Rathbone Brothers Plc
Report and accounts 2012

Rathbones
Established 1742

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Rathbone Brothers Plc

Rathbone Brothers Plc is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services.

As at 31 December 2012, Rathbones managed £17.98 billion of client funds, of which £16.71 billion were managed by Rathbone Investment Management.

Report and accounts online

We aim to provide easy and transparent access to shareholder information. As well as the printed annual report and accounts, we have developed an online version which presents a flexible way of accessing the information you need. We hope you find it a valuable addition to our suite of reporting materials and would value any feedback you may have via the link provided on the site.

www.rathbones.com/ra2012

Highlights of the year

Financial highlights

Funds under management
2012: £17.98bn
2011: £15.85bn
+13.4%

Operating income
2012: £155.6m
2011: £144.5m
+7.7%

Underlying[1] profit before tax
2012: £45.1m
2011: £46.2m
-2.4%

Profit before tax
2012: £38.8m
2011: £39.2m
-1.0%

Underlying[1] earnings per share
2012: 77.96p
2011: 78.79p
-1.1%

Basic earnings per share
2012: 67.00p
2011: 66.72p
+0.4%

Dividends paid and proposed per share
2012: 47.0p
2011: 46.0p
+2.2%

1 Underlying profit before tax and underlying earnings per share exclude amortisation of client relationships, head office relocation costs and, in 2011, gains on disposal of financial securities

Business highlights

Rathbones purchase Taylor Young Investment Management Limited's UK investment management private client base.

See page 5

Rathbone Brothers Plc raises £24.7 million of gross proceeds through a non pre-emptive institutional placing of 2,000,000 shares.

See page 24

Other purchases of the private client investment management businesses of R.M. Walkden & Co. Limited and AIB Jersey.

See page 5

Rathbones wins the Charity Times Investment Manager of the Year and the Investors Chronicle/Financial Times Best Wealth Manager for Alternative Investments awards.

See page 19

The Rathbone Active Income Fund for Charities is launched.

See page 21

Mark Nicholls
Chairman

Our investment performance was strong in 2012 and we have grown funds under management through both performance and by continuing to attract experienced investment managers – both individually and through acquisitions.

2012 was a challenging year. Most of the markets in which we invest remained broadly flat throughout the period and the investment management industry generally has suffered from economic and regulatory uncertainty. Nevertheless, I am pleased to say that our performance demonstrates our resilience and the benefits of continuing to grow our business. Our investment performance was strong in 2012 and we have grown funds under management through both performance and by continuing to attract experienced investment managers – both individually and through acquisitions. Our reputation as an investment manager and an employer remains high.

The private client investment management industry in the UK faces a number of challenges. The introduction of the Retail Distribution Review (RDR) on 1 January 2013 – which will regulate all advisers in the retail investment market – will, inter alia, lead to greater transparency of the charges levied by our competitors and intermediaries. Some intermediaries will disappear but the strongest and best run will remain significant players, and we will continue to work with them. The full implications of RDR will not be clear for some time, but we believe we are well-positioned.

More generally, we need to spend more time on succession planning at all levels and this is a priority for the coming year.

Governance, Board and senior management group

We have considered our Board composition carefully and how it relates to our evolving management structure. As foreshadowed in my statement last year we have reduced the size of our Board so that it can increasingly focus its attention on strategy, monitoring performance and ensuring that effective governance and risk management processes are in place.

Ian Buckley, Andrew Morris and Richard Smeeton agreed to stand down from the Board at the end of 2012 but will continue their management responsibilities. My thanks go to them and we look forward to their continuing strong contribution to the growth of the business. This means the only executive directors on the Board are the chief executive, the head of investment management and the finance director. This change makes the current Board composition compliant with the UK Corporate Governance Code as the majority of directors (excluding me) are now independent non-executive directors.

There are currently five non-executive directors apart from me. Caroline Burton, however, has now completed nine years' service and will be standing down at the next Annual General Meeting (AGM). Kate Avery has also asked to stand down after three years' service. We are grateful to both Caroline and Kate for their contribution to our Board and to Caroline also for her service as chairman of the remuneration committee, from which she stood down on 1 November. I am very grateful to David Harrel for agreeing to chair the committee after Caroline.

We will be looking to appoint a new non-executive director in 2013. When we do so we will appoint the best available candidate, having regard to their skills, experience and overall suitability. The benefits of Board diversity will, of course, be a consideration in this.

We appointed Paul Chavasse as head of investment management with effect from 1 March 2012. He succeeded Richard Lanyon, who held the position for over 10 years and deserves much credit for managing a growing business so effectively. Paul has introduced a more formalised structure to manage the business and is involving a wider group of senior investment managers (the 'senior management group'), which I welcome heartily. We must continue to invest in management talent to support and grow our business. I touch on the implications of this for our remuneration policy below.

More generally, we need to spend more time on succession planning at all levels and this is a priority for the coming year.

Strategy

We continue to debate our strategy, both in the boardroom and within the senior management group, recognising that our capital resources and risk appetite determine our speed of growth. We have been able to grow our core business well, both organically and by acquisition, and our recent placing has provided us with further resources to continue doing so. At our annual strategy discussion in November there was a strong consensus that the greatest growth potential lies in our core business and we should prioritise this. Although we continue to develop our offering, both to reflect the different market segments we touch and the channels through which we get our business, the service of our clients and our personal relationship with them remain our core strengths and will not be diluted.

We have made some acquisitions this year which we believe will benefit the business. We suspect there will be more opportunities in the medium term and, if they arise, the Board will ensure we act in the best interests of our shareholders.

We have made some acquisitions this year which we believe will benefit the business. We suspect there will be more opportunities in the medium term and, if they arise, the Board will ensure we act in the best interests of our shareholders. We also wish to grow our banking business, but are mindful of the growing regulatory burden on all banks.

Remuneration

Remuneration has been another area the Board has spent considerable time on. We have been considering ways to ensure that our performance-driven culture is reinforced by our remuneration structure right across the business. Greater accountability is now being introduced for both the senior management group (who are investment managers that spend significant time on the management of the business) and for executive directors. Individual investment managers have clear performance measures. As I mentioned earlier, David Harrel has become chairman of the remuneration committee and we will all benefit from his considerable experience in managing a successful 'people' business.

The Board is committed to creating long term shareholder value. I hope you will find this year's annual report provides a clear account of how we run the business and what we have achieved during the year.

Risk

The Board is responsible for defining our risk appetite and ensuring effective risk management. Kathryn Matthews, as non-executive chairman of the group risk committee, has overseen the continuing development of our risk governance and reporting framework. Apart from the uncertainties of the global environment in which all investment managers operate, the biggest risks to Rathbones arise from our ambition to grow our business and from regulatory intervention in our sector.

Shareholders

We have an enviable shareholder list. This enabled us to raise £24 million in a placing last November at a small discount to the market price. We regard it as important to maintain a good dialogue with our major shareholders on the issues that arise out of the challenges and opportunities we face.

At the AGM, in line with best practice under the UK Corporate Governance Code requirements, we are giving shareholders the opportunity to vote on the re-appointment of every Board member. Biographies of each director are set out on pages 42 to 44.

The Board is committed to creating long term shareholder value. I hope you will find this year's annual report provides a clear account of how we run the business and what we have achieved during the year.

Mark Nicholls
Chairman

19 February 2013

Andy Pomfret
Chief Executive

As expected, 2012 presented a demanding investment climate for both Rathbones and our clients. Whilst we continued to grow, increases in operating expenses, which were predominantly planned, contributed to a fall of 1.0% in profit before tax.

Results and financial highlights

As expected, 2012 presented a demanding investment climate for both Rathbones and our clients. Whilst we continued to grow, increases in operating expenses, which were predominantly planned, contributed to a fall of 1.0% in profit before tax to £38.8 million in 2012 (2011: £39.2 million). Underlying profit (before amortisation of client relationships, head office relocation costs and, in 2011, gains on disposal of financial securities) fell from £46.2 million to £45.1 million. Basic earnings per share rose to 67.00p from 66.72p in 2011, an increase of 0.4% (mainly due to a lower corporate tax rate).

As markets are more positive, the Board has decided to increase the final dividend for the year by 1p. Economic uncertainties remain, but there are a number of acquisition opportunities that we are currently reviewing, and we expect there to be more in 2013. We are keen to maintain capital to take advantage of these opportunities, and this was part of the reason for our recent placing which was announced and completed in November, raising £24.0 million, net of transaction costs.

The financial markets

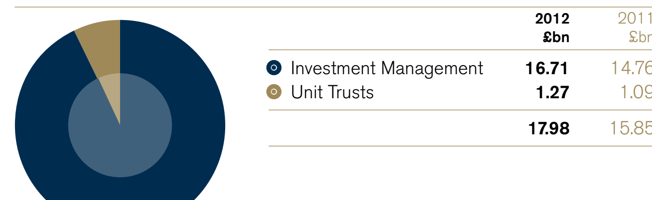
The market as measured by the level of the FTSE has been volatile during 2012 (with a maximum swing of 14.7% from high to low), but on average was similar to market levels in 2011 on our key charging dates. In 2012, sentiment in the market was often adversely affected by continuing worries about the future of the eurozone, but in the latter half of the year these seem to have abated in spite of medium and long term concerns in parts of Europe (Greece and Spain, in particular) not being resolved. At the very end of the year, the United States managed to avoid, or at least defer, the 'fiscal cliff', which helped year end market levels. Our 2012 income benefited for a full year from the small change to our charges that we made at the end of the first quarter of 2011.

In terms of commission the year began and ended positively, but activity was fairly subdued in between, with the worst three months for commission occurring in the second half of the year as a result of holidays and the Christmas period.

Looking at credit markets, the second half of the year saw concerted action within Europe to stave off the eurozone crisis (at least for the time being) and this significantly reduced volatility towards the end of 2012. As a bank, the cash in our investment management clients' accounts is held with us on a banking basis and is then placed in the money markets. We have been monitoring our counterparties carefully during the year and the small amount of money that had been placed directly with Spanish and Italian counterparties was reduced to zero during the first half of 2012. We continue to monitor the counterparties in our treasury book and have recently opened an account with the Bank of England which currently pays base rate and in theory has zero risk. The activities of the UK Government and the Bank of England have continued to reduce money market rates, so the interest rate margin that we are able to earn on our treasury book is much reduced and continues to be under pressure. At the end of the year, three month certificates of deposit were paying close to 40 basis points.

During the year we have taken the opportunity to grow our loan book to £65.1 million from £36.4 million in 2011. These loans are made to investment management clients on a short term basis and are generally secured against the discretionary portfolio which we manage for them. These loans are seen as very attractive for those clients that require short term borrowing. We are keen to expand this loan book during 2013 without changing our risk criteria.

