

N M Rothschild & Sons Limited

Report of the Directors and Financial Statements
for the year ended 31 March 2016

Strategic report	2 - 4
Report of the Directors	5 - 6
Committees	7
Statement of Directors' responsibilities	8
Independent auditor's report	9 - 10
Income statement	11
Statement of comprehensive income	12
Balance sheet	13
Statement of changes in equity	14
Cash flow statement	15
Notes to the financial statements	16 - 54

Strategic report

Principal activities

N M Rothschild & Sons Limited ("NMR" or "the Company") is the main UK operating subsidiary of Rothschild & Co SCA, the French listed parent company. The main activities of the Company are:

- Global Advisory, where Rothschild's business is a world leader in the provision of impartial, expert advice and execution services to governments, corporations, institutions and individuals. Alongside our UK advisory business, NMR owns 50% of Rothschild Europe BV and 100% of Rothschild Australia Limited. The remaining 50% of Rothschild Europe BV is owned by Rothschild et Cie Banque, the Rothschild & Co Group's principal operating business in France.
- Asset management, principally in the area of Credit Management, for a number of CLO, leveraged debt and mezzanine debt vehicles.

NMR's strategy continues to focus on developing its advisory and asset management businesses while reducing legacy banking exposures.

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

Strategic developments

In November 2015 NMR completed the sale of the Five Arrows Leasing Group of subsidiaries ("FALG") for £117m. Rothschild acquired the original business in 1996 and had successfully created a group of specialist companies providing niche asset financing services. The sale was in line with the on-going strategy to reduce balance sheet risks and resulted in the receipt of a dividend of £107.5m from an intermediate holding company. After an impairment provision and costs, the impact on the Company's income statement was a net gain of £86.2m. The sale also resulted in the repayment of £190.5m of loans which NMR had provided to FALG. After this repayment, and alongside the ongoing reduction in other legacy commercial lending, NMR no longer requires deposit funding. It was therefore announced on 13 April 2016 that NMR will relinquish its UK deposit taking licence, subject to regulatory consent. NMR will continue to be FCA regulated and will focus on its core advisory activities.

As mentioned in the 2015 financial statements, in April 2015 the Company received a £25m dividend from Third New Court Limited, a fellow subsidiary of Rothschild & Co which owns New Court, our London headquarters, following a refinancing of its loan facilities.

Since the balance sheet date, 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.

These accounts have been prepared on a non-consolidated basis which reflects the simplification in activities following the sale of FALG. The results and positions of NMR and its subsidiaries are included in the consolidated accounts of Rothschild & Co.

Results overview

Profit before tax for the year to 31 March 2016 has increased to £150.9m, an improvement of £110.9m (277%) on the prior year. £86.2m of this was due to the impact of the sale of FALG. There was also a very good performance across the Global Advisory business for which net fees increased by 16% to £298m which resulted in underlying profits (excluding the impact of Group dividends and related Group impairments) of £48.3m, an increase of 102%.

The Credit Management business continues to develop with assets under management of €1.1bn at the year end. The third Contego CLO launched in April 2016 which contributed a further €122m to assets managed by the business.

Key Performance Indicators (£m)	2016	2015
Profit before tax	150.9	40.0
Internal leverage ratio*	0.9	1.7
PRA liquidity coverage ratio - 3 mths	338%	193%
Total capital ratio	26.5%	17.1%

*Total assets (excluding cash equivalents and government securities) over total equity

The Company continues to make good progress in managing down the legacy commercial lending book with no significant impairment charges during the year.

Excluding dividend income, there was a 14% improvement in total operating income and this increased activity resulted in a rise of 10% in operating expenses.

The results are after impairment losses on loans and advances and debt and equity securities of £45.8m, of which £44.3m related to impairments on investments in Group companies. This followed dividends received from these companies after the sale of FALG and the Third New Court Limited refinancing.

The effective tax rate of 7.5% (2015: 25.7%) is lower than the UK tax rate due of 20%, principally due to non-taxable dividend income from Group companies (less non tax deductible impairment provisions). The prior year tax charge included a £6.5m deferred tax provision following the UK's enactment of bank loss relief restrictions although this was offset by a £2.3m credit relating to prior year tax adjustments.

Balance sheet

The year has seen further progress in reducing balance sheet risks with total assets down £404m to £1,082m. The Company's leverage ratio, adjusted to exclude cash equivalents and high quality government securities, has again improved to 0.9 times. The balance sheet reduction has focused on managing down the legacy commercial lending book and this year has seen a further significant fall in loans and advances to customers.

Funding and liquidity

As mentioned above, the Company is now in a position to repay all deposit funding and plans to do this over the coming months prior to relinquishing its banking licence.

Further information regarding the Company's liquidity risk is provided in note 2.4.

Capital and dividends

Over the course of the year, total equity increased by £103m to £553m after the payment of a £50m dividend. The Company's total capital ratio at 31 March 2016 has improved to 26.5% and continues to be well above regulatory requirements. Details of the Company's regulatory capital 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, while 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 7.

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.

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") and the Individual Liquidity Adequacy Assessment ("ILAA")). 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

A handwritten signature in blue ink, appearing to read 'Nigel Higgins', with a horizontal line extending to the right.

Nigel Higgins, Chief Executive Officer

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

20 June 2016

Report of the Directors

The Directors present their Directors' report and financial statements for the year ended 31 March 2016. An overview of the business and its performance is included in the strategic report.

Dividends

During the year the Company paid a dividend of £50,000,000 (2015: £13,000,000).

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)

Christopher Coleman

Andrew Didham

Sir Anthony Salz

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.

The Company is committed to supporting charities, both in the areas in which it operates and in the wider community. Furthermore, the Company builds on the wider Rothschild & Co Group's long history of supporting the communities in which it operates and providing opportunities for our people to volunteer in disadvantaged areas close to our offices. We seek to invest in long term partnerships with schools and community organisations in ways which have a measurable impact on the lives of others, believing that a successful community programme benefits our company as well as the wider community.

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 by a series of notices to staff. 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



Helen Horton, Secretary

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

20 June 2016

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 which determine overall strategy

R&Co Group Management Committee

The purpose of the Group Management 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.

Membership

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

R&Co Group Assets and Liabilities Committee

This committee is responsible for ensuring that the Group has prudent funding and liquidity strategies, for the efficient management and deployment of capital resources and for the oversight of the Group's other financial strategies and policies set by Rothschild & Co Gestion SAS, the manager of the Group's ultimate parent.

Membership

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

Committees of the Company which have oversight responsibilities

New Client Acceptance Committee

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

Membership

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

R&Co Group Committees which have oversight responsibilities

R&Co Group Audit Committee

This committee supervises and reviews the Group's 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 remuneration policies for the Group, oversees the annual remuneration review and approves proposals for promotion.

Membership

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

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

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

Membership

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

R&Co Group Risk Committee

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

Membership

Sipko Schat (Chairman), Daniel Daeniker.

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.

