsidiary undertaking	(465)	-
Depreciation in excess of capital allowances	227	90
Depreciation on assets not qualifying for capital allowances	250	557
Underlying tax on overseas dividends received	(323)	-
Adjustments in respect of prior years	(1,283)	161
Current tax charge for the year	48,446	30,836

10 DIVIDENDS

	31.12.06 £'000	31.12.05 £'000
Interim paid in March 2006	72,000	-

11 TANGIBLE FIXED ASSETS

	Reinstatement Costs £'000	Leasehold Property £'000	Leasehold Improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost					
At 1 January 2006	10,510	600	45,585	14,284	70,979
Additions	542	-	320	41	903
Written off in the year	-	-	(146)	(1,130)	(1,276)
As at 31 December 2006	11,052	600	45,759	13,195	70,606
Depreciation					
At 1 January 2006	1,780	-	8,711	10,670	21,161
Charge for the year	793	-	3,467	2,697	6,957
Written off in the year	-	-	(142)	(1,130)	(1,272)
Depreciation at 31 December 2006	2,573	-	12,036	12,237	26,846
Net Book Value					
At 31 December 2006	8,479	600	33,723	958	43,760
Net Book Value					
At 31 December 2005	8,730	600	36,874	3,614	49,818

Notes to the financial statements

12 INVESTMENTS

	Investments in subsidiaries £'000	Available for sale unlisted investments £'000	Total £'000
Balance at 1 January 2006	2,592	25	2,617
Disposals	(133)	-	(133)
Balance at 31 December 2006	2,459	25	2,484

JPMorgan Cazenove Limited's loan to Cazenove AG was redeemed during the year. It acquired the loan at an impaired value of £133,000. The profit arising on redemption was £1,549,000.

In the prior year, it realised a profit of £1,055,000 on disposal of some subsidiaries following the restructuring of the group.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial assets and liabilities of the Company comprise

- Financial assets and liabilities held at fair value through the profit and loss account, all of which are trading book investments, are in listed securities and marked to market.
- Cash at bank and in hand is held at its cash value and includes cash deposits. Deposits are normally placed overnight and are always deposited with a maturity of less than one year.
- An available for sale investment which is shown at its £25,000 cost figure as this is not materially different to fair value.
- Other liabilities held at their cash value, with the only contractual cash liability held with a maturity of more than one year being the subordinated loan (see note 26).

Financial assets and liabilities are recognised on a trade date basis. Market counterparty debtors and creditors predominantly relate to trades not yet settled.

No financial assets or liabilities are categorised as held to maturity investments, nor are any such assets or liabilities hedged for accounting purposes. Carrying values on the balance sheet for financial assets and liabilities equate to fair values.

Risk management is subject to Group board policies on risk exposure and tolerance. Particular risks are considered below:

- Market risk is assessed on all trading book positions by various means including Value at Risk (VaR). It is Group policy that VaR on the trading book will not exceed £3.0m at a 95% confidence level with a one day time horizon. VaR during the year to 31 December 2006 never exceeded £592,000 and as at 31 December 2006 was £148,000 (31 December 2005: £150,000).
- Trading book credit risk only occurs with any significance due to participation by the Group in underwritings and placings. Counterparty exposures due to such participations amounted to £nil as at 31 December 2006 (31 December 2005: £nil). Such participations are examined by and have to be approved by the Group's Commitments Committee.
- Credit or liquidity risk arising from potential defaults on cash deposits is mitigated by the Group's policy of limiting exposure to any single bank to a set limit and only placing deposits with banks approved by the Group's Credit and Limits Committee with reference to prevailing credit ratings.

Notes to the financial statements

14 MARKET AND CLIENT DEBTORS

	31 12 06 £'000	31 12 05 £'000
Market and client debtors include		
Amounts owed by subsidiary undertakings	5,045	5,806

15 OTHER DEBTORS

	31 12 06 £'000	31 12 05 £'000
Amounts owed by parent undertaking	7,577	7,452
Amounts owed by fellow group undertakings	2,764	17,256
Amount owed by subsidiary undertaking	705	-
Corporation tax recoverable	4,074	12,046
Other debtors	13,971	12,151
Prepayments	2,487	3,001
	<u>31,578</u>	<u>51,906</u>

16 MARKET AND CLIENT CREDITORS

	31 12 06 £'000	31 12 05 £'000
Market and client creditors include		
Amounts owed to subsidiary undertakings	11,967	1,887