Funds under management (FUM)



	2012 £bn	2011 £bn
Investment Management	**16.71**	14.76
Unit Trusts	**1.27**	1.09
	17.98	15.85

Underlying operating income

	2012 £m	2011 £m
Investment Management	**146.7**	135.1
Unit Trusts	**8.9**	8.2
	155.6	143.3

Acquisitions and growth in 2012

Funds under management have grown 13.4% to £17.98 billion for Rathbones as a whole (2011: £15.85 billion). Although at a headline level this represents a very satisfactory rate of growth, it has become much harder to achieve net organic growth with two factors working against us. Firstly, a number of clients have suffered a reduction in the income level that can be achieved from their portfolio over the last few years and as a result are withdrawing capital in order to maintain lifestyle. Secondly, the number of introductions we have had from independent financial advisers (IFAs) has decreased in the second half of 2012 as many have spent the last few months concentrating on their preparedness for the Retail Distribution Review (RDR), which came into effect on 1 January 2013. We believe that both of these significant impacts are likely to continue into 2013 although in the longer term the changes in the IFA market may well lead to further consolidation of IFAs and give us opportunities to develop some significant relationships with some of the better, higher-quality and well-established IFA groups.

As markets are more positive, the Board has decided to increase the final dividend for the year by 1p. Economic uncertainties remain, but there are a number of acquisition opportunities that we are currently reviewing.

2012 was also adversely impacted by a couple of client losses. Firstly the loss of the management contract for the Albany Investment Trust, which had been managed by our Liverpool office for over 60 years, but was the only investment trust we managed. Secondly, we received notice that our arrangement with Cavanagh Asset Management was coming to an end during November following Cavanagh's takeover by Close Brothers in February 2012. By the end of 2012 this had led to the loss of £31 million out of the funds originally introduced to us by Cavanagh. Relationships with significant introducers can be very beneficial as they introduce clients to us with little marketing effort, but equally there is the danger that material amounts can be withdrawn at very short notice. On a more positive note we added some significant new clients, particularly in our charity business which now has over £2 billion under management. Our Bristol office has also recently reached £1 billion of funds under management.

We made a number of acquisitions during the year including the purchase of Taylor Young Investment Management Limited's private client base in November. This transaction is expected to add up to £350 million to funds under management in 2013 as clients are migrated to Rathbones. Eight Taylor Young staff have already joined us as part of the acquisition. Earlier in the year we acquired 100% of the share capital of R.M. Walkden & Co. Limited, successfully adding £76 million of funds under management, and the investment management business of Allied Irish Bank Jersey, which provided our Jersey office with a boost of some £51 million of funds under management and one member of staff. We have also announced the acquisition of a small team of investment managers who are setting up a new office in Lymington in early 2013 and we have recently opened an office in Newcastle.

In October 2012, we acquired a 19.9% stake in a high quality IFA business based in the South West called Vision Independent Financial Planning Limited, along with its sister company, Castle Investment Solutions Limited (together, 'Vision'). Vision is a business that has been set up relatively recently, principally with advisers who primarily used to work for clearing banks. The acquisition allows us access to a wider network of clients and Vision continues to introduce these clients to both us and a number of investment managers on their panel. Prior to our purchase, Vision had already introduced some £122 million of funds under management to us. We not only expect the introductions to Rathbones to continue, but our relationship with Vision will allow us to keep close to the changes that are taking place following the introduction of RDR. We also have an option to acquire the remaining 80.1% of Vision in three years' time.

We must never forget that the most attractive clients for us are those that come to us directly. In 2012 we have improved the marketing, advertising and support we give our offices around the country. We have also run some events that have attracted a great deal of interest and produced new client leads. One of these is the very successful Annual Charity Symposium that we ran at the British Museum in September 2012, where we had some 335 trustees in attendance. We have also received very favourable publicity for our sponsorship of lacrosse in Scotland's schools and a number of financial awareness days that we run for children of our clients in our London and Liverpool offices.

Acquisitions and growth in 2012 continued

Funds under management have grown 13.4% to £17.98 billion for Rathbones as a whole.

During the year we conducted a significant number of workshops with our staff and have had input from a number of external focus groups on our brand and how we should best use it in our marketing material. This has led to considerable refinement of our brochures and with several changes to our paperwork required by regulatory changes (such as the splitting of the Financial Services Authority (FSA) into the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA)), we will be making a number of further changes to our marketing and client documentation during 2013.

Our unit trust business has performed well in a difficult marketplace during 2012; by the end of the year we had seen nine continuous quarters of net growth. The performance of all of the publicly quoted funds was also good with the majority of funds being in the first or second quartile for the three years to the end of 2012. The traditional funds have been supplemented by three multi asset portfolios which now also have a three year track record and which are very well-placed to provide solutions for clients of IFAs in a post-RDR world.

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Investing in the business

We continue to believe that when other companies are facing challenges and everyone is nervous about the overall direction of the market, it is often a good time for us to make acquisitions and to invest in technology to improve our efficiency and the overall client experience. To that end we have made some significant investments in technology in recent years and will continue to do so in 2013. We are rolling out an asset allocation modelling tool, developing a new online platform for both our clients and IFAs, and are continuing to roll out improved versions of our document management system. We have moved to a much better investment markets tool to support investment managers and are spending more money on our internal research process, both in terms of people and the tools they have. We continue to invest in staff by spending more on training and coaching and have recently introduced an apprenticeship programme in our Liverpool office which should see six apprentices joining us from local schools to start a full time career with us. This continues the theme of investing in the local community and the close links we have had with a number of schools in the Liverpool area over several years. It also underlines the importance of our Liverpool office, where we have over 350 people in some 65,000 square feet at The Port of Liverpool building. This gives us ample room to expand and is where we have centred our operational activities for several years.

During the year we modified our New Business Scheme to align awards more closely with the objective of getting investment managers to grow their business. We also decided to enrol all staff that join us from 1 January 2013 into pension arrangements and have been actively encouraging all existing staff to join our pension schemes well in advance of the statutory deadline of October 2013.

Regulation

During the year the FSA moved to adopt the 'twin peaks' approach to regulation by establishing teams that will ultimately form the FCA and the PRA. We have continued to work closely with our regulators and have had meetings with the teams from the FCA and the PRA and look forward to the situation being formalised on 1 April 2013. As a bank, we will have prudential regulation from the PRA, but our conduct of business will be regulated by the FCA. This will inevitably increase our regulatory burden, but we will be working with both regulators to try to ensure that duplication is minimised.

RDR came into effect on 1 January 2013 and all of our client-facing staff are suitably qualified. The impact on the IFA community is potentially more marked and it will be interesting to see how this impacts their business in the coming year. Benefits for clients are that not only will the fees that they pay be more transparent, but also that trail commission is effectively being banned. Although this has a small negative effect on our income, it is a move we have supported for many years and we are very pleased to see the beginning of the end of trail commission.

The regulators have also focused on the use of Unregulated Collective Investment Schemes (UCIS) and we are expecting some developments on this in 2013.

The Financial Services Compensation Scheme (FSCS) charge of £1.0 million in 2012 was some £0.6 million higher than we have seen in previous years due to a larger number of failures and results of levy restatement exercises. We have been involved in the consultation on how the FSCS is funded in the future and await the final outcome of this consultation process.

Alongside other industry members, we will be responding to FSA papers in the early part of 2013 on conflicts of interest and outsourcing.

Other matters

I am particularly pleased to announce that Philip Howell will be joining us on 4 March as deputy chief executive. Most recently Philip has been chief executive of Williams de Broë and his considerable experience will add to the strength and depth of our management team. Along with Mike Webb (the chief executive of our unit trust business) he will join the Group's executive committee. I look forward to working with them both.

The new committees that were established during 2012 under our new head of investment management, Paul Chavasse, have all started well. These committees are the management committee, which looks after the day to day management of the investment management business, the client committee, which is concerned with marketing, client experience and growth of the business, and finally the investment committee, which is the custodian of our investment process. The investment committee also coordinates research activities and how recommendations are communicated to investment managers who ultimately make investment decisions for their clients.

At the half year we announced that we had issued proceedings to confirm insurance cover against the insurers on the excess layer of our civil liability (professional indemnity) policy. We had done this to protect the Company's interests as we were aware that a claim relating to the management of a Jersey trust had been filed against a former director of Rathbone Trust Company Jersey Limited, which was owned by us from March 2000 until October 2008. A trial date for the insurance coverage claim has been set for Autumn 2013, but the underlying case in Jersey is unlikely to be heard until 2014. We will keep the market informed of any material changes.

Outlook

Our primary aim is to continue what we have done for many years – namely to look after clients well. Although the markets are likely to remain volatile for some time to come, we believe we provide a very valuable service for our clients and charge them fairly for it. We will continue to invest to improve the client experience and to grow the business, both organically and by acquisition. We continue to be mindful of increases in our cost base but recognise that it is important to continue to strengthen the business. We remain well-positioned to make acquisitions, if the culture fits, and they can be purchased on a basis which will be earnings enhancing for our shareholders.

Andy Pomfret
Chief Executive

19 February 2013

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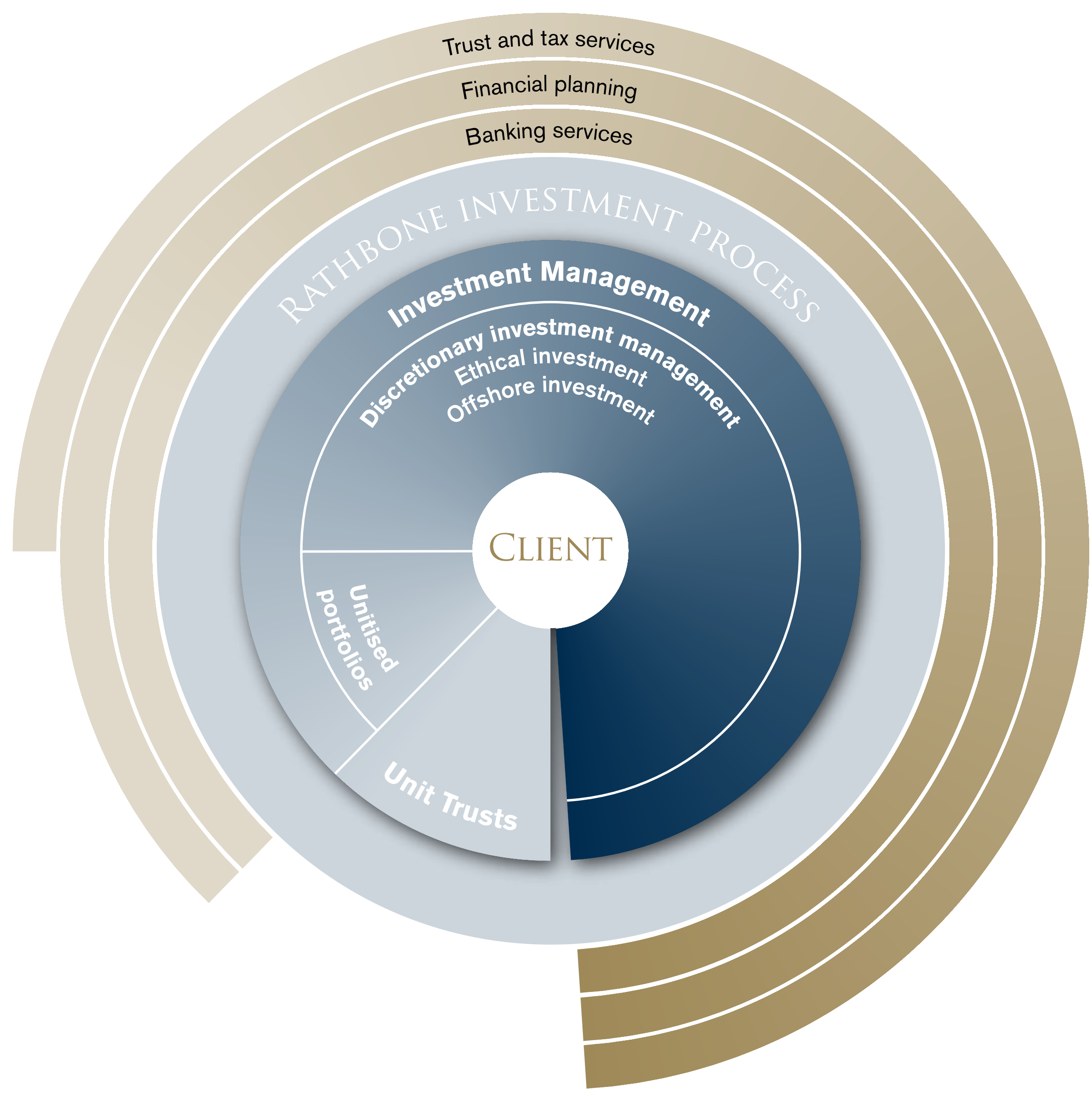
Our business model

Rathbone Brothers Plc is one of the UK's leading providers of investment and wealth management services for private clients, charities and trustees.

We offer a range of complementary services to support our core investment services, providing our clients with a wide range of solutions to meet their individual needs.



Clients

Rathbones serve three main client groups: private clients, charities and trustees.

We have over 39,000 clients predominantly managed on a discretionary basis, representing a total of £17.98 billion of funds under management.

Our charities team advises over 900 charities, with funds under management totalling £2.09 billion.

The services we offer to financial intermediaries assist them in providing discretionary investment management services to their clients. Intermediaries include financial advisers, lawyers and accountants. We hold £2.93 billion in accounts managed on behalf of the clients of financial intermediaries.

Our services

Core services

Investment Management

Investment management teams provide investment management services to our clients with portfolios held in discretionary accounts, individual savings accounts (ISAs), self-invested personal pensions (SIPPs) and trust structures. The personal service we offer is underpinned by a well-researched, robust investment process which informs our investment managers as they tailor portfolios to individual clients' needs.

Our ethical investment service continually develops its extensive expertise in understanding how financial and ethical issues can be integrated within portfolios to meet the overall objectives of clients.

Our Jersey office provides our clients access to offshore investment management services.

We also offer a unitised portfolio service to both private investors who wish to invest a lower level of funds than would be economically optimal for a full discretionary service and to financial advisers with larger groups of clients.

Unit Trusts

Rathbone Unit Trust Management offers a range of unit trusts and open-ended investment companies (OEICs) for private investors with £1,000 or more to invest. These are distributed mainly through financial advisers in the UK.

Funds cover the UK stock market, embracing small, medium and large companies to achieve growth and income. In addition, we manage an ethical bond fund, a strategic bond fund and a global fund which is focused on international opportunities.

Rathbone multi asset funds provide the building blocks for a collective solution for private clients, delivered via our unitised portfolio service. These funds are also available to investors with as little as £1,000 to invest.

Investment process

The Rathbone investment process underpins all of the core services we offer. It is fundamental to the service we provide, guiding the thinking of our investment managers yet allowing enough flexibility to ensure that our clients' individual needs are met. It is constantly evolving and we continue to invest in the people and resources required to ensure it remains intellectually robust and capable of meeting a variety of needs.

As alternative asset classes and investment products such as hedge funds and structured products have become more accessible and available to individual investors, we have invested significant resource to ensure we can analyse these wider options and incorporate them where we deem this suitable for our clients.

Investment professionals from across our business participate in the investment process. The outputs of this process are derived from our combined expertise and experience and help to ensure that the investments selected are suitable. Our internal performance monitoring and risk control processes ensure that the quality of service and fulfillment of client objectives can be achieved.

Complementary services

Banking services

As a licensed deposit taker, we are able to offer our clients a range of banking services including currency, payment services, fixed interest term deposits and loans secured against investment portfolios.

Financial planning

Rathbone Pension & Advisory Services advises clients on financial planning options, including retirement and inheritance tax planning. We also offer the Rathbone SIPP. For clients that do not have a financial adviser, we are able to offer fully-independent financial advice through our chartered financial planners.

Trust and tax services

Rathbone Trust Company provides advisory and compliance services in relation to taxation, probate and trusts. In addition, we offer family office support to clients that stand to benefit from it.

We report on the subsidiaries of Rathbone Brothers Plc as follows:

Investment Management	Unit Trusts
Rathbone Investment Management Rathbone Investment Management International Rathbone Pension & Advisory Services Rathbone Trust Company	Rathbone Unit Trust Management

KEY INVESTOR INFORMATION

In spite of difficult economic conditions, the UK wealth market continues to benefit from positive demographics and a critical need to save. Rathbones is well placed in a growing wealth market as a stable business with the right skills and qualities to take advantage of future growth opportunities.

OUR MARKET

- £483 billion of assets managed in the UK by private client wealth managers[1]
- The UK market comprises circa 2.0 million[2] individuals with liquid assets >£100,000
- Of an estimated 522,400 high net worth individuals with liquid assets >£500,000[2] approximately 300,000 employ an investment manager[3]
- Over 150 companies offer wealth management services in the UK[4]

RATHBONES IN CONTEXT

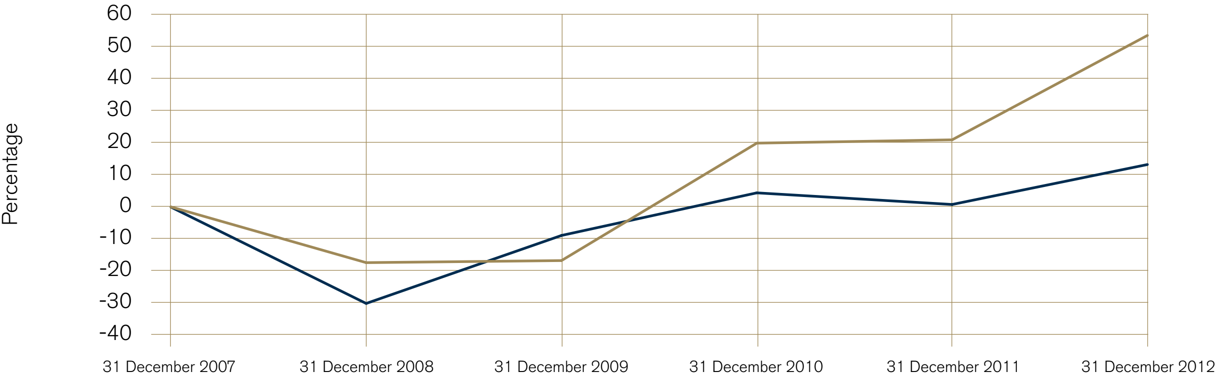
- We manage £17.98 billion, which equates approximately to a 4% market share
- We provide investment management services to over 39,000 clients
- Our investment management client portfolios range in size from £100,000 to over £100 million
- Over 50% of the money we manage is in client relationships of greater than £1 million

THE COMPETITIVE LANDSCAPE

UK Market by discretionary assets under management (AUM) at 31 December 2011[4]

	Discretionary AUM[5] £m	Total AUM £m
Coutts & Co	41,828	49,795
GLG Partners	15,523	15,523*
Brewin Dolphin	14,400	24,000
Rathbones	**13,912**	**14,800**
HSBC[6]	13,389	32,539*
Lloyds TSB Private Banking	12,600	12,600
Investec Wealth & Investment	9,679	12,735
UBS Wealth Management	9,652	33,282*
Hargreaves Lansdown Asset Management	9,616	24,039*[7]
Goldman Sachs International	9,308	31,025*
Smith & Williamson Investment Management	8,744	11,658
Cazenove Capital Management	8,200	8,200

OUR PERFORMANCE



1 The City UK, Fund Management 2012 report
2 MDRC, UK high net worth 2013 report
3 Canaccord Adams Wealth Management report, January 2009
4 Source: Private Asset Managers directory 2012
5 Barclays Wealth and St James's Place Wealth Management (total assets under management: £549.8bn and 28.5bn respectively) do not provide a breakdown of their discretionary assets under management
6 Combined data for HSBC Global Asset Managers and HSBC Private Bank
7 Includes assets under administration
* Private Asset Managers directory estimate

Understanding our strategy

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Our strategy	How we achieve our aims
Clients To be a leading provider of high-quality, personalised investment management, trust, tax and pension advisory services to private clients, charities and trustees.	• Focus on providing discretionary investment management services through a direct relationship with an investment manager. • Ensure that the price of our services is fair, sustainable transparent and competitive. • Provide robust support to investment managers making asset allocation and stock selection decisions. • Ensure our clients can access a range of investments across global markets. • Invest in our people and systems to support client service. • Manage functions in-house where we have scale to ensure that risks are controlled and services are managed to our high standards. • Encourage regular feedback from our clients and act upon it. • Offer unit trust and multi asset funds tailored to meet private client investment needs. • Provide supporting tax, trust and financial planning services.
Shareholders To provide shareholders with a growing stream of dividend income and a consistent growth in earnings per share and capital return as market conditions allow.	• Pursue acquisition opportunities which will increase shareholder value and fit our culture. • Ensure revenue margins remain competitive and appropriate to the value of the services we offer. • Manage operating cost levels in line with growth in the size of the business. • Invest in infrastructure to drive ongoing cost efficiency and service quality. • Review supplier relationships to ensure we secure value for money. • Conservatively manage treasury assets within clear risk-based guidelines. • Provide clear management accountability for operational and business risks. • Maintain optimal capital and liquidity levels, having regard to market conditions, regulatory requirements and growth opportunities.
Employees To provide staff with an interesting and stimulating career environment, encourage all staff to share in the equity and profits of Rathbones and to reward organic growth.	• Ensure that all remuneration schemes meet regulatory requirements and encourage appropriate behaviour. • Benchmark rewards to ensure that awards remain fair, competitive and aligned with shareholder interests. • Aim for directors to build up a meaningful shareholding over a five year period. • Offer share-based incentives to staff across the business. • Recruit to ensure that new employees fit our culture. • Provide training for staff, seeking the highest professional and personal standards. • Share ideas and best practice throughout the organisation through timely consultation and communication.

Principal risks to strategy

Performance and advice

See risk F on page 29

Processing

See risk O on page 31

Regulatory

See risk G on page 30

Reputational

See risk H on page 30

Measuring our success

Our net organic growth rates and number of clients are important indicators of how successful we are in attracting new clients and retaining existing relationships.

Key performance indicators

Net organic growth rates in Investment Management funds under management %

- **2012: 3.0**
- 2011: 5.4
- 2010: 5.3
- 2009: 6.7
- 2008: 7.4

Total funds under management £bn

- **2012: 17.98**
- 2011: 15.85
- 2010: 15.63
- 2009: 13.10
- 2008: 10.46

Unit Trusts funds under management £m

- **2012: 1,266**
- 2011: 1,085
- 2010: 1,043
- 2009: 935
- 2008: 1,029

Number of Investment Management clients '000

- **2012: 39.5`**
- 2011: 38.4
- 2010: 37.4
- 2009: 33.8
- 2008: 31.2

Business model

See risk E on page 29

Credit

See risk A on page 29

Pension

See risk D on page 29

The simplicity of our business model means that profits, earnings per share and margins are good indicators of success for both investors and employees. We aim for stable dividend growth (with dividend cover typically ranging from 1x to 2x earnings depending on where we are in the economic cycle). Total shareholder return for the last five financial years is shown on page 10.

Profit before tax £'000

- **2012: 38,812**
- 2011: 39,152
- 2010: 30,083
- 2009: 29,468
- 2008: 42,306

Operating margin %

- **2012: 24.9**
- 2011: 27.1
- 2010: 23.7
- 2009: 25.2
- 2008: 32.3

Earnings per share p

- **2012: 67.00**
- 2011: 66.72
- 2010: 49.76
- 2009: 46.87
- 2008: 67.57

Dividend per share p

- **2012: 47.0**
- 2011: 46.0
- 2010: 44.0
- 2009: 42.0
- 2008: 42.0

Business change

See risk I on page 30

People

See risk N on page 31

As a service-based business, we recognise that continuity of client service often means continuity of employees who are happy to promote and represent the firm. One way to measure our success is to look at how many people join and leave the organisation and how many employees hold shares in our share incentive plan (SIP).

Staff costs as a percentage of operating expenses %

- **2012: 62.2**
- 2011: 61.3
- 2010: 60.8
- 2009: 64.8
- 2008: 65.1

Number of shares held by SIP participants

- **2012: 1,428,214**
- 2011: 1,394,076
- 2010: 1,316,557
- 2009: 1,346,948
- 2008: 1,290,392

Average full time equivalent employees

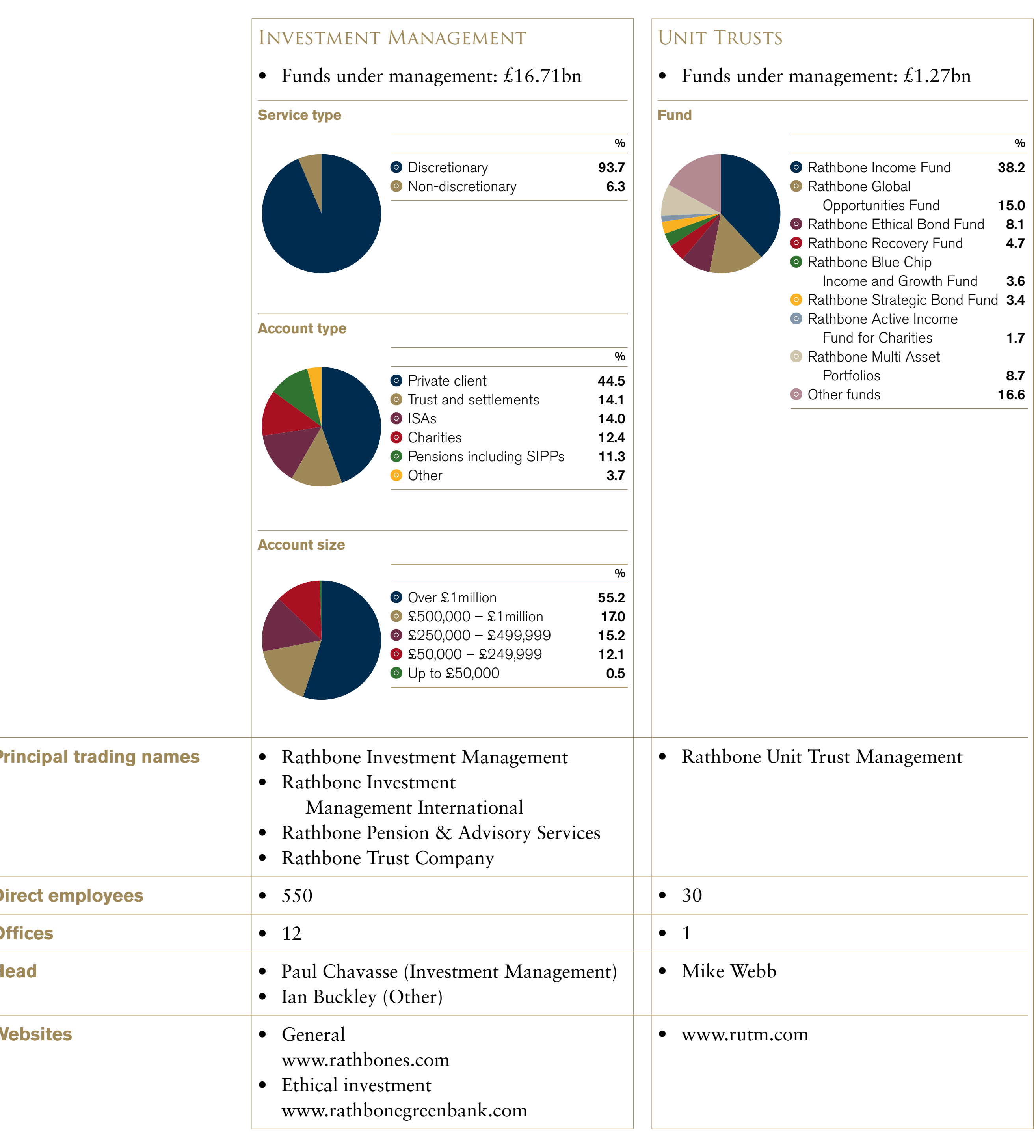
- **2012: 789**
- 2011: 746
- 2010: 699
- 2009: 681
- 2008: 675

Staff turnover %

- **2012: 4**
- 2011: 5
- 2010: 6
- 2009: 3
- 2008: 6

Rathbones at a glance

as at 31 December 2012



Key measures

	2012	2011
Market capitalisation at (£m)	**596.9**	461.7
Total assets (£m)	**1,137.7**	1,183.8
Total equity (£m)	**229.5**	190.7
Basel III Tier 1 ratio (%)	**20.1**	16.2
Profit before tax (£m)	**38.8**	39.2

Investment Management

- Funds under management: £16.71bn

Service type

	%
Discretionary	**93.7**
Non-discretionary	**6.3**

Account type

	%
Private client	**44.5**
Trust and settlements	**14.1**
ISAs	**14.0**
Charities	**12.4**
Pensions including SIPPs	**11.3**
Other	**3.7**

Account size

	%
Over £1million	**55.2**
£500,000 – £1million	**17.0**
£250,000 – £499,999	**15.2**
£50,000 – £249,999	**12.1**
Up to £50,000	**0.5**

Unit Trusts

- Funds under management: £1.27bn

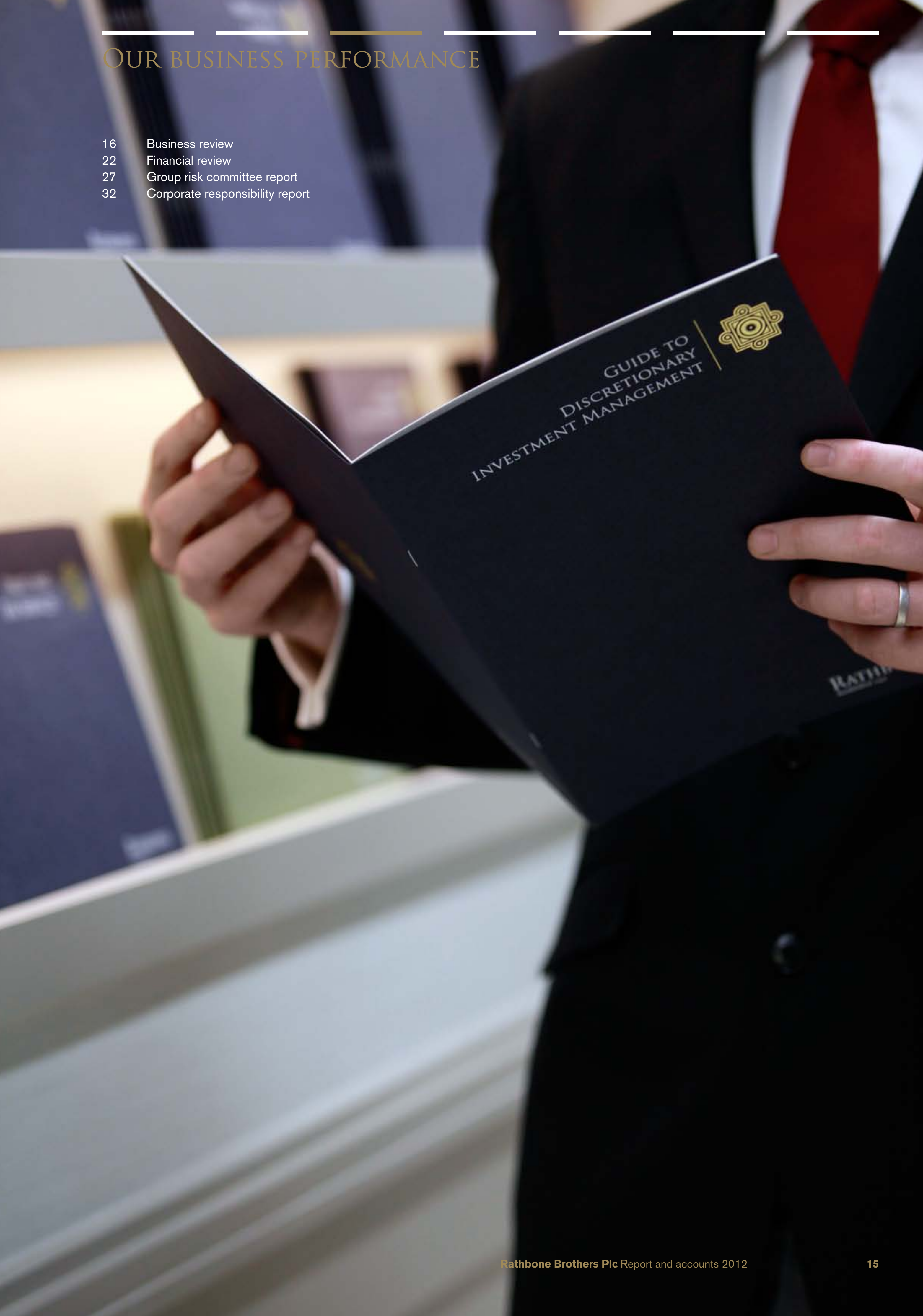
Fund

	%
Rathbone Income Fund	**38.2**
Rathbone Global Opportunities Fund	**15.0**
Rathbone Ethical Bond Fund	**8.1**
Rathbone Recovery Fund	**4.7**
Rathbone Blue Chip Income and Growth Fund	**3.6**
Rathbone Strategic Bond Fund	**3.4**
Rathbone Active Income Fund for Charities	**1.7**
Rathbone Multi Asset Portfolios	**8.7**
Other funds	**16.6**

	Investment Management	Unit Trusts
Principal trading names	• Rathbone Investment Management • Rathbone Investment Management International • Rathbone Pension & Advisory Services • Rathbone Trust Company	• Rathbone Unit Trust Management
Direct employees	• 550	• 30
Offices	• 12	• 1
Head	• Paul Chavasse (Investment Management) • Ian Buckley (Other)	• Mike Webb
Websites	• General www.rathbones.com • Ethical investment www.rathbonegreenbank.com	• www.rutm.com

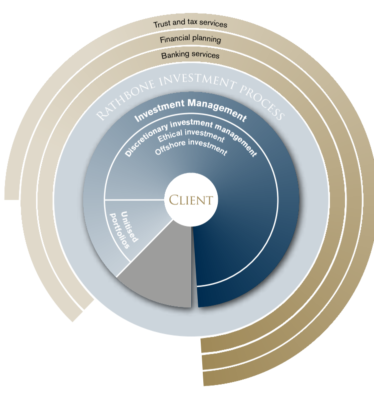
Our business performance

16 Business review
22 Financial review
27 Group risk committee report
32 Corporate responsibility report



As detailed in Rathbones at a glance on page 14, the business is managed through two key operating segments, namely Investment Management and Unit Trusts.

Investment Management



Key performance indicators

Investment Management performance is largely driven by the value of funds under management. Revenue margins are expressed as a basis point return, which depends on a mix of tiered fee rates, commission volumes and the interest margin earned on cash in client portfolios. Funds are closely managed by investment managers, who maintain relationships that are critical to the retention of client accounts.

Year on year changes in the key performance indicators for Investment Management are shown in table 1, below:

Table 1. Investment Management – key performance indicators

	2012	2011
Funds under management at 31 December[1]	**£16.71bn**	£14.76bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**3.0%**	5.4%
Underlying rate of total net growth in Investment Management funds under management[1]	**6.2%**	7.5%
Average net operating basis point return[2]	**85bps**	84bps
Number of Investment Management clients	**39,500**	38,400
Number of investment managers	**205**	184

1 See table 2
2 See table 5

The lack of sustained momentum in financial markets during 2012 meant that conditions for investors continued to be challenging. Despite the persistent market headwinds, we have continued to attract new clients at a healthy rate, both organically and through acquisitions. In total, 25 new investment managers and supporting staff joined Rathbones in 2012, taking the number of Investment Management investment managers to 205 at 31 December 2012 from 184 at the end of 2011 (see chart 1).

Chart 1. Investment Management – number of clients and investment managers

Number of Investment Management clients

2012: 39,500
2011: 38,400
2010: 37,400
2009: 33,800
2008: 31,200

Number of investment managers

2012: 205
2011: 184
2010: 170
2009: 157
2008: 145

In spite of challenging conditions, the total number of clients (or groups of closely related clients) increased from 38,400 to 39,500 during the year (see chart 1). We expect to welcome some 600 clients in early 2013 as a result of our purchase of Taylor Young Investment Management Limited's private client base in November 2012.

Fund flows

In total, Investment Management funds under management increased by 13.2% to £16.71 billion at 31 December 2012 from £14.76 billion at the start of the year. This increase is analysed below:

Table 2. Investment Management – funds under management

	2012 £bn	2011 £bn
As at 1 January	**14.76**	14.59
Inflows	**2.08**	1.97
– organic[1]	**1.60**	1.66
– acquired[2]	**0.48**	0.31
Outflows[1]	**(1.16)**	(0.87)
Market adjustment[3]	**1.03**	(0.93)
As at 31 December	**16.71**	14.76
Net organic new business[4]	**0.44**	0.79
Underlying rate of net organic growth[5]	**3.0%**	5.4%
Underlying rate of total net growth[6]	**6.2%**	7.5%

1 Value at the date of transfer in/(out)
2 Value at 31 December
3 Represents the impact of market movements and the relative performance of funds compared to the FTSE APCIMS Balanced Index
4 Organic inflows less outflows
5 Net organic new business as a % of opening funds under management
6 Net organic new business and acquired inflows as a % of opening funds under management

Investment Management continued

Continued economic uncertainty and equity markets that were range bound for most of 2012 adversely impacted on underlying net organic growth, measured as funds introduced by new or existing clients to existing investment managers, which fell to 3.0% of opening funds under management in the year (2011: 5.4%).

We continue to see growth across all areas of our business though, including referrals by existing clients, which remain an important source of new business. Charity funds under management continued to grow strongly, reaching a milestone of £2.09 billion at 31 December 2012, up 24.4% from £1.68 billion at the start of the year. This performance was recognised when Rathbones won Investment Manager of the Year at the Charity Times Awards in October 2012.

Our relationships with financial intermediaries continue to be an increasingly important source of new business, although many intermediaries were busy with the Retail Distribution Review (RDR) preparation in 2012. At 31 December 2012, £2.93 billion of Investment Management funds under management were linked to independent financial advisers (IFAs) and provider panel relationships (2011: £2.47 billion).

We announced in October 2012 that we had acquired a 19.9% holding in Vision Independent Financial Planning Limited, along with its sister company, Castle Investment Solutions Limited (together, 'Vision'). Vision is a fast-growing independent specialist financial advice network with which we had an existing discretionary fund management panel relationship. Vision will remain an independent network with a focus on selecting the most suitable discretionary investment management service for its private clients. The Group's share of Vision's results is reported in the Investment Management segment as other income.

Acquired inflows of £0.48 billion in the year include:

- £76 million from the acquisition of R.M. Walkden & Co. Limited in April 2012;
- £51 million from Allied Irish Bank (AIB) Jersey; and
- £51 million from our new team to be based in Lymington.

The impact on funds under management from our recent purchase of Taylor Young Investment Management Limited's private client base will be seen in 2013.

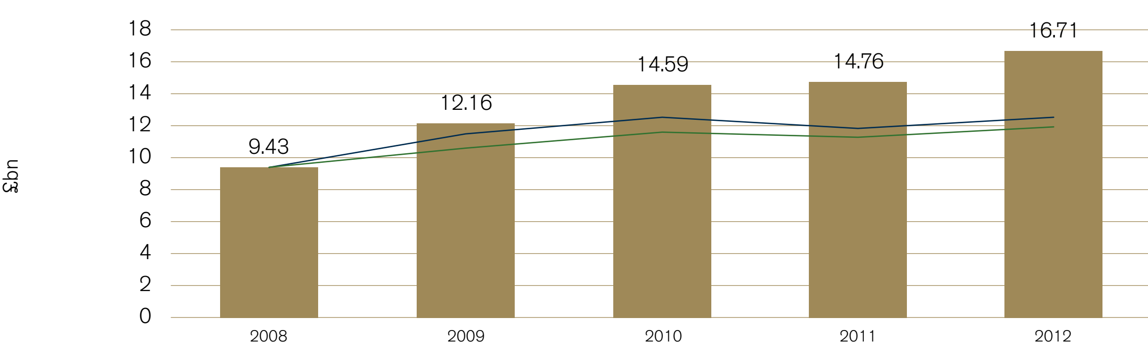
Total net organic and acquired growth has added £0.92 billion to funds under management in 2012 (2011: £1.10 billion), representing an underlying rate of total net growth in funds under management of 6.2% (2011: 7.5%). The FTSE 100 Index and the FTSE APCIMS Balanced Index rose by 5.9% and 5.8% respectively over the year, helping to bring about a positive market adjustment of £1.03 billion (2011: £0.93 billion negative adjustment). Investment performance in 2012 was positive overall against the APCIMS Balanced Index, whereas performance in the latter part of 2011 was less favourable largely due to a bias towards corporate bonds versus the relatively high gilt weighting in the APCIMS Balanced Index.

Financial performance

Investment Management income is derived from:

- a tiered scale of investment management or advisory fees, which are applied based on the value of clients' funds under management, and a flat fee for each account;
- commissions which are levied on transactions undertaken on behalf of clients; and
- an interest margin earned on the cash held in clients' portfolios.

Chart 2. Investment Management – funds under management five year growth



Funds under management
FTSE 100 (£bn)*
FTSE APCIMS Balanced (£bn)*

* FTSE 100 and FTSE APCIMS figures show how funds under management would have changed between 2008 and 2012 if they had tracked each index

Investment Management continued

Table 3. Investment Management – financial performance

	2012 £m	2011[1] £m
Net investment management fee income[2]	**89.6**	80.1
Net commission income	**37.4**	36.2
Net interest income[3]	**9.9**	10.0
Fees from advisory services[4] and other income	**9.8**	8.8
Underlying net operating income	**146.7**	135.1
Underlying operating expenses[5]	**(102.1)**	(89.7)
Underlying profit before tax	**44.6**	45.4
Underlying operating margin[6]	**30.4%**	33.6%

1 Comparatives restated due to re-presentation of segmental information (see note 3 to the consolidated financial statements)
2 Net fee income is stated after deducting fees and commission expenses paid to introducers
3 Interest is presented net of interest expense paid on client accounts
4 Fees from advisory services include income from trust, tax and pensions advisory services
5 See table 6
6 Underlying profit before tax as a % of underlying net operating income

Net fee income increased by 11.9% from £80.1 million to £89.6 million in 2012, benefiting from continuing growth in funds under management as well as the full year impact of increased charges (introduced from the end of the first quarter in 2011). For the majority of clients, fees are calculated based on the value of funds at our quarterly charging dates. Average funds under management on these billing dates in 2012 were £15.97 billion, up 8.2% from 2011 (reflecting market movements, investment performance and net new funds).

Rathbones' Annual Charity Symposium 2012

Rathbones' Annual Charity Symposium 2012 took place on the afternoon of Wednesday 12 September 2012 at the British Museum, London. Around 300 charity trustees and their advisers joined Rathbones charity investment managers for an afternoon of stimulating presentations and debate which addressed current financial and legislative issues within the sector.

Speakers included James Codrington, investment director at Rathbones, Mark Spofforth (president of the Institute of Chartered Accountants for England and Wales) and Laurence Dallaglio OBE. A panel discussion was also held which pitted members of Rathbones' charity team against each other in a balloon style debate.

A video and photos from the day are available on the Rathbones website at: www.rathbones.com/rathbones-annual-charity-symposium-2012.

Table 4. Investment Management – average funds under management

	2012 £bn	2011 £bn
Valuation dates for billing:		
– 5 April	**15.55**	14.98
– 30 June	**15.50**	15.27
– 30 September	**16.12**	14.04
– 31 December	**16.71**	14.76
Average	**15.97**	14.76
Average FTSE 100 level	**5734**	5663

Commissions were seasonally strong in the first quarter of 2012, but suffered from the lack of direction in investment markets until the last two months of the year, ending the year at £37.4 million (2011: £36.2 million).

