Pillar 3 Disclosures for the year ended 31 March 2016

19 October 2016

Rothschild

Contents

1. Introduction

1.1 Background

This document is published to provide information about N M Rothschild & Sons Limited ("NMR") compliance with the public disclosure rules (known as "Pillar 3" requirements), set out in Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 relating to minimum capital requirements. This regulation, the Capital Requirements Regulation ("CRR"), implemented the Basel 3 Accord in Europe and together with the Capital Requirements Directive are referred to as "CRD IV".

The disclosure requirements complement the minimum capital requirements ("Pillar 1") and the supervisory review process ("Pillar 2") and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of NMR.

1.2 Basis of disclosures

NMR has been granted an individual consolidation method permission. The effect of this is that NMR incorporates those subsidiaries subject to the permission into the calculation of NMR's capital resources and capital resource requirements.

NMR is a subsidiary of Rothschild & Co SCA, a French public limited partnership. For the year ended 31 March 2016 NMR was subject to prudential supervision by the Prudential Regulation Authority ("PRA"), although on 19 September 2016, NMR relinquished its UK deposit taking licence and the responsibility for prudential supervision was transferred to the Financial Conduct Authority. Regulation of the consolidated Rothschild & Co group is the responsibility of the Autorité de Contrôle Prudentiel et de Résolution.

Rothschild & Co has disclosed Pillar 3 information in respect of the consolidated group on Rothschild & Co's website www.rothschildandco.com.

Since NMR is a significant subsidiary of an EEA parent financial holding company, it is required to disclose separately certain information on an individual consolidation basis in accordance with CRR Article 13(1). Unless otherwise indicated, information is as at 31 March 2016 (NMR's year end). As there is a significant overlap between the information disclosure requirements of the CRR and information already disclosed in NMR's 2016 Annual Report, this document should be read in conjunction with that report.

1.3 Media and location

This report is available on the Rothschild corporate website (www.rothschild.com) along with NMR's 2016 Annual Report.

1.4 Verification

These disclosures have been approved by the Board of NMR. Unless otherwise indicated, information contained within this document has not been subject to external audit. The Pillar 3 disclosures have been prepared purely for the purpose of explaining the basis on which the NMR Group has prepared and disclosed certain capital requirements and for no other purpose.They do not constitute any form of financial statement and must not be relied upon in making any judgement on the NMR Group.

2. Capital Resources

During the year ended 31 March 2016, the NMR Group complied with all of the externally imposed capital requirements to which it was subject.

The table below summarises the composition of regulatory capital for the NMR individual consolidation regulatory group, as reported to the regulators, as at 31 March together with a reconciliation to the audited financial statements of NMR.

	Notes	2016 £m	2015 £m
Tier 1 capital:			
Shareholders' equity			
Total equity per balance sheet		553.4	450.4
Perpetual instruments classified as equity included in Tier 2 capital		(124.3)	(124.3)
		429.1	**326.1**
Regulatory adjustments			
Retained earnings of subsidiaries subject to individual consolidation		19.9	33.4
		19.9	**33.4**
Deductions			
Intangible assets in subsidiaries subject to individual consolidation	**1**	-	(6.8)
Unaudited retained profits as at 31 March		(73.7)	(15.3)
Significant investments in related entities	**2**	(68.8)	(71.3)
Deferred tax assets		(19.8)	(41.5)
Other		(0.1)	(0.2)
		(162.4)	**(135.1)**
Common equity Tier 1 capital		**286.6**	**224.4**
Tier 1 capital		**286.6**	**224.4**
Tier 2 capital:			
Qualifying subordinated liabilities			
Perpetual instruments classified as equity		124.3	124.3
		124.3	**124.3**
Deductions			
Significant investments in related entities	**2**	(26.9)	(44.2)
Other		(34.3)	(34.3)
		(61.2)	**(78.5)**
Tier 2 capital		**63.1**	**45.8**
Total capital		**349.7**	**270.2**

Notes:

1. *Intangible assets relate to goodwill and are not a qualifying asset for regulatory capital purposes.*
2. *Under CRD IV, as applied by the PRA, 70% (2015: 60%) of investments in related parties over a prescribed threshold are deducted from Tier 1 capital (increasing to 100% over the next 3 years). NMR has deducted the remainder of the investments in related parties, that would have been deducted from total capital under Basel 2, from Tier 2 capital.*

3. Capital Adequacy

3.1 Overview

As part of its statutory duties, the regulators set out the minimum capital requirements for UK regulated financial institutions. An institution's minimum regulatory capital is a combination of the requirements derived from Pillar 1 and Pillar 2 rules. Pillar 1 sets out the minimum capital required to meet credit, market and operational risk. Pillar 2 lays out 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.