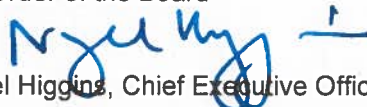
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required 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

20 June 2016

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 2016 set out on pages 11 to 54. 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 8, 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter prescribed by the Companies Act 2006

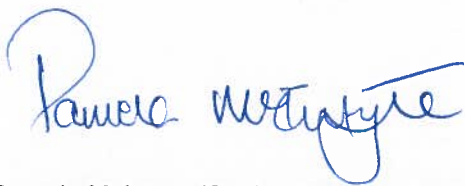
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

20 June 2016

Income statement

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Interest and similar income	4	16,314	25,881
Interest expense and similar charges	4	(11,265)	(20,780)
Net interest income		5,049	5,101
Fee and commission income	5	351,444	310,308
Fee and commission expense	5	(37,057)	(33,000)
Net fee and commission income		314,387	277,308
Dividend income	6	146,895	17,463
Net trading income	7	943	913
Other operating income	8	2,077	772
Total operating income		469,351	301,557
Impairment losses on loans and other credit risk provisions	12,13	(1,511)	(12,056)
Impairment losses on available-for-sale equities	13	(24,993)	(944)
Impairment of investment in subsidiary undertakings	16	(19,320)	-
Net operating income		423,527	288,557
Operating expenses	9	(268,609)	(244,406)
Depreciation	18	(4,061)	(4,144)
Profit before tax		150,857	40,007
Tax	11	(11,305)	(10,290)
Profit after tax		139,552	29,717
Attributable to:			
Ordinary shareholders		132,677	22,302
Holders of perpetual instruments		6,875	7,415
		139,552	29,717

The notes on pages 16 to 54 form an integral part of these financial statements

Statement of comprehensive income

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Profit after tax		139,552	29,717
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit pension funds	21	19,314	(22,111)
Income tax thereon	11	(7,408)	4,422
		11,906	(17,689)
Items that may be reclassified subsequently to profit or loss			
Change in fair value of assets classified as available-for-sale		8,684	5,886
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(1,090)	2,228
Amortisation of fair value of reclassified assets	12	-	838
Effective portion of changes in fair value of cash flow hedges		(3)	10
Income tax on other comprehensive income	11	432	(650)
		8,023	8,312
Other comprehensive income for the financial year, net of income tax		19,929	(9,377)
Total comprehensive income for the financial year		159,481	20,340
Attributable to:			
Equity shareholders of the parent		152,606	12,925
Holders of perpetual instruments		6,875	7,415
		159,481	20,340

The notes on pages 16 to 54 form an integral part of these financial statements

Balance sheet

At 31 March 2016

	Note	2016 £'000	2015 £'000
Assets			
Cash and balances at central banks		400,097	639,240
Loans and advances to banks	12	13,907	7,916
Loans and advances to customers	12	123,743	362,379
Debt and equity securities	13	305,268	206,425
Derivatives	14	3,034	15,227
Other assets	15	107,703	84,642
Current tax assets		-	1,308
Investments in subsidiary undertakings	16	21,582	40,022
Investments in associates and joint ventures	17	30,280	34,766
Property, plant and equipment	18	35,883	39,487
Deferred tax assets	20	40,423	54,345
Total assets		1,081,920	1,485,757
Liabilities			
Deposits by banks		8,460	281,027
Customer deposits		265,371	477,048
Derivatives	14	2,212	610
Other liabilities	19	91,430	125,738
Current tax liabilities		1,475	-
Accruals and deferred income		159,590	150,892
Total liabilities		528,538	1,035,315
Equity			
Share capital	27	57,655	57,655
Share premium account		97,936	97,936
Retained earnings		264,781	169,864
Other reserves		8,675	652
		429,047	326,107
Perpetual instruments	28	124,335	124,335
Total equity		553,382	450,442
Total equity and liabilities		1,081,920	1,485,757

The accounts on pages 11 to 54 were approved by the Board of Directors and were signed on its behalf by:



Nigel Higgins, Chief Executive Officer
20 June 2016



Peter Barbour, Director
20 June 2016

The notes on pages 16 to 54 form an integral part of these financial statements

Statement of changes in equity

For the year ended 31 March 2016

	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 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
At 1 April 2014	57,655	97,936	177,926	(7,654)	(6)	124,335	450,192
Profit after tax	-	-	22,302	-	-	7,415	29,717
Other comprehensive income (net of tax):							
Actuarial losses on defined benefit pension funds	-	-	(17,689)	-	-	-	(17,689)
Available-for-sale securities	-	-	-	8,304	-	-	8,304
Cash flow hedges	-	-	-	-	8	-	8
Total comprehensive income	-	-	4,613	8,304	8	7,415	20,340
Dividends paid	-	-	(13,000)	-	-	-	(13,000)
Equity-settled share-based payments	-	-	325	-	-	-	325
Interest on perpetual instruments	-	-	-	-	-	(9,386)	(9,386)
- tax thereon	-	-	-	-	-	1,971	1,971
At 31 March 2015	57,655	97,936	169,864	650	2	124,335	450,442

The notes on pages 16 to 54 form an integral part of these financial statements

Cash flow statement

For the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Profit before tax		150,857	40,007
Adjustments to reconcile net profit to cash flow from operating activities			
Non-cash items included in net profit and other adjustments			
Depreciation	18	4,061	4,144
Dividends received from subsidiaries, associates and joint ventures	6	(120,699)	(15,954)
Impairment of financial assets (net of recovery)		45,824	13,000
Loss on disposal of loans and available-for-sale assets	8	(956)	2,632
Equity-settled share-based payments		334	325
Loss on disposal of fixed assets	8	-	6
		(71,436)	4,153
Net decrease/(increase) in operating assets and liabilities			
Derivatives		13,792	(3,767)
Debt and equity securities	13	(115,473)	16,318
Loans and advances to customers	12	237,312	39,781
Other assets	15	(23,061)	1,902
Net due to / from banks (excluding cash equivalents)		(272,567)	(35,015)
Customer deposits		(211,677)	(186,232)
Accrued expenses and other liabilities		(6,296)	(3,938)
Income taxes received (net)		142	1,796
		(377,828)	(169,155)
Net cash flow (used in)/from operating activities			
		(298,407)	(124,995)
Cash flow (used in)/from investing activities			
Acquisition/increase in stake of subsidiaries, associates and joint ventures	16,17	(350)	-
Dividends received from subsidiaries, associates and joint ventures	6	120,699	15,954
Proceeds from disposal of subsidiaries, associates and joint ventures	16,17	3,956	5,432
Purchase of fixed assets	18	(457)	(57)
Net cash flow (used in)/from investing activities			
		123,848	21,329
Cash flow used in financing activities			
Dividends paid	24	(50,000)	(13,000)
Interest paid on perpetual instruments	24	(8,593)	(9,386)
Net cash flow used in financing activities			
		(58,593)	(22,386)
Net (decrease)/increase in cash and cash equivalents			
		(233,152)	(126,052)
Cash and cash equivalents at 1 April		647,156	773,208
Cash and cash equivalents at 31 March	25	414,004	647,156

Interest receipts and payments during the year were as follows:

	2016 £'000	2015 £'000
Interest received	18,713	28,188
Interest paid	19,867	24,870

The notes on pages 16 to 54 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 company incorporated in the United Kingdom.

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 2016.

New Standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods ending after 31 March 2016 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 in the Company's 2019 financial statements

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 and 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 in the Company's 2020 financial statements

IFRS 16 Leases, 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 and 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 and hedge accounting

Derivatives

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

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

Notes to the financial statements

(forming part of the financial statements)

Hedge accounting

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

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

Fair value hedge accounting

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

If the hedge no longer meets the criteria for hedge accounting, the difference between the carrying value of the hedged item on termination of the hedging relationship and the value at which it would have been carried had the hedge never existed is amortised to the income statement over the residual period to maturity based on a recalculated effective interest rate.

Cash flow hedge accounting

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

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

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. Net interest arising from interest rate instruments held for trading is included in trading income. Interest income and expense is recognised in the income statement using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cashflows of a financial instrument to its net carrying amount. It is used to calculate the amortised cost of a financial asset or a financial liability and to allocate the interest over the relevant period (usually the expected life of the instrument). When calculating the effective interest rate, the 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.

Notes to the financial statements

(forming part of the financial statements)

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 and loss, and derivatives that are not designated as cashflow hedges. These financial assets are initially recognised at fair value, with transaction costs recorded immediately in the income statement, and are subsequently measured at fair value. Gains and losses arising from changes in fair value or on derecognition are recognised in the income statement as net trading income. Interest and dividend income from financial assets at fair value through profit or loss is recognised in trading income.

Loans and advances

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

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

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

Available-for-sale investments

Available-for-sale investments comprise non-derivative financial assets that are either designated as available-for-sale on initial recognition or are not classified into the categories described above. Available-for-sale investments are initially recognised at fair value, including direct and incremental transaction costs, and are subsequently measured at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in 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 (unless designated as cash flow hedges).

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

Notes to the financial statements

(forming part of the financial statements)

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.

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.

Notes to the financial statements

(forming part of the financial statements)

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.

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.

Notes to the financial statements

(forming part of the financial statements)

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.

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

Notes to the financial statements

(forming part of the financial statements)

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 balances with original maturities of three months or less, including cash and non-restricted balances with central banks, certificates of deposit and loans and advances to banks.

Pensions

The 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.

Long term employee benefits

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

Notes to the financial statements

(forming part of the financial statements)

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 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

Notes to the financial statements

(forming part of the financial statements)

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 has introduced restrictions on the utilisation of historic tax losses which affect the period over which the deferred tax assets will be utilised. Accordingly, during the prior year, the Company 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.

Notes to the financial statements

(forming part of the financial statements)

2. Financial risk management

2.1 Strategy in using financial instruments

The use of financial instruments is fundamental to the Company's banking and treasury activities. The Company provides a range of lending products to its clients and funds these activities by means of deposit-taking and other borrowings and uses derivatives principally to manage its exposure to interest rate and currency risk. Further information on derivative contracts and the 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 Management 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.

Notes to the financial statements

(forming part of the financial statements)

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	Past due but not impaired £'000	Categories 4 and 5 £'000	Impairment allowance £'000	Total (net) £'000
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
At 31 March 2015							
Cash and balances at central banks	639,240	-	-	-	-	-	639,240
Derivatives	15,227	-	-	-	-	-	15,227
Loans and advances to banks	7,916	-	-	-	-	-	7,916
Loans and advances to customers	222,695	14,404	83,623	1,349	110,628	(70,320)	362,379
Debt securities	103,102	-	3,563	-	6,315	(3,691)	109,289
Commitments and guarantees	142,575	1,370	11	-	-	-	143,956
Other financial assets	67,417	-	-	5,913	1,120	(1,120)	73,330
Total	1,198,172	15,774	87,197	7,262	118,063	(75,131)	1,351,337

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 2016			
Loans and advances to customers	-	1,288	1,288
Other financial assets	10,165	11,107	21,272
Total	10,165	12,395	22,560
At 31 March 2015			
Loans and advances to customers	292	1,057	1,349
Other financial assets	3,622	2,291	5,913
Total	3,914	3,348	7,262

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.

Notes to the financial statements

(forming part of the financial statements)

Unimpaired loans (levels 1 to 3) are covered by both specific and general collateral. Unimpaired amounts covered by specific collateral include property lending of £58.2 million. Where a loan is deemed to be impaired (level 4 and 5 assets), the level of the impairment charge is primarily driven by any expected shortfall in the collateral value, although it is also influenced by the ability of the borrower to service the debt.

Collateral is valued independently at the time the loan is made and periodically thereafter dependent 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 2016 £'000	Individually impaired 2016 £'000	Past due but not impaired 2015 £'000	Individually impaired 2015 £'000
Property	1,288	35,962	1,192	55,611
Amount of loans collateralised	1,288	37,022	1,349	58,128

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 2016, loans with a carrying value of £33.4 million had been extended (2015: £69.7 million), 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 2016 these amounted to £1.3 million (2015: £1.3 million).

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 2016 the carrying value of all loans forborne was £25.4 million (2015: £23.2 million).

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.

The sector analysis is based on Global Industry Classification Standards and includes derivatives, loans and advances to banks, loans and advances to customers, debt securities, commitments and guarantees, but excludes "other financial assets".

Notes to the financial statements

(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 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
At 31 March 2015					
Cash and balances at central banks	639,240	-	-	-	639,240
Derivatives	14,285	942	-	-	15,227
Loans and advances to banks	-	1,067	6,737	112	7,916
Loans and advance to customers	323,226	39,153	-	-	362,379
Debt securities	78,152	24,109	7,028	-	109,289
Commitments and guarantees	133,178	10,778	-	-	143,956
Other financial assets	38,862	27,722	2,935	3,811	73,330
Total	1,226,943	103,771	16,700	3,923	1,351,337

	2016 £'000	2015 £'000
Credit risk by industry sector		
Materials	11	22
Consumer discretionary	-	2,619
Health care	-	2,737
Financial (see below)	54,758	80,483
Real estate (see below)	82,335	141,044
Governments and Central Banks	576,067	697,297
Private persons	1,082	3,052
Related party loans, commitments and guarantees	158,984	350,753
Total	873,237	1,278,007

Financial and real estate sector exposures are analysed as follows:

	2016 £'000	2015 £'000
Financial sector		
Short term interbank exposures	13,907	6,927
Investment grade securities	-	10,257
Cash / Investment backed lending	-	9,974
Other	40,851	53,325
Total	54,758	80,483

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

	2016 £'000	2015 £'000
Real estate sector		
Senior loans	69,781	119,902
Subordinated/mezzanine	12,554	21,142
Total	82,335	141,044

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.

Notes to the financial statements

(forming part of the financial statements)

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. During the year, exposure to market risk has continued to be small in relation to capital, as trading activities have been focused on servicing client requirements rather than on proprietary risk-taking.

Limits on market risk exposure are set by the R&Co Group Assets and Liabilities Committee. Monitoring of market risk limits and determination of trading profits are undertaken, independently of the dealing area. Risk limits are complemented by other measures and controls, including stress testing to estimate the losses that could occur when markets behave in unusually volatile ways and with little liquidity.

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

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	Other Europe	Total
	£'000	£'000	£'000
Equity price risk by location			
At 31 March 2016			
Equity investments and securities	25,052	67,559	92,611
At 31 March 2015			
Equity investments and securities	50,100	47,036	97,136

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

If the price of all the equities were to fall by 5 per cent, then there would be a post-tax charge to the income statement of £481,000 and a post-tax charge to equity of £4,029,000 (2015: £nil and £3,885,000 respectively). Similarly, if the price of all the equities were to rise by 5 per cent, then there would be a post-tax credit to the income statement of £481,000 and a post-tax credit to the equity of £4,029,000 (2015: £nil and £3,885,000 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.

	Long/(short)	
	2016	2015
	£'000	£'000
US\$	10	(85)
Euro	57	(1)
Other	67	45

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 £5,000 (2015: credit of £2,000). 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 £5,000 (2015: charge of £2,000). 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.

	£ £'000	Euro £'000	US\$ £'000
At 31 March 2016			
+ 1%	(272)	(66)	(18)
- 1%	272	66	18
At 31 March 2015			
+ 1%	(378)	47	(5)
- 1%	378	(47)	5

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 is subject to both an internal liquidity policy, which has been reviewed and approved by the R&Co Group Assets and Liabilities Committee, and external regulatory requirements. Liquidity is measured on a behaviourally adjusted basis and on a stressed basis. The stressed behaviour of assets and liabilities can, in certain scenarios, be more adverse than their contractual maturity (for example, loans advanced to customers may not be repaid on their contractual maturity dates).

Liquidity is monitored daily, independently of the front office Treasury staff responsible for day-to-day liquidity management.

The Company measures its liquidity risk quantitatively against a Liquidity Coverage Ratio ("LCR") limit in line with the requirements of the regulator's liquidity regime. The LCR considers the Company's eligible "Buffer" assets against the cumulative net cash flows payable under its most severe stress test. Only those assets of the highest quality can be treated as eligible for inclusion in the LCR.

The Company's internal liquidity policy requires it to keep an LCR in excess of 100% at the 3-month time horizon. At 31 March 2016, the Prudential Regulation Authority 3 month LCR was 338%. The Company was significantly in excess of both regulatory and the internal policy requirements.

Notes to the financial statements

(forming part of the financial statements)

The tables below analyse the Company's financial assets and liabilities based on contractual maturity. Loan commitments and guarantees are included at the earliest date they can be drawn down or called upon. The customer deposits included in the over 1 year maturity band were repaid in May 2016 as part of the project to relinquish the deposit taking licence.

	Demand/ next day £'000	2 days - 3m £'000	3m - 1 yr £'000	> 1 year £'000	No fixed maturity £'000	Total £'000
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
Deposits by banks	8,460	-	-	-	-	8,460
Customer deposits	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
At 31 March 2015						
Cash and balances at central banks	639,240	-	-	-	-	639,240
Loans and advances to banks	7,916	-	-	-	-	7,916
Derivatives	-	993	12,258	1,976	-	15,227
Loans and advances to customers	26,103	28,686	73,668	251,742	(17,820)	362,379
Debt and equity securities	-	50,200	10,274	48,815	97,136	206,425
Other financial assets	-	73,330	-	-	-	73,330
Total	673,259	153,209	96,200	302,533	79,316	1,304,517
Deposits by banks	278,836	2,191	-	-	-	281,027
Customer deposits	76,060	33,970	156,969	210,049	-	477,048
Derivatives	2	19	589	-	-	610
Commitments and guarantees	-	143,956	-	-	-	143,956
Other financial liabilities	-	12,247	799	-	-	13,046
Total	354,898	192,383	158,357	210,049	-	915,687

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. The customer deposits included in the over 1 year maturity band were repaid in May 2016 as part of the project to relinquish the deposit taking licence.

	Demand/ next day £'000	2 days - 3m £'000	3m - 1 yr £'000	1 yr - 5 yr £'000	> 5yr	Total £'000
At 31 March 2016						
Deposits by banks	8,460	-	-	-	-	8,460
Customer deposits	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
At 31 March 2015						
Deposits by banks	278,836	2,209	-	-	-	281,045
Customer deposits	76,060	36,101	170,339	218,406	-	500,906
Other financial liabilities	-	12,247	799	-	-	13,046
Total	354,896	50,557	171,138	218,406	-	794,997
Commitments and guarantees	-	143,956	-	-	-	143,956

Notes to the financial statements

(forming part of the financial statements)

2.6 Capital management

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

The Prudential Regulation Authority ("PRA") 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 requirement that the Company, and certain other subsidiaries which are part of its consolidated regulatory group, are required to hold is largely determined by their balance sheets and off-balance sheet positions weighted according to the credit rating and type of exposure to counterparties. Processes are in place to ensure compliance with the minimum capital requirements.

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

The table below summarises the composition of regulatory capital for the consolidated regulatory group.

	2016 £m	2015 £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)	219.7	188.6
Deductions from tier 1 capital*	(88.7)	(119.8)
Common equity tier 1 capital	286.6	224.4
Total tier 1 capital	286.6	224.4
Tier 2 capital		
Perpetual subordinated notes	124.3	124.3
Deductions from tier 2 capital*	(61.2)	(78.5)
Total tier 2 capital	63.1	45.8
Total capital resources	349.7	270.2
Risk weighted assets (notional - unaudited)		
Credit risk	655.6	974.5
Market and counterparty risk	49.0	46.0
Operational risk	617.0	559.0
	1,321.6	1,579.5
Capital ratios (unaudited)		
Common equity tier 1 capital	21.7%	14.2%
Tier 1 capital	21.7%	14.2%
Total capital	26.5%	17.1%

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

Notes to the financial statements

(forming part of the financial statements)

3. Fair value of financial assets and liabilities

Fair value is the 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 deposits by banks.** The fair values of these instruments are materially the same as their carrying values due to their short term nature.
- **Loans and advances to customers.** 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.
- **Customer deposits.** The fair values of these instruments are determined by discounting the future cashflows at current market interest rates for deposits of similar remaining maturities, adjusted for the appropriate credit spread.
- **Other financial assets and liabilities.** Fair value is considered to be the same as carrying value for these assets.
- **Derivatives and debt and equity securities** 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 (ie 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.

Notes to the financial statements

(forming part of the financial statements)

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 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					
Deposits by banks	8,460	8,460	-	8,460	-
Customer deposits	265,371	266,346	-	266,346	-
Other financial liabilities	5,450	5,450	-	5,450	-
Total	279,281	280,256	-	280,256	-
At 31 March 2015					
Financial assets					
Loans and advances to banks	7,916	7,916	-	7,916	-
Loans and advances to customers	362,379	331,886	-	274,138	57,748
Other financial assets	73,330	73,330	-	73,330	-
Total	443,625	413,132	-	355,384	57,748
Financial liabilities					
Deposits by banks	281,027	281,027	-	281,027	-
Customer deposits	477,048	479,748	-	479,748	-
Other financial liabilities	13,046	13,046	-	13,046	-
Total	771,121	773,821	-	773,821	-

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 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	-
At 31 March 2015				
Financial assets				
Derivatives	15,227	-	15,227	-
Debt securities	109,289	68,302	39,107	1,880
Equity securities	97,136	25,446	1,219	70,471
Total	221,652	93,748	55,553	72,351
Financial liabilities				
Derivatives	610	-	610	-
Total	610	-	610	-

Notes to the financial statements

(forming part of the financial statements)

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	2016 £'000	2015 £'000
Opening balance	72,351	72,560
Total gains and (losses):		
- in income statement (as "other operating income")	(506)	272
- through other comprehensive income ("change in fair value of assets classified as available for sale")	4,851	491
Settlements	(26,275)	(571)
Exchange	13	(366)
Other	(111)	(35)
Closing balance	50,323	72,351

The amount recognised in the income statement includes £nil (2015: gains of £272,000) 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 2016 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
	25,323	Valuations of the underlying businesses	Market based percentage of assets under management (1.8%)	0.1% decrease in assets under management multiple decreases fair value by £906,000.
			Liquidity discount (20%)	10% increase in the liquidity discount would reduce fair value by £3,115,000

4. Net interest income

	2016 £'000	2015 £'000
Interest income		
Interest earned on loans and advances	14,469	22,810
Interest earned on investment securities	1,636	1,988
Other	209	1,083
	16,314	25,881
Interest expense		
Interest on amounts due to banks and customers	11,265	20,780
	11,265	20,780

Included within interest income is £1,633,000 (2015: £2,551,000) in respect of interest income accrued on impaired financial assets.