Net interest income of £9.9 million in 2012 was consistent with 2011 (£10.0 million) as lower income from treasury assets, in spite of higher average liquidity, was offset by £0.4 million of additional interest on client loans. The above factors resulted in a marginal increase in basis point (bps) return on average funds under management to 85bps from 84bps in 2011, as shown in the table below:

Table 5. Investment Management – revenue margin

	2012 bps	2011 bps
Basis point return[1] from		
– fee income	**56**	54
– commission	**24**	25
– interest	**5**	5
Basis point return on funds under management	**85**	84

1 Underlying net operating income (see table 3) excluding interest on own reserves, fees from advisory services and other income, divided by the average funds under management on the quarterly billing dates (see table 4)

Fees from advisory services and other income of £9.8 million were 11.4% higher than 2011, reflecting the impact of new charges and business growth.

Underlying operating expenses in Investment Management for 2012 were £102.1 million, compared to £89.7 million in 2011, an increase of 13.8%. This is highlighted in table 6, below:

Table 6. Investment Management – underlying operating expenses

	2012 £m	2011 £m
Staff costs[1]		
– fixed	**36.1**	31.6
– variable	**16.8**	15.8
Total staff costs	**52.9**	47.4
Other operating expenses	**49.2**	42.3
Underlying operating expenses	**102.1**	89.7
Underlying cost/income ratio[2]	**69.6%**	66.4%

1 Represents the costs of investment managers and teams directly involved in client-facing activities
2 Underlying operating expenses as a % of underlying net operating income (see table 3)

Investment Management continued

Award-winning

Rathbones was named 'Best Wealth Manager for Alternative Investments' at the Investors Chronicle/FT Wealth Management Awards in May 2012. The award recognises the breadth of our investment expertise, which includes alternative as well as traditional investment strategies.

Further accolades in 2012 included the 'Investment Manager of the Year' award at the Charity Times Awards in October and in November the 'Incisive Media Gold Standard for Discretionary Portfolio Management' at the Incisive Media Gold Standard Awards 2012.

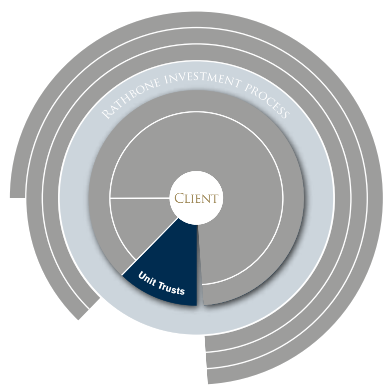
Paul Chavasse, head of investment management, said of the Gold Standard win: "We are particularly pleased to have won an award which places such emphasis on our values of first class investment management and high-quality client service. In an industry that is increasingly automated and models-based, we believe in giving clients direct access to the person managing their money. The Gold Standard underlines our ongoing commitment to our clients."

Fixed staff costs of £36.1 million increased by 14.2% year on year, principally reflecting the addition of revenue generating staff and salary inflation. Variable staff costs are marginally higher year on year, reflecting positive investment performance and a higher year end Rathbone Brothers Plc share price.

Other operating expenses of £49.2 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £6.9 million (16.3%) reflects higher marketing spend, a busy project agenda and planned investment in property and IT.

In addition, other operating expenses include higher Financial Services Compensation Scheme (FSCS) levies of £1.0 million in 2012 (2011: £0.4 million) and £0.8 million of legal fees arising from proceedings to confirm insurance cover against the insurers on the excess layer of our civil liability (professional indemnity) policy. Action was taken to protect the Company's interests as the Company was aware that a claim relating to the management of a Jersey trust had been filed against a former director of Rathbone Trust Company Jersey Limited (owned by Rathbones from March 2000 until October 2008).

Unit Trusts



Key performance indicators

Unit Trusts performance is largely driven by the value and growth of funds managed.

Year on year changes in the key performance indicators for Unit Trusts are shown in table 7, below:

Table 7. Unit Trusts – key performance indicators

	2012	2011
Funds under management at 31 December[1]	**£1.27bn**	£1.09bn
Underlying rate of net growth in Unit Trusts funds under management[1]	**6.4%**	9.6%
Profit before tax[2]	**£0.6m**	£0.8m

1 See table 8
2 See table 11

Fund flows

The retail asset management industry saw the depressed trend in net retail sales, which began in the second half of 2011, continue through 2012. Industry concentration in a small number of funds and focus on mainstream fixed income funds provided a difficult backdrop for the business. The uncertain direction of financial markets during the year led to a 24.3% drop in industry-wide net retail sales (as reported by the Investment Management Association) to £13.7 billion, compared to £18.1 billion in 2011. Despite these negative trends, Unit Trusts funds under management increased by 16.5% year on year to £1.27 billion from £1.09 billion, supported both by market movements and net growth in funds as shown in table 8, below:

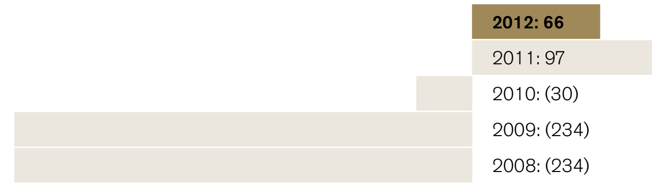
Table 8. Unit Trusts – funds under management

	2012 £bn	2011 £bn
As at 1 January	**1.09**	1.04
Net inflows	**0.07**	0.10
– inflows[1]	**0.27**	0.24
– outflows[1]	**(0.20)**	(0.14)
Market adjustments[2]	**0.11**	(0.05)
As at 31 December	**1.27**	1.09
Underlying rate of net growth[3]	**6.4%**	9.6%

1 Valued at the date of transfer in/(out)
2 Impact of market movements and relative performance
3 Net inflows as a % of opening funds under management

Net inflows of Unit Trusts funds under management in 2012 were £66 million, compared to £97 million in 2011, with the business now reporting positive net sales for the last nine consecutive quarters to 31 December 2012. This represents a positive development from difficult times in 2008 and 2009.

Chart 3. Unit Trusts – annual net flows



At 31 December 2012, the value of assets managed in each fund was as follows:

Table 9. Unit Trusts – fund assets

	2012 £m	2011 £m
Rathbone Income Fund	**484**	453
Rathbone Global Opportunities Fund	**190**	136
Rathbone Ethical Bond Fund	**102**	79
Rathbone Recovery Fund	**59**	62
Rathbone Blue Chip Income and Growth Fund	**46**	60
Rathbone Strategic Bond Fund	**43**	15
Rathbone Active Income Fund for Charities	**21**	–
Rathbone Multi Asset Portfolios	**110**	100
Other funds	**211**	180
	1,266	1,085

During 2012, funds performed well with each now boasting a strong three year track record, which is so critical to securing future sales.

Table 10. Unit Trusts – fund performance

2012/(2011) quartile ranking[1] over:	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	1 (3)	2 (2)	2 (3)
Rathbone Ethical Bond Fund	1 (4)	1 (1)	2 (3)
Rathbone Global Opportunities Fund	3 (1)	1 (1)	2 (1)
Rathbone Income Fund	2 (2)	1 (1)	3 (3)
Rathbone Recovery Fund[2]	2 (3)	1 (n/a)	n/a (n/a)
Rathbone Strategic Bond Fund[3]	4 (n/a)	n/a (n/a)	n/a (n/a)

1 Ranking of retail share classes
2 Performance data for the Rathbone Recovery Fund is not yet available beyond three years as the fund was launched on 13 July 2009
3 Performance data for the Rathbone Strategic Bond Fund is not yet available beyond one year as the fund was launched on 3 October 2011

Unit Trusts continued

On 9 July 2012, we extended our range of funds with the launch of the Rathbone Active Income Fund for Charities, a specialist fund that provides a tax-efficient investment opportunity for charities. By the end of 2012, the fund had added £21 million to the value of funds under management. During 2012, we created institutional units on all of our funds as planned, to ensure RDR compliance. Institutional units carry a lower annual management charge (typically half that of retail units) and do not allow for any form of trail commission to advisers who must now levy their own charges directly to investors.

Financial performance

Unit Trusts income is primarily derived from:

- annual management charges, which are calculated on the daily value of funds under management, net of rebates and trail commission payable to intermediaries; and
- net dealing profits which are earned on the bid-offer spread from sales and redemptions of units and market movements on the small stock of units that are held on our books overnight.

Table 11. Unit Trusts – financial performance

	2012 £m	2011 £m
Initial charges net of discounts	0.5	0.5
Annual management charges	15.0	13.9
Net dealing profits	0.6	0.5
Interest and other income	0.2	0.2
	16.3	15.1
Rebates and trail commission payable	(7.4)	(6.9)
Net operating income	8.9	8.2
Underlying operating expenses[1]	(8.3)	(7.4)
Profit before tax	0.6	0.8
Operating % margin[2]	6.7%	9.8%

1 See table 12
2 Profit before tax divided by net operating income

Annual management charges increased 7.9% to £15.0 million in 2012, in line with a rise in average funds under management. Annual management charges as a percentage of average funds under management remained consistent at 1.3% (2011: 1.3%). Rebates and trail commission payable, as a percentage of annual management charges was 49.3% compared to 49.6% in 2011.

Net dealing profits of £0.6 million were similar to the £0.5 million in 2011, as the level of gross sales remained broadly flat over both years. Net operating income as a percentage of average funds under management was consistent at 0.8% in 2012 and 2011.

Table 12. Unit Trusts – underlying operating expenses

	2012 £m	2011 £m
Staff costs		
– fixed	2.9	2.5
– variable	0.9	1.1
Total staff costs	3.8	3.6
Other operating expenses	4.5	3.8
Underlying operating expenses	8.3	7.4
Underlying cost/income ratio[1]	93.3%	90.2%

1 Underlying operating expenses as a % of net operating income (see table 11)

Fixed staff costs of £2.9 million for year ended 31 December 2012 were 16.0% higher than the previous year due to salary increases and an increase in headcount over the year from an average full time equivalent of 29 to 30.

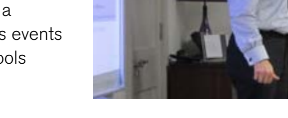
Variable staff costs of £0.9 million were down 18.2% on 2011 as the impact of spreading higher profit share awards in 2007 and 2008 fell out of the segment's results in 2011.

Other operating expenses have increased by 18.4% to £4.5 million, principally as a result of higher third party administration costs following the mandatory launch of institutional class shares and increased office costs after the move of the head office to 1 Curzon Street, London in February 2012.

Financial awareness for young people

Rathbones has a healthy interest in the education sector. 30% of charitable funds managed by Rathbones are in the educational sector and over the years we have undertaken various initiatives with schools.