Regulatory capital is monitored closely and regularly reported to senior executives.

An Internal Capital Adequacy Assessment Process ("ICAAP") is undertaken to review the risks and capital requirements of the business over a rolling five year planning cycle. The ICAAP is subject to PRA review. NMR's risk management processes are designed to ensure that all risks are identified and that they are covered by capital or other appropriate measures.

3.2 Risk weighted assets and Pillar 1 capital requirements

The following table shows the NMR Group's risk weighted assets ("RWA") and Pillar 1 capital requirement by asset class as at 31 March 2016:

	Capital £m	RWA £m
Credit Risk - Standardised Approach		
Institutions	0.2	3.1
Corporates	0.6	7.2
Secured by mortgages on immovable property	3.6	44.6
Exposures in default	4.4	55.4
Securitisation positions	21.1	263.5
Equity exposures	7.6	95.2
Other items	14.9	186.6
	52.4	**655.6**
Operational Risk - Basic Indicator Approach	**49.3**	**616.6**
Market Risk		
Interest rate PRR	-	0.1
Foreign exchange PRR (includes non-trading)	3.9	48.2
Other	-	0.3
	3.9	**48.6**
Pillar 1 Capital Requirement	**105.6**	**1,320.8**
Tier 1 capital / Common equity tier 1 capital		286.6
Tier 2 capital		63.1
Total capital		**349.7**
Tier 1 / Common equity tier 1 ratio		**21.7%**
Total capital ratio		**26.5%**

4. Leverage Ratio

4.1 Overview

The CRR requires institutions to disclose information on their leverage ratio, comparing Tier 1 capital to total, non-risk based, exposures.

The NMR Group focus is on managing down the legacy commercial lending book and maintaining conservative leverage ratios. During the year to 31 March 2016, the leverage ratio has continued to improve to stand at 28.8% on a CRR transitional basis. This is because of increased shareholder equity during the period coupled with reductions in balance sheet size.

4.2 Leverage ratio disclosures

The tables below provide details of the components of capital and exposures used to calculate NMR's leverage ratio, disclosed in accordance with the templates provided by the European Banking Authority

Summary reconciliation of accounting assets and leverage ratio exposures

	£m
Total assets per published financial statements	1,082
Adjustment for entities that are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(1)
Adjustments for derivative financial instruments	2
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1
Other adjustments	(88)
Total leverage ratio exposure	996

Leverage ratio common disclosure

	£m
On-balance sheet exposures (excluding derivatives)	
On-balance sheet items (excluding derivatives)	1,078
Asset amounts deducted in determining Tier 1 capital	(88)
Total on-balance sheet exposures (excluding derivatives)	**990**
Derivative exposures	
Replacement cost associated with derivatives transactions	3
Add-on amounts for PFE associated with derivatives transactions	2
Total derivative exposures	**5**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	1
Adjustments for conversion to credit equivalent amounts	-
Other off-balance sheet exposures	**1**
Capital and Total Exposures	
Tier 1 Capital	**287**
Total leverage ratio exposures	**996**
Leverage ratio	
Leverage ratio	**28.8%**
Choice on transitional arrangements	
Choice on transitional arrangements for the definition of the capital measure	Transitional

Split of on-balance sheet exposures (excluding derivatives)

	£m
Total on-balance sheet exposures (excluding derivatives), of which:	**990**
Trading book exposures	-
Banking book exposures, of which:	**990**
Exposures treated as sovereigns	576
Institutions	14
Secured by mortgages of immovable properties	45
Corporate	40
Exposures in default	40
Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	275

5. Remuneration Policy

The undernoted disclosures are in accordance with the UK regulator's application of Article 450 CRR remuneration disclosure for a proportionality level three firm.