Notes to the financial statements

(forming part of the financial statements)

5. Net fee and commission income

	2016 £'000	2015 £'000
Fee and commission income		
Banking and credit related fees and commissions	1,249	698
Global advisory fees receivable	334,719	290,091
Other fees	15,476	19,519
	351,444	310,308
Fee and commission expense		
Global advisory fees payable	36,472	32,717
Other fees paid	585	283
	37,057	33,000

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 parties outside the Rothschild & Co Group.

6. Dividend income

	2016 £'000	2015 £'000
Dividends from subsidiary undertakings	116,080	11,900
Dividends from associated undertakings	2,384	2,213
Dividends from joint ventures	2,235	1,841
Dividends from other group companies	26,196	1,074
Other dividends	-	435
	146,895	17,463

7. Net trading income

	2016 £'000	2015 £'000
Foreign exchange gains	767	469
Interest rate instruments - trading	437	441
Interest rate instruments - hedging	(3)	3
Equities designated as fair value through profit and loss	(258)	-
	943	913

Net trading income arises from hedging strategies, movements in the fair value of financial assets and liabilities held for trading (principally foreign exchange instruments and traded loans), or designated as fair value through profit and loss and interest thereon.

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

8. Other operating income

	2016 £'000	2015 £'000
Other operating income		
Rental income	85	102
(Loss) on disposal of fixed assets	-	(6)
Gains less losses from disposals of loans and available-for-sale financial assets	956	(2,632)
Other	1,036	3,308
	2,077	772

Notes to the financial statements

(forming part of the financial statements)

9. Operating expenses

	Note	2016 £'000	2015 £'000
Staff costs	10	234,322	204,965
Administrative expenses		34,287	39,441
		268,609	244,406

The auditor's remuneration was as follows:

	2016 £'000	2015 £'000
Audit fees relating to the Company	156	208
Audit fees relating to subsidiary undertakings and other affiliates	99	106
	255	314

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

	2016 £'000	2015 £'000
Audit-related assurance services	50	43
Tax services	9	9
Other services	91	23
	150	75

10. Staff costs

	Note	2016 £'000	2015 £'000
Fixed and variable remuneration		181,104	160,254
Social security costs		24,004	21,106
Staff benefits and other staff costs		17,425	11,751
Pension costs			
- defined benefit plans	21	6,680	7,378
- defined contribution plans	21	4,337	3,686
Post-retirement benefits		772	790
Total staff costs		234,322	204,965

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

	2016	2015
Global Advisory	422	387
Banking and asset management	28	26
Support and other	256	247
	706	660

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

	2016	2015
Global Advisory	414	379
Banking and asset management	28	27
Support and other	252	240
	694	646

Long term incentive schemes

As part of its variable pay strategy, the Company operates long term 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 £26,204,000 (2015: £26,459,000).

Notes to the financial statements

(forming part of the financial statements)

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.

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

	2016		2015	
	Number	Weighted average exercise price €	Number*	Weighted average exercise price €
At 1 April	1,300,000	18.63	1,300,000	18.63
Issued	200,000	24.75	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Cancelled	-	-	-	-
Exercised	-	-	-	-
At 31 March	1,500,000	19.45	1,300,000	18.63
Exercisable at the end of the period	-	-	-	-

Share-options outstanding at 31 March were as follows:

Exercise price range €	2016		2015	
	Number of options outstanding	Weighted average contractual life (years)	Number of options outstanding*	Weighted average contractual life (years)
17.50	325,000	7.5	325,000	8.5
18.00	325,000	7.5	325,000	8.5
19.00	325,000	7.5	325,000	8.5
20.00	325,000	7.5	325,000	8.5
23.62	50,000	9.7	-	-
24.12	50,000	9.7	-	-
25.12	50,000	9.7	-	-
26.12	50,000	9.7	-	-
	1,500,000	7.8	1,300,000	8.5

* The prior number of share options outstanding have been restated. There is no impact on the prior year income statement or balance sheet.

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 £0.6m (2015: £0.8m). 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

Notes to the financial statements

(forming part of the financial statements)

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:

	2016 £'000	2015 £'000
Rothschild & Co equity scheme	622	459
Rothschild & Co share-based payments	1,699	701
RCH share-based payments	-	419
	2,321	1,579

11. Tax

Tax charged to the income statement:

	2016 £'000	2015 £'000
Current tax:		
- Current period	4,642	416
- Prior year adjustments	(39)	(1,881)
Total current tax	4,603	(1,465)
Deferred tax:		
- Origination and reversal of timing differences	6,786	12,132
- Prior year adjustments	(84)	(377)
Total deferred tax	6,702	11,755
Total tax charged to income statement	11,305	10,290

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

	2016 £'000	2015 £'000
Deferred tax on available-for-sale financial assets	(187)	468
Current tax on available-for-sale financial assets	(244)	423
Deferred tax on cash flow hedges	(1)	2
Deferred tax on actuarial gains and losses on defined benefit pension schemes	7,408	(4,422)
Deferred tax on the utilisation of tax losses	-	(243)
Total tax charged/(credited) to other comprehensive income	6,976	(3,772)

Tax on items credited to equity:

	2016 £'000	2015 £'000
Current tax on distributions to holders of perpetual instruments	(1,718)	(1,971)

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

	2016 £'000	2015 £'000
Profit before tax	150,857	40,007
Tax calculated at the UK corporation tax rate of 20% (2015: 21%)	30,171	8,401
Adjustment to tax charge in respect of prior years	(123)	(2,258)
Impact on deferred tax of change in tax laws	-	6,500
Impact on deferred tax of corporation tax rate change	(490)	-
Non tax deductible expenses	893	501
Group dividends not subject to tax	(28,798)	(2,969)
Other income not subject to tax	-	(524)
Irrecoverable dividend withholding tax	887	416
Non tax deductible impairment provisions	9,217	198
Other	(452)	25
Total tax charged to income statement	11,305	10,290

Further information about deferred tax is presented in note 20.

Registered number: 925279

N M Rothschild & Sons Limited

Notes to the financial statements

(forming part of the financial statements)

12. Loans and advances

	2016 £'000	2015 £'000
Loans and advances to banks:		
Included in cash and cash equivalents	13,907	7,916
	13,907	7,916
Loans and advances to customers:		
Loans and advances to customers - at amortised cost	172,871	427,970
Allowance for credit losses	(52,109)	(70,320)
Accrued interest	2,981	4,729
	123,743	362,379

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 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
At 1 April 2014	40,899	18,821	59,720
Charge/(credit) to income statement	11,778	(1,001)	10,777
Amounts written off	(640)	-	(640)
Recoveries	437	-	437
Exchange movements	26	-	26
At 31 March 2015	52,500	17,820	70,320

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", on 1 July 2008 the Company transferred from available-for-sale financial assets to loans and advances £347,582,000 of financial assets to which the definition of loans and advances would apply on the reclassification date. On the reclassification date and on 31 March 2016 the Company had the financial capacity to keep the loans concerned to their maturity date or for the foreseeable future. The movements in the carrying value and fair value of the financial assets reclassified are as follows:

	2016 £'000	2015 £'000
Carrying value of assets reclassified at 1 April	2,204	28,408
Impairments	-	(415)
Sales and redemptions	(2,068)	(23,866)
Amortisation of frozen available-for-sale reserve	-	838
Exchange and other movements	(136)	(2,761)
Carrying value of assets reclassified at 31 March	-	2,204
Fair value of assets reclassified at 1 April	2,154	27,814
Sales and redemptions	(2,068)	(23,866)
Fair value movements in the period after reclassification	50	807
Exchange and other movements	(136)	(2,601)
Fair value of assets reclassified at 31 March	-	2,154

As of the reclassification date, the net effective interest rate, after associated funding costs, on reclassified financial assets was 2.25 per cent.

A revaluation gain of £50,000 would have been recognised in other comprehensive income in the year to 31 March 2016 had the assets not been reclassified (2015: £1,222,000).

Notes to the financial statements

(forming part of the financial statements)

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

	2016 £'000	2015 £000
Net interest income	-	181
Impairment losses	-	(415)
Loss on disposals	(135)	(408)
	(135)	(642)

13. Debt and equity securities

	2016 £'000	2015 £'000
Debt securities - available-for-sale	213,603	112,477
Allowance for impairment	(1,088)	(3,691)
Accrued interest	142	503
Total debt securities - available-for-sale	212,657	109,289
Equity securities - available-for-sale	116,411	107,966
Allowance for impairment	(35,823)	(10,830)
Total equity securities - available-for-sale	80,588	97,136
Equity securities – fair value through profit and loss	12,023	-
Total debt and equity securities	305,268	206,425

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

	2016 £'000	2015 £'000
Debt securities		
- Listed	212,657	108,986
- Unlisted	-	303
Total debt securities	212,657	109,289
Equity securities		
-Listed	31,370	25,522
-Unlisted	61,241	71,614
Total equity securities	92,611	97,136
Total debt and equity securities	305,268	206,425

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

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

	2016 £'000	2015 £'000
Debt securities		
At 1 April	3,691	8,555
Charge to the income statement	187	1,279
Exchange movements	285	(693)
Amounts written off	(3,075)	(5,450)
At 31 March	1,088	3,691
Equity Securities		
At 1 April	10,830	11,335
Charge to the income statement	24,993	944
Exchange movements	-	(354)
Amounts written off	-	(1,095)
At 31 March	35,823	10,830

The impairment charge relates mainly to the investment in Third New Court Limited, a fellow subsidiary of Rothschild Concordia SAS, following a capital restructuring that involved the payment of a dividend of £25 million.

Notes to the financial statements

(forming part of the financial statements)

The movement in debt and equity securities is as follows:

	2016 £'000	2015 £'000
At 1 April	206,425	218,646
Additions	205,110	122,878
Disposals (sale and redemption)	(91,276)	(133,913)
Gains/(losses) from changes in fair value	8,122	7,390
Movement in allowance for impairment	(25,181)	(2,223)
Unwinding of discount	(17)	(505)
Movement in accrued interest	(362)	(14)
Exchange differences	2,447	(5,834)
At 31 March	305,268	206,425

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 2016, of £13,312,000. The total assets of the structured entities as at 31 March 2016 was £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 unless they qualify as cash flow hedges for accounting purposes.

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

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

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

During the period, the Company has continued to reduce the size of the non-trading book. This has led to a reduction in the volume and value of interest rate swaps which are used for both cash flow and fair-value hedging arrangements. As at the 31 March 2016, the Company had no

Notes to the financial statements

(forming part of the financial statements)

derivative instruments designated as cash flow hedges for accounting purposes, and it is envisaged that the remaining instruments designated as fair value hedges would cease following the planned repayment of deposits during the year to March 2017.

Fair value hedges

The Company's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed rate lending, fixed rate debt securities and fixed rate borrowing.

The fair value of derivatives designated as fair value hedges at 31 March 2016 was £2,212,000 (2015: £6,167,000). Fair value losses of £1,176,000 (2015: £1,522,000) on derivatives held in qualifying fair value hedging relationships are included in net trading income. Fair value gains of £1,173,000 (2015: £1,525,000), which relate to changes in fair value of hedged items attributable to the hedged risk, are also included in net trading income.

Cash flow hedges

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

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

No profit or loss was recognised in the income statement in respect of the ineffective portion of cash flow hedges (2015: £nil).

During the financial period, the cross-currency interest rate swaps designated as cash flow hedges matured and no further swaps have been entered into.

The schedule of cash flows hedged is as follows:

	< 1 yr £'000	1-3 yrs £'000	3-5 yrs £'000	5-10 yrs £'000	> 10 yrs £'000
As at 31 March 2016					
Cash outflows (liabilities)	-	-	-	-	-
As at 31 March 2015					
Cash outflows (liabilities)	(9)	-	-	-	-

	Notional principal		Positive fair value		Negative fair value	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Contracts held for risk management purposes						
Derivatives designated as hedges:						
Fair value interest rate swaps	150,000	275,000	2,212	6,167	-	-
Cash flow cross-currency interest rate swaps	-	62,550	-	8,054	-	-
	150,000	337,550	2,212	14,221	-	-
Contracts held for trading purposes						
Forward foreign exchange contracts	158,788	123,176	808	993	(2,212)	(610)
Interest rate swaps	600	600	14	13	-	-
	159,388	123,776	822	1,006	(2,212)	(610)
	309,388	461,326	3,034	15,227	(2,212)	(610)

15. Other assets

	2016 £'000	2015 £'000
Accounts receivable and prepayments	88,482	58,664
Accrued income	16,665	22,094
Traded loans awaiting settlement	-	742
Other	2,556	3,142
	107,703	84,642

Accounts receivable are net of allowances of £2,464,000 (2015: £1,120,000).

Notes to the financial statements

(forming part of the financial statements)

16. Investments in subsidiary undertakings

	2016 £'000	2015 £'000
Cost at 1 April	40,022	40,022
Reclassification	530	-
Additions	350	-
Impairment provisions	(19,320)	-
Cost at 31 March	21,582	40,022

During the year, the Company acquired the remaining 50.0 per cent of the share capital of Investor Perceptions Limited, a company that provides investor research information, for £350,000. The Company already had a 50.0 per cent non-controlling interest in Investor Perceptions Limited which it acquired in 2013 for £530,000 and had previously accounted for as a joint venture.

£19,310,000 of the impairment provisions followed the distribution of retained earnings of Five Arrows Finance Limited following the disposal of Five Arrows Leasing Group in November 2015. Since the Company no longer has underlying businesses to generate income it was deemed appropriate to write the investment down to net asset value.