We are aware that there is a limited focus on financial guidance in mainstream education and we feel we have a social responsibility to try and fill this gap. As part of a long term initiative, we are using our in-house resource and expertise to run a number of financial awareness events both in our offices and in schools throughout 2012 and 2013.



For more information, visit: www.rathbones.com/financialawareness.

Consolidated financial performance

Table 13. Extracts from the consolidated statement of comprehensive income

	2012 £m (unless stated)	2011 £m (unless stated)
Operating income	155.6	144.5
Underlying operating expenses	110.5	97.1
Underlying profit before tax[1]	45.1	46.2
Underlying operating margin[2]	29.0%	32.2%
Profit before tax	38.8	39.2
Effective tax rate	24.7%	26.7%
Taxation	(9.6)	(10.4)
Profit after tax	29.2	28.7
Underlying earnings per share	77.96p	78.79p
Earnings per share	67.00p	66.72p
Dividend per share[3]	47p	46p

1 Profit before tax excluding amortisation of client relationships, head office relocation costs and, in 2011, gains on disposal of financial securities
2 Underlying profit before tax as a % of operating income, excluding gains on disposal of financial securities in 2011
3 The total interim and final dividend proposed for the financial year

Operating income

The Group's operating income has increased 7.7% to £155.6 million in 2012, driven by higher fee and commission income from steadily growing funds under management. Operating income in 2011 included £1.1 million of gains on disposal of financial securities which were excluded from underlying results (see below).

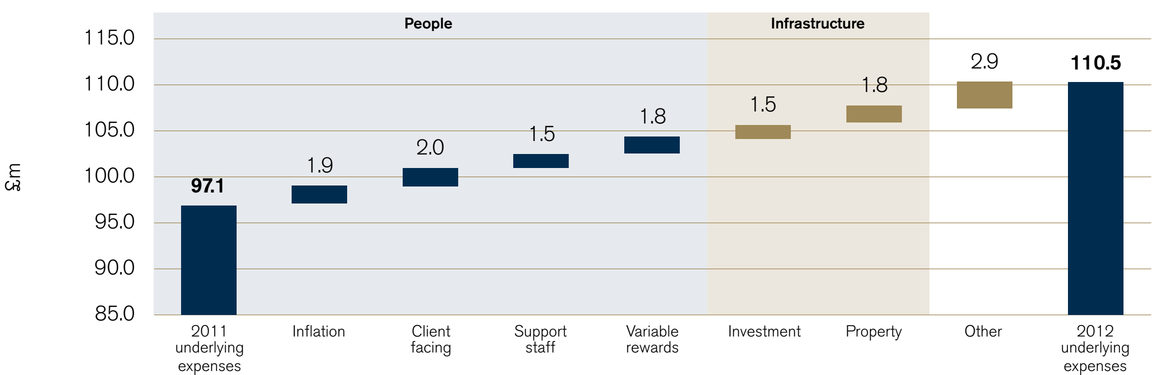
Underlying operating expenses

Underlying operating expenses have increased 13.8% to £110.5 million and reflect a combination of business growth and investment as well as some other factors (see chart 4).

Average full time equivalent headcount grew 5.8% to 789 (2011: 746), which largely reflected new revenue generating teams joining us or new roles aimed at business development and enhancing investment process. Variable staff costs, including variable awards for business support staff, increased by 9.3% to £21.1 million, reflecting improved investment performance versus the APCIMS Balanced Index (to some extent a reversal of the lower performance reported in the last quarter of 2011 as a result of a strong gilt market) and a higher share price which increased the cost of cash-settled share-based awards.

As planned, infrastructure costs increased by £3.3 million largely as a result of higher property costs in London and Liverpool and IT expenditure. In addition though, underlying operating expenses also included £1.0 million of FSCS levies, up £0.6 million from 2011, legal expenses, which include £0.8 million of legal fees arising from proceedings to confirm insurance cover against the insurers on the excess layer of our civil liability (professional indemnity) policy, and pension service costs. Pension service costs increased £1.4 million largely as a result of the impact of lower long-dated gilt yields at the start of 2012, which also reduced expected investment returns.

Chart 4. Underlying operating expenses



Consolidated financial performance continued

Underlying profit before tax/operating margin

Segment financial information in the business review is presented on an underlying basis, as it is considered to be a better reflection of true business performance. Measures such as 'underlying profit before tax' and 'underlying earnings per share' have been adopted by research analysts covering the Group. Underlying profit before tax decreased 2.4% in the year to £45.1 million, from £46.2 million in 2011, as cost inflation more than offset growth and positive market effects.

Items of income and expense falling in the categories explained below are excluded from underlying results. A full reconciliation between underlying profit and profit attributable to shareholders is provided in note 12 to the consolidated financial statements.

Amortisation of client relationships (note 21)
Client relationship intangible assets are created in the course of acquiring funds under management. The amortisation charge associated with these assets represents a significant non-cash item. It has, therefore, been excluded from underlying profit, which represents largely cash-based earnings. Charges for amortisation of client relationship intangibles in the year ended 31 December 2012 were £6.0 million (2011: £5.1 million).

Head office relocation costs (note 8)
In February 2012, we relocated our head office to 1 Curzon Street, taking advantage of the opportunity to bring London-based employees together, with most now sitting on the same floor of a single building. Charges in 2012 of £0.3 million (2011: £3.0 million) associated with this move were separately highlighted and excluded from underlying profit due to their material and non-recurring nature. Associated operating lease costs of £3.3 million per annum are included within underlying operating expenses.

Gains on disposal of financial securities (note 6)
Included within operating income in 2011 was a non-recurring gain of £1.1 million from the sale of certain financial assets that were previously held in nominee accounts and which the passage of time had demonstrated that any claims against those assets had been exhausted. They were consequently recognised following FSA approval. No such gains were recognised in 2012.

The consolidated underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, fell to 29.0% in 2012 compared to 32.2% in 2011, reflecting the year on year change in profitability.

Taxation

The tax charge for 2012 was £9.6 million (2011: £10.4 million), and represents an effective tax rate of 24.7% (2011: 26.7%).

The effective tax rate has fallen since 2011 primarily due to a reduction in the UK corporation tax rate. The effective tax rate is slightly higher than the derived UK standard rate of corporation tax of 24.5% due to the impact of disallowable expenses, which has been largely offset by the impact of a small overprovision in 2011. A full reconciliation of the income tax expense is provided in note 10 to the consolidated financial statements.

The UK Government has proposed that the UK corporation tax rate be reduced to 21.0% over the next two years. At 31 December 2012, only an element of this reduction, taking the UK tax rate to 23.0% in 2013, had been substantively enacted.

Earnings per share and dividends

Basic earnings per share for the year ended 31 December 2012 were 67.00p, up 0.4% on 66.72p in 2011, incorporating exceptional income and costs and the reduction in the effective tax rate noted above. On an underlying basis, earnings per share decreased by 1.1% to 77.96p in 2012 (see note 12 to the consolidated financial statements).

In light of the results for the year, the Board have proposed a final dividend for 2012 of 30p. This results in a full year dividend of 47p, an increase of 1p on 2011. The proposed dividend is covered 1.4 times by basic earnings and 1.7 times by underlying earnings.

London office move

The move of the Rathbones' head office from New Bond Street to 1 Curzon Street in Mayfair completed on 27 February 2012. The new London office covers some 44,200 square feet split over two floors, representing a 10% increase in floor space. The enlarged premises accommodate all of Rathbones' London-based employees and offer improved facilities for a growing client-base, underlying a commitment to the highest levels of client service.

Rathbones' chief executive Andy Pomfret said: "Rathbones is a growing business which continues to grow, both organically and by acquisition. Our new offices will ensure we can continue to accommodate the high number of face-to-face client meetings and, for the first time, will see Rathbones' employees based on a single floor. The additional space will also help meet the needs of the continued investment in technology and infrastructure which is essential in providing operational efficiency."

Consolidated balance sheet and capital resources

Table 14. Extracts from the consolidated balance sheet and components of regulatory capital

	2012 £m (unless stated)	2011 £m (unless stated)
Capital resources		
– Tier 1 capital ratio[1]	20.1%	16.2%
– Total equity	229.5	190.7
Other resources		
– Total assets	1,137.7	1,183.8
– Treasury assets[2]	896.4	974.6
– Investment management loan book[3]	65.1	36.4
– Intangible assets from acquired growth[4]	92.8	88.8
– Tangible assets and software[5]	16.6	14.7
Liabilities		
– Due to customers[6]	828.4	908.7
– Retirement benefit obligations	2.1	7.3

1 Tier 1 capital as a proportion of total risk weighted assets, calculated on a Basel III basis
2 Balances with central banks, loans and advances to banks and investment securities (excluding available for sale equity investments)
3 See note 15 to the consolidated financial statements
4 Net book value of acquired client relationships and goodwill (note 21)
5 Net book value of property, plant and equipment and computer software (notes 18 and 21)
6 Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank (note 23)

Regulatory capital

Rathbones is classified as a banking group under the Capital Requirements Directive and we are therefore required to operate within a wide range of restrictions on capital resources and banking exposures that are prescribed by the prudential rules of the FSA. At 31 December 2012, the Group had regulatory capital resources of £118.4 million (2011: £89.8 million), which were calculated as follows:

Table 15. Regulatory capital resources

	2012 £m	2011 £m
Share capital and share premium	64.5	36.4
Reserves	170.9	159.0
Less:		
– Own shares	(5.8)	(4.7)
– Intangible assets[1]	(97.4)	(92.8)
– Other regulatory adjustments[2]	(13.8)	(8.1)
Total regulatory capital resources	118.4	89.8

1 Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources
2 Including committed pension funding contributions and balances related to the Group's captive insurance company

The Group's Pillar III disclosures are published annually on our website (www.rathbones.com/investor-relations/results-and-presentations/pillar-3-disclosures) and provide further details about regulatory capital resources and requirements.

As required under FSA rules, we perform an Internal Capital Adequacy Assessment Process annually, which includes performing a range of stress tests to determine the appropriate level of regulatory capital that the Group needs to hold. In addition, we monitor a wide range of capital and liquidity statistics on a daily, monthly or less frequent basis as required. Capital levels are forecast on a monthly basis, taking account of proposed dividends and investment requirements, to ensure that appropriate buffers are maintained. Investment of proprietary funds is controlled by our treasury department.

The Group's Tier 1 capital ratio, calculated on a Basel III basis, is much higher than the banking industry norm and reflects the low risk nature of the Group's banking activity and the lack of debt financing. The Tier 1 ratio has risen to 20.1% from 16.2% at the previous year end mainly due to the impact of the successful share placing completed in November 2012 (see below).

Capital resources

The consolidated balance sheet remains healthy with total equity of £229.5 million at 31 December 2012, up 20.3% from £190.7 million at the end of 2011. The business remains well capitalised and does not rely on wholesale markets to fund its operations. The Group is fully funded by equity.