5.1 Decision-making process for remuneration policy

The Rothschild & Co Group has a Remuneration Committee ("Committee") which meets regularly to set the principles and parameters of remuneration policies for the Rothschild & Co Group and its subsidiaries and to review periodically the policies' adequacy and effectiveness. Within the authority delegated by the Rothschild & Co Supervisory Board, the Committee is responsible for reviewing and agreeing the broad policy framework for the remuneration of senior Rothschild & Co Group employees, including those in positions of significant influence and those whose professional activities are deemed to have a potential material impact on the NMR Group's risk profile (Material Risk Takers).

There were three meetings of the Committee in relation to the financial year ended 31 March 2016. The Committee reports to the Rothschild & Co Supervisory Board on its activities on a regular basis. The terms of reference of the Committee are available upon request.

The members of the Committee in the financial year ended 31 March 2016 were Sylvain Hefes, André Levy-Lang, Peter Smith and Luisa Todini. Sylvain Hefes is the chairman of the Committee. The majority of the Committee members are independent non-executive directors.

No Rothschild & Co Group employee is permitted to participate in discussions or decisions of the Committee relating to his or her remuneration.

5.1.1 External consultants

The Committee's work during the year was supported by independent professional advice on remuneration issues from external consultants with whom the Group Human Resources Director, Paul Barry, collaborated in providing advice on the implications of remuneration policy on risk and risk management.

5.1.2 Role of the relevant stakeholders

The Committee takes full account of the Rothschild & Co Group's strategic objectives in setting its remuneration policy and is mindful of its duties to shareholders and other stakeholders. The Committee seeks to preserve shareholder value by supporting the effective retention and motivation of employees.

5.1.3 Material Risk Takers criteria

Material Risk Takers were identified using the qualitative and quantitative criteria set out in the EBA Regulatory Technical Standard on criteria for the identification of Material Risk Takers.

5.2 The link between pay and performance

Remuneration is made up of fixed pay (i.e. salary and cash allowances) and incentive pay (annual bonus awards).

Annual bonus awards are designed to reward performance in line with the business strategy, objectives, values and long term interests of the Rothschild & Co Group and its subsidiaries while taking account of the Group's risk appetite.

Individual bonus awards reflect individual performance which is assessed through the Rothschild & Co Group's annual performance process.

There is strong central oversight of bonus pools and individual awards. Overall annual compensation expense is reviewed every year by the Committee. There is clear individual differentiation to ensure that the best performers are rewarded and in the financial year ended 31 March 2016 a number of staff received nil bonus awards.

5.3 Design and structure of remuneration for Material Risk Takers

5.3.1 Fixed compensation

All Material Risk Takers receive fixed remuneration (executives/staff) or fees (non-executives) to reflect their role, market value and level of responsibility. The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Rothschild & Co Group to operate a truly flexible bonus policy.

5.3.2 Annual incentives

Rationale and eligibility criteria

All Material Risk Takers, with the exception of non-executive directors, are eligible to participate in the Rothschild & Co Group's discretionary annual bonus scheme.

Performance measurement

Performance is central to the determination of annual incentive pools and individual awards. Incentive pools are set having regard to a number of performance measures including revenues, pre-compensation profit and appropriate levels of shareholder return and bearing in mind market conditions, general economic conditions, market remuneration trends and staff retention.

The measurement of performance used to set bonus pools takes account of the cost and quantity of capital and liquidity requirements and includes adjustment for current and potential risks.

Individual performance assessment takes into account financial measures and non-financial measures such as contribution measured against pre-set personal and technical competencies, effective risk management, compliance with the regulatory system and behaviours that support the Rothschild & Co Group's values.

Deferral and vesting

A proportion of the variable remuneration awards made to senior staff (Assistant Director and above) are deferred over three years.

5.4 Remuneration expenditure for Material Risk Takers

Total compensation paid to Material Risk Takers for the year ended 31 March 2016 was £110.5 million, of which £21.9 million was paid to members of Senior Management and £88.6 million to the other Material Risk Takers.