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

	Percentage ownership	
	%	%
Arrow Capital Pty Limited (incorporated in Australia)		100
Five Arrows Managers LLP (formerly Elgin LLP)		100
Elgin Capital Services Limited		100
Elsinore Part. e Serv. Ltda. (incorporated in Brazil)		100
Five Arrows Films Pty Limited (incorporated in Australia)		100
Five Arrows Finance Limited		100
Five Arrows Leasing Holdings Limited		100
Investor Perceptions Limited		100
Lanebridge (Arena Plaza) Jersey GP Limited (incorporated in Jersey, C.I.)		100
Lanebridge Holdings Limited		100
Lanebridge Investment Management Limited		100
Marplace (Number 480) Limited		100
NCCF Holdings Limited		100
O C Investments Limited		100
Rothschild Australia Holdings Limited		100
Rothschild Australia Limited (incorporated in Australia)		100
Rothschild & Co Proprietary Limited (incorporated in Australia)		100
Rothschild Credit Management Limited		100
Rothschild Gold Limited		100
Rothschild Investments Limited		100
Rothschild Limited		100
Rothschild Reserve Limited		100
Rothschilds Continuation Finance PLC		100
Shield Trust Limited		100
Shield MBCA Limited		100
Rothschild Europe BV (incorporated in The Netherlands), which owns the following subsidiaries:		50
Rothschild GmbH (incorporated in Germany)	100	
Rothschild SpA.(incorporated in Italy)	90.45	
Rothschild S.A. (incorporated in Spain)	98	
Rothschild Portugal Limitada (incorporated in Portugal)	99.89	
Rothschild - Kurumsal Finansman Hizmetleri Limited Sirketi (incorporated in Turkey)	99	
Rothschild Polska Sp. z o.o. (incorporated in Poland)	100	
RCF (Russia) BV (incorporated in The Netherlands)	100	
Rothschild (Middle East) Limited (incorporated in Dubai)	100	
Rothschild (Qatar) LLC (incorporated in Qatar)	100	
RCF (Israel) BV (incorporated in The Netherlands)	100	
Rothschild Nordic AB (incorporated in Sweden)	100	

Notes to the financial statements

(forming part of the financial statements)

17. Investments in associates and joint ventures

	2016 £'000	2015 £'000
Cost at 1 April	34,766	40,198
Reclassification	(530)	-
Disposals	(3,956)	(5,432)
Cost at 31 March	30,280	34,766

Disposals during the year relate to the Company's investment in Quintus European Mezzanine Fund Limited Partnership following returns of principal in the underlying assets in the fund.

During the year, the Company acquired the remaining 50.0 per cent of the share capital of Investor Perceptions Limited to add to the 50.0 per cent holding that it had acquired in 2013. Consequently the investment has now been reclassified as a subsidiary undertaking.

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

	Country of residence	Ownership interest	Description of business
Rothschild & Cie Banque	France	9.38%	Limited partnership bank
N M Rothschild Europe Partnership	UK	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 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
Cost at 1 April 2014	48,588	1,431	18,703	68,722
Additions	14	43	-	57
Disposals	-	(26)	(9,275)	(9,301)
At 31 March 2015	48,602	1,448	9,428	59,478
Accumulated depreciation at 1 April 2014	9,801	931	14,410	25,142
Disposals	-	(20)	(9,275)	(9,295)
Depreciation charge	2,891	117	1,136	4,144
At 31 March 2015	12,692	1,028	6,271	19,991
Net book value at 31 March 2015	35,910	420	3,157	39,487

19. Other liabilities

	Note	2016 £'000	2015 £'000
Accounts payable		23,483	23,631
Traded loans awaiting settlement		-	724
Defined benefit pension liabilities	21	61,411	94,729
Other liabilities		6,536	6,654
		91,430	125,738

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 (2015: 20 per cent) although reductions in the rate to 19 per cent from April 2017 and to 18 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:

	2016 £'000	2015 £'000
At 1 April	54,345	61,905
Recognised in income		
Income statement charge	(6,702)	(11,755)
Recognised in equity		
Defined benefit pension arrangements	(7,408)	4,422
Available-for-sale securities		
- fair value measurement	187	(468)
Cash flow hedges		
- fair value measurement	1	(2)
Tax losses utilised	-	243
At 31 March	40,423	54,345

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

	2016 £'000	2015 £'000
Accelerated tax depreciation	4,439	6,319
Deferred profit share arrangements	14,267	16,595
Pension and other post retirement benefits	11,744	18,946
Available-for-sale securities	(19)	(305)
Tax losses	9,992	12,415
Other temporary differences	-	375
	40,423	54,345

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

	2016 £'000	2015 £'000
Accelerated tax depreciation	(1,880)	735
Deferred profit share arrangements	(2,328)	(2,233)
Available-for-sale securities	99	108
Pensions and other post retirement benefits	206	(3,040)
Tax losses	(2,423)	(7,022)
Other temporary differences	(376)	(303)
	(6,702)	(11,755)

Deferred tax assets of £6,500,000 (2015: £6,500,000) have not been recognised. These relate to £36,000,000 of unutilised tax losses.

Deferred tax liabilities have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries and other interests as it is anticipated that such profits would qualify for exemption from UK taxation. The amount of withholding taxes that would be payable should the retained earnings be remitted would be £nil (2015: £nil).

Notes to the financial statements

(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 scheme established with effect from April 2003. The Company also has £1,298,000 (2015: £1,581,000) 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 years. The Fund is approved by 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. 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 2013 and has been updated for IAS 19 (Revised) purposes to 31 March 2016 by qualified independent actuaries. As required by IAS 19 (Revised), 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:

	2016	2015	2014
Discount rate	3.60%	3.40%	4.50%
Retail price inflation	2.90%	3.00%	3.30%
Consumer price inflation	1.90%	2.00%	2.30%
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	2.80%	2.90%	3.20%
Capped at 2.5% per annum	2.00%	2.00%	2.20%
Life expectancy of a pensioner aged 60:			
Male	28.7	28.6	28.5
Female	29.5	29.5	29.4
Life expectancy of a future pensioner aged 60 in 20 years' time:			
Male	30.7	30.6	30.5
Female	30.7	30.7	30.6

The defined benefit plan net liability calculation is sensitive to the actuarial assumptions used above. Those that have the most significant impact on the measurement of the liability are as follows:

	2016	2015
	£'000	£'000
0.5% increase in discount rate	(61,400)	(66,500)
0.5% increase in price inflation	50,900	53,400
1 year increase in life expectancy	21,300	20,800

The sensitivities shown above reflect only the change in the assessed defined obligation for the Fund. In practice, any movement leading to a change in the discount rate or price inflation is

Notes to the financial statements

(forming part of the financial statements)

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 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)

	Plan assets £'000	Defined benefit obligations £'000	Net defined benefit liability £'000
At 1 April 2014	550,176	(637,995)	(87,819)
Current service cost (net of contributions paid by other plan participants)	-	(2,821)	(2,821)
Current service cost relating to other plan participants	-	(702)	(702)
Interest income/(cost)	24,804	(28,286)	(3,482)
Remeasurements due to:			
- actual return less interest on plan assets	81,150	-	81,150
- changes in financial assumptions	-	(114,085)	(114,085)
- changes in demographic assumptions	-	6,512	6,512
- experience gains/(losses)	-	4,312	4,312
Benefits paid	(19,071)	19,071	-
Contributions by the Company	22,579	-	22,579
Contributions by other plan participants	702	-	702
Administration expenses	(1,075)	-	(1,075)
At 31 March 2015	659,265	(753,994)	(94,729)

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

	2016 £'000	2015 £'000
Quoted		
Corporate bonds	85,126	91,844
Index-linked gilts	36,008	39,536
Liability driven investments	112,812	121,272
Equities	225,191	215,720
Emerging market currency	6,799	16,871
Emerging market debt	26,951	19,835
Private markets	22,741	22,709
Multi-strategy alternative	-	13,427
Unquoted		
Fund of hedge funds	56,717	56,252
Private markets - unquoted	48,670	49,156
Leveraged loans	7,744	6,589
Equities	676	673
Cash and net current assets	22,947	5,381
	652,382	659,265

Notes to the financial statements

(forming part of the financial statements)

Equities includes £676,000 (2015: £673,000) of shares in companies that are related parties of the Company.

The Company has also entered into a trust arrangement for the benefit of the Fund giving security over certain assets should various financial triggers be breached. Further information is provided in note 22 to the accounts.

Amounts recognised in the income statement are as follows:

	Note	2016 £'000	2015 £'000
Employers' part of current service cost		2,649	2,821
Net interest cost		2,864	3,482
Administration expenses		1,167	1,075
Total (included in staff costs)	10	6,680	7,378

Amounts recognised in the statement of comprehensive income:

	2016 £'000	2015 £'000
Actuarial gains and (losses) recognised in the year	19,314	(22,111)
Cumulative actuarial losses recognised in the statement of comprehensive income	(177,247)	(196,561)

Following the March 2013 triennial actuarial valuation of the Fund, the Company agreed a contribution plan with the trustees to reduce the deficit in accordance with pensions regulation. The aim is to eliminate the pension deficit by 2023 with annual contributions of £13.8m (increasing by 3.6% per annum). In addition, participating employers in the scheme have agreed to pay 33.5% of in-service members' pensionable salaries in respect of future accrual. The arrangement will be reviewed during 2016, as part of the next triennial actuarial valuation of the Fund.

It is estimated that total contributions of £21.0 million will be paid to the defined benefit pension schemes in the year ending 31 March 2017, of which it is estimated that the Company will pay £20.0 million.

Defined contribution schemes

	Note	2016 £'000	2015 £'000
Contributions paid	10	4,337	3,686

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

22. Contingent liabilities and commitments

	2016 £'000	2015 £'000
Guarantees		
Guarantees and irrevocable letters of credit	119,210	109,552
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend	589	34,404

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.

The Company has entered into a trust arrangement for the benefit of the NMR Pension Fund which gives the pension fund security over certain assets which would provide up to £50 million of value to the NMR Pension Fund in the event that specific financial triggers are breached. The financial triggers relate to the Company's ongoing viability and any breach is therefore considered extremely unlikely. The Company retains control of the assets and income relating to them continues to be recognised in the Company's results. The trust arrangement matures on 30 September 2016.

Notes to the financial statements

(forming part of the financial statements)

23. Operating lease commitments

At 31 March 2016, 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:

	2016 £'000	2015 £'000
Up to 1 year	11,253	10,952
Between 1 and 5 years	44,986	44,522
More than 5 years	229,750	177,542
	285,989	233,016

Operating expenses include operating lease rentals of £8,917,000 (2015: £8,775,000).

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

	2016 £'000	2015 £'000
Up to 1 year	157	78
Between 1 and 5 years	600	94
More than 5 years	412	-
	1,169	172

24. Distributions

	2016 £'000	2015 £'000
Other equity interests		
Perpetual Floating Rate Subordinated Loan (US\$100 million)	590	474
Perpetual Fixed Rate Subordinated Loan (£75 million)	6,780	6,762
Perpetual Floating Rate Subordinated Loan (€150 million)	1,223	2,150
	8,593	9,386
Tax credit thereon	(1,718)	(1,971)
	6,875	7,415
Ordinary shares		
Interim dividends (paid)	50,000	13,000
	56,875	20,415

The dividends per ordinary share were 87p (2015: 23p).

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.

	2016 £'000	2015 £'000
Cash and balances at central banks	400,097	639,240
Loans and advances to banks	13,907	7,916
	414,004	647,156

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	2016 £'000	2015 £'000
Loans and accrued interest	7	5
Deposits	231	754

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

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

	2016 £'000	2015 £'000
Key management personnel compensation:		
Short-term employee benefits	6,554	6,518
Post-retirement benefits	23	21
Other long-term employee benefits	5,096	5,177

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

At 31 March	2016		2015	
	Loans and advances £'000	Other assets £'000	Loans and advances £'000	Other assets £'000
Amounts due from parent companies	34,344	679	34,346	27
Amounts due from subsidiary undertakings	1,902	5,710	182,139	9,887
Amounts due from associates and joint ventures	-	1,022	1,051	5,008
Amounts due from other related parties	3,528	35,344	1,868	14,599

Amounts receivable include loans to related parties and amounts recoverable from related parties in respect of expenses incurred on their behalf and services provided. Loans are made in the ordinary course of business and on substantially the same terms as comparable transactions with third parties.

Amounts payable to related parties of the Company are as follows:

At 31 March	2016			2015		
	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000	Deposits £'000	Perpetual instruments £'000	Other liabilities £'000
Amounts due to parent companies	1,810	-	-	12,161	-	-
Amounts due to subsidiary undertakings						
- subordinated	-	51,725	-	-	51,725	-
- other	25,439	-	7,858	13,768	-	8,309
Amounts due to associates and joint ventures	3,162	-	7,494	4,612	-	11,533
Amounts due to pension funds	3,843	-	-	6,564	-	-
Amounts due to other related parties						
- subordinated	-	72,610	-	-	72,610	-
- other	23,034	-	7,162	282,438	-	2,927

Amounts payable include deposits taken and bank account balances held in the ordinary course of business and on substantially the same terms as comparable transactions with third parties.

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

At 31 March	2016 £'000	2015 £'000
Guarantees made on behalf of subsidiary undertakings	118,733	109,095
Guarantees received from other related parties	2,360	1,929

The Company has guaranteed £118,733,000 (2015: £109,095,000) 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.

The Company has received guarantees from a fellow subsidiary of Rothschild Concordia SAS in respect of certain customer loans and available-for-sale securities.

Notes to the financial statements

(forming part of the financial statements)

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

At 31 March	2016 £'000	2015 £'000
Undrawn credit commitments	607	22,245

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	Pension funds £'000	Other related parties £'000	Total £'000
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
2015						
Interest receivable	1,036	4,601	-	-	74	5,711
Interest payable	(29)	(16)	(14)	(8)	(1,596)	(1,663)
Fees and commissions receivable	5,988	8,689	6,071	-	10,290	31,038
Fees and commissions payable	-	(4,333)	(14,249)	-	(3,865)	(22,447)
Dividend income	691	11,900	4,054	-	383	17,028
Rent payable	-	-	-	-	(9,975)	(9,975)
Recoverable expenses	-	(1,775)	1,128	-	6,674	6,027

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

27. Share capital

	2016	2015
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

	2016 £'000	2015 £'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

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. The smallest group in which they are consolidated is that headed by Rothschild & Co SCA, a French public limited partnership. The accounts are available on Rothschild & Co website at www.rothschildandco.com.

Notes to the financial statements

(forming part of the financial statements)

30. Remuneration of directors

	2016 £'000	2015 £'000
Directors' emoluments	3,628	2,429
Amounts receivable under long term profit share schemes	502	200
	4,130	2,629
Pension contributions to money purchase schemes	23	21
	4,153	2,650

The emoluments of the highest paid director were £1,250,000 (2015: £815,000).

	2016	2015
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	2	2
Defined benefit schemes	1	1

31. Events after the reporting period

Since the balance sheet date, 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 business performance. Business plans project the deferred consideration to be £7.7 million, of which £1m has been recognised as part of the cost of acquisition.

Under IFRS 3, the remainder of the projected deferred consideration, £6.7 million, is required to be treated as remuneration as it is payable to employees and directors of Scott Harris Limited on condition that they remain in the employment of the company. This cost will be amortised over the 3 year period over which the deferred remuneration is payable.

Following the sale of Five Arrows Leasing Group in November 2015, the Company no longer requires UK deposit funding and therefore announced in April 2016 that it will retire its UK deposit taking licence, subject to regulatory consent. Accordingly, all remaining deposits raised under the Rothschild Reserve brand were repaid during May 2016 and the Company is working to repay all other deposits as soon as possible.