On 7 November 2012, we successfully completed the placing of 2,000,000 new ordinary shares at a price of £12.35 per share, which raised £24.7 million before transaction costs, at a discount of 2.99% to the market price. The capital was raised to allow us to take advantage of the increase in acquisition opportunities that we expect to see in the near future (such acquisitions result in a reduction in regulatory capital as intangible assets are immediately deducted from regulatory capital resources; see table 15) and to expand the loan book.

Total assets

Total assets at 31 December 2012 were £1,137.7 million (2011: £1,183.8 million), of which £828.4 million (2011: £908.7 million) represents the cash held in banking client portfolios.

Consolidated balance sheet and capital resources continued

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds the Group's surplus liquidity on its balance sheet together with clients' cash held on a banking basis. Cash in client portfolios of £833.9 million, including £5.5 million held in client money accounts, represented 5.0% of total investment management funds at 31 December 2012 compared to 6.2% at the end of 2011.

The treasury department of Rathbone Investment Management, reporting through the banking committee to the Board, operates in accordance with procedures set out in a Board-approved treasury manual and monitors exposure to market, credit and liquidity risk as described in note 30 to the consolidated financial statements. The treasury department invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be 'A' rated or higher by Fitch and are regularly reviewed by the banking committee.

Loan book

Loans are provided as a service to investment management clients who have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name (see note 30 to the consolidated financial statements) and are usually advanced for a maximum of one year. All loans (and any extensions to the initial loan period) are subject to approval by the banking committee. Our ability to provide such loans is a valuable additional service, for example, for clients that require bridging finance when moving home and, in the current low interest rate climate, the yield on such low-risk loans supports our overall interest rate margin.

In 2012 we saw increased demand for client loans. Outstanding loans totalled £65.1 million at the end of 2012 (2011: £36.4 million). This activity is an important part of building our relationship with clients.

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2012, the total carrying value of intangible assets arising from acquired growth was £92.8 million (2011: £88.8 million). During the year, client relationship intangible assets of £10.0 million were capitalised (2011: £5.7 million), including £2.2 million from the acquisition of R.M. Walkden & Co. Limited.

Further client relationship intangible assets will be recognised in 2013 as a result of clients joining Rathbones following the purchase of Taylor Young Investment Management Limited's private client base and AIB's Jersey-based investment management business. No goodwill was acquired during 2011 or 2012.

Client relationship intangibles are amortised over the estimated life of the client relationship, generally over a period of 10 to 15 years. When client relationships are lost, any related intangible is derecognised in the year. The total amortisation charge for client relationships, including the impact of lost relationships, in 2012 was £6.0 million (2011: £5.1 million).

Goodwill which arises from business combinations is not amortised, but is subject to a test for impairment at least annually. No goodwill was found to be impaired during 2011 or 2012.

Further details on the Group's intangible assets are provided in note 21 to the consolidated financial statements.

Capital expenditure

During 2012, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £6.1 million (2011: £9.0 million). We continue to work at improving the efficiency of our systems and our back office and investment in new systems continues at a steady pace. Although some of this is driven by regulatory change, much is driven by our desire to optimise the service that our clients receive and to give our investment managers the tools they need to manage portfolios more easily.

Capital expenditure on property in 2012 included £2.0 million of fit-out and related costs in relation to the relocation of our head office in February (2011: £4.8 million) and a further £0.3 million of related costs have been charged to profit in 2012 (2011: £3.0 million).

In 2013, we expect capital expenditure to remain at 2012 levels as we continue to invest in our internet portal for clients and advisers and open additional offices in Lymington and Newcastle.

Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years.

Actuarial valuations of the schemes as at 31 December 2010 were carried out during 2011 and we have not needed to revisit these during 2012.

Continued market volatility in 2012, in particular in relation to interest rates and inflation expectations, has meant that our pension scheme deficits have also been volatile during the year. At 31 December 2012, the combined accounting deficit on the two defined benefit schemes had fallen to £2.1 million (2011: £7.3 million). This decrease is mainly due to continued funding, improved asset returns and higher discount rates. Full details of the assumptions underlying the accounting valuation and associated sensitivities are included in note 26 to the consolidated financial statements.

Consolidated balance sheet and capital resources continued

Funding valuations, which form the basis of the annual contributions that we make into the schemes, are required to be more prudent than valuations used for financial reporting, which must be based on management's best estimate of the schemes' position. Regular annual contributions to the schemes for ongoing service by scheme members were £3.8 million in 2012, based on 22.6% of pensionable salaries. From 2013, this will reduce to 14.8% of pensionable salaries. In addition, further funding contributions of up to £3.1 million per year are payable until 2017 under the current agreement. The next funding valuation will be carried out on the schemes' position at 31 December 2013.

Liquidity and cash flow

Table 16. Extracts from the consolidated statement of cash flows

	2012 £m	2011 £m
Cash and cash equivalents at the end of the year	**230.2**	129.9
Net cash (outflows)/inflow from operating activities	**(176.8)**	177.3
Net increase in cash and cash equivalents	**100.3**	50.8

Fee income is largely collected directly from client portfolios and expenses, by and large, are predictable; consequently Rathbones operates with a modest amount of working capital. Larger cash flows are principally generated from banking/treasury operations when investment managers make asset allocation decisions about the amount of cash to be held in client portfolios. As a bank, Rathbones is subject to the FSA's Internal Liquidity Adequacy Assessment regime, which requires us to hold a suitable Liquid Asset Buffer to ensure that short term liquidity requirements can be met under certain stressed scenarios. Liquidity risks are actively managed on a daily basis and depend on operational and investment transaction activity.

Cash and balances at central banks was £116.0 million at 31 December 2012, primarily reflecting amounts held in a reserve account with the Bank of England, which was opened during the year.

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits which had an original maturity of less than three months (see note 35 to the consolidated financial statements).

Net cash flows from operating activities include the effect of a £80.2 million decrease in banking client deposits (2011: £143.8 million increase) and a £131.2 million increase in the component of treasury assets placed in term deposits for more than three months (2011: £8.5 million increase).

Offsetting these outflows was a net inflow of £284.9 million from the maturity of certificates of deposit and the liquidation of holdings in money market funds (2011: £92.9 million net outflows), shown within investing activities in the consolidated statement of cash flows.

The most significant non-operating cash flows during the year were as follows:

- a net inflow of £24.0 million from the proceeds of the share placing (2011: £nil);
- outflows relating to the payment of dividends of £20.1 million (2011: £19.5 million);
- outflows relating to payments to acquire intangible assets of £7.7 million (2011: £5.8 million); and
- £4.0 million of capital expenditure on property, plant and equipment (2011: £6.9 million, including £4.8 million paid in relation to the relocation of the head office).

The 2012 Review, which comprises the chairman's statement, chief executive's statement, strategy and key performance indicators, business review, financial review and group risk committee report, has been prepared in line with guidance provided by the Accounting Standards Board to provide a balanced picture of Rathbones' business and prospects, without prejudicing the confidential nature of commercially sensitive information.

It contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of this annual report. Statements contained within the 2012 Review should be treated with some caution due to the inherent uncertainties, including economic, regulatory and business risk factors, underlying any such forward-looking statements. The 2012 Review has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.

Group risk committee report

Group risk committee chairman's statement

2012 has seen the considerable enhancement of our risk management processes. In May 2012 we recruited a senior risk analyst and now have a small stand-alone risk team who have developed our risk register and, in particular, the supporting management information.

In 2013, we expect to see further enhancement to the Company's defined risk appetite with the identification and embedding of risk appetite metrics in relation to growth and shareholder value, the management of capital and liquidity and risk of unexpected loss to earnings. This appetite framework will be applied though the use of principles, risk tolerances and limits documented within a company risk appetite statement and defined for each risk category. Work on the quantification of operational risk is also planned.

Committee members

The group risk committee, chaired by Kathryn Matthews, comprises two non-executive directors (Oliver Corbett and Kathryn Matthews), members of the executive committee, the chief executive of Rathbone Unit Trust Management and the group heads of HR, compliance, internal audit and treasury. Ian Buckley is the executive committee member with responsibility for risk management.

Role and responsibilities of the committee

Rathbones has a risk management framework, the key objective of which is to identify and manage risk within a Board-approved risk appetite. The Board is responsible for the Group's system of risk management and governance framework which is designed to manage rather than eliminate the risks of failure to achieve business objectives. Rathbones believes that the most effective way of achieving this is by embedding risk management throughout the organisation and the risk framework is designed to ensure that all identified risks are owned by management, business units and specific committees, all with responsibility for identifying, evaluating and managing risk. The system has been in place through the period under review and is a continuing process supported by independent risk and compliance functions.

Committees within the governance framework report through the risk management framework to the group risk committee, which takes a more holistic view of risk, defining risk appetite, identifying trends and correlations and providing guidance to other committees and to the Board. This approach allows for risk decisions to be taken at the most appropriate level and also be subject to robust review and challenge.

The responsibilities of the group risk committee include:

- advising the Board on the Group's overall risk appetite and risk strategy, taking into account the current and prospective macroeconomic and financial environment;
- overseeing the current risk exposures of the Group;
- reviewing the risk assessment processes;
- supporting the Board's assessment of any proposed strategic business change; and
- assessing reports on any material breaches of risk tolerances and the adequacy of proposed management action.

The full remit of the committee is detailed within its terms of reference, which is subject to annual review and approval by the Board. The group risk committee meets on a quarterly basis.

Risk appetite

Rathbones' risk appetite is defined as the level of risk the Company is prepared to accept, within defined tolerance levels, in the pursuit of its strategic objectives. The Board recognises that taking risks is a normal part of running a business, and that the business will necessarily bear losses from financial and operational risks which may manifest themselves either as reductions in income or as either operating or opportunity costs. The Board is committed to mitigating risk as much as possible, but would be prepared to accept unexpected losses of up to £10 million in any five year period before it materially changes the current business model.

Risk register

A risk register is maintained which is considered the principal tool for monitoring risks. During 2012 a review was conducted of the Company's risk universe to ensure the system of risk management remains fit for purpose to enable the identification and evaluation of all material risks facing the Group. Risks are classified at different levels. The highest level (Level 1) groups risks as either business, financial or operational. The next level (Level 2) contains 15 risk categories which are listed below. Detailed risks (Level 3) are a subset of Level 2 risks and are captured and maintained across the Company within business unit risk registers.

Risk scoring

The risk scoring methodology adopted by Rathbones and approved by the group risk committee assesses each risk using a 1 – 4 scoring system. Each Level 3 risk is rated by assessing both the probability of the risk occurring and its impact should it occur. A residual risk score is then derived taking into account an assessment of the internal control environment or related insurance.

Principal risks and uncertainties

The Board believes that the principal risks and uncertainties facing the Group are identified within the information below. Our overall risk profile is analysed at the Level 2 risk category and these are defined below together with key factors that mitigate these risks. These are not exhaustive listings.

Risk profile

Thirty-three Level 3 risks currently form the basis of the Group's risk register, each of which is classified under one of the 15 Level 2 risk categories.

Rathbones' approach for managing risk is underpinned by our understanding of our current risk exposures and how our risks change over time.

The full risk register is monitored closely by executive management, the group risk committee and the Board.