17 OTHER CREDITORS INCLUDING TAX AND SOCIAL SECURITY

	31 12 06 £'000	31 12 05 £'000
Amount owed to fellow group undertaking	52,134	24,103
Amount owed to subsidiary undertaking	1,223	4,468
Contribution from former partners of Cazenove & Co	1,590	1,859
Corporation tax	19,825	11,862
Other creditors	11,606	6,913
Accrued interest payable on JP Morgan subordinated loan	235	223
Accruals and deferred income	3,794	3,366
	<u>90,407</u>	<u>52,794</u>

Notes to the financial statements

18 OPERATING LEASE COMMITMENTS

At 31 December 2006, the Company was committed to making the following payments during the next year in respect of operating leases

	31 12 06	31 12 05
	Land and buildings	Land and buildings
	£'000	£'000
Leases which expire		
Within two to five years	210	-
After five years	7,991	8,202
	<u>8,201</u>	<u>8,202</u>

19 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 12 06	31 12 05
	£'000	£'000
Contributions from former partners of Cazenove & Co	10,106	11,696
Amounts owed to fellow group undertaking	1,178	886
	<u>11,284</u>	<u>12,582</u>

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Reinstatement Provision	Deferred Tax	Total
	£'000	£'000	£'000
i) Provision at 1 January 2006	10,510	3,941	14,451
Movement in the year	542	905	1,447
Provision at 31 December 2006	<u>11,052</u>	<u>4,846</u>	<u>15,898</u>
ii) Analysis of deferred tax balance			
Capital allowances in excess of depreciation			4,846
Other short term timing differences			-
Provision at end of year			<u>4,846</u>

The reinstatement provision relates to obligations to reinstate the Group's main office at 20 Moorgate, London, to the landlord's requirements as specified in the lease agreement at the end of the lease in January 2026 (or at the next break clause in December 2018). The eventual cost of this or any negotiated settlement is highly uncertain, but the provision is based upon an estimate at current prices by a qualified surveyor.

21 GUARANTEES

JPMorgan Cazenove Limited has guaranteed to certain counterparties the settlement of securities transactions undertaken in the normal course of business.

Notes to the financial statements

22 CALLED UP SHARE CAPITAL

	31 12 06 £'000	31 12 05 £'000
Authorised		
600,000,000 ordinary shares of 10p each	60,000	60,000
Called up, allotted and fully paid		
483,034,776 ordinary shares of 10p each	48,303	48,303

23 PROFIT AND LOSS ACCOUNT

	31 12 06 £'000	31 12 05 £'000
Retained profit brought forward	77,328	567
Profit on ordinary activities after tax	119,147	76,761
Dividends (see note 10)	(72,000)	-
Retained profit carried forward	124,475	77,328

24 CLIENTS' DEPOSITS

At 31 December 2006, amounts held by the Company on behalf of clients in accordance with the Client Asset Rules of the Financial Services Authority amounted to £380,758,000 (31 December 2005 £829,012,000). The Company has no beneficial interest in these deposits and accordingly they are not included on the Company's balance sheet.

25 CONTINGENT LIABILITIES

The Company has contingent liabilities, which cannot be quantified, in respect of letters of indemnity (principally for certified stock transfers and share certificates) given in the ordinary course of business.

26 SUBORDINATED LOANS

The £50,000,000 subordinated loan stock from JP Morgan Europe Limited was issued on 28th February 2005, due for repayment in 2015. The loan carries an interest rate of LIBOR + 40 basis points for the first five years, and LIBOR + 140 basis points thereafter. This loan meets the criteria of an 'approved subordinated loan' for regulatory purposes.

27 CASH FLOW AND RELATED PARTIES

The Company is a wholly-owned subsidiary of JPMorgan Cazenove Holdings and is included in the consolidated financial statements of JPMorgan Cazenove Holdings, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of JPMorgan Cazenove Holdings or investees of JPMorgan Cazenove Holdings.

28 PARENT UNDERTAKING

The parent company of the largest group for which consolidated financial statements are prepared and the ultimate parent company is JPMorgan Chase & Co., a company incorporated in the United States of America. The smallest group of which the Company is a member, and which is required to prepare consolidated financial statements, is JP Morgan Capital Holdings Limited, registered in England and Wales. The consolidated financial statements of this group are available to the public and may be obtained from The Company Secretary, 125 London Wall, London EC2Y 5AJ, England.

Notes to the financial statements

29 SEGMENTAL REPORTING

No segmental reporting is presented apart from that of turnover (see note 2) as no further such reporting is considered meaningful by the directors

30 POST BALANCE SHEET EVENTS

The Company has proposed an interim dividend of £112,000,000 in February 2007. The payment, if confirmed, will be presented in the Company's results in the year to 31 December 2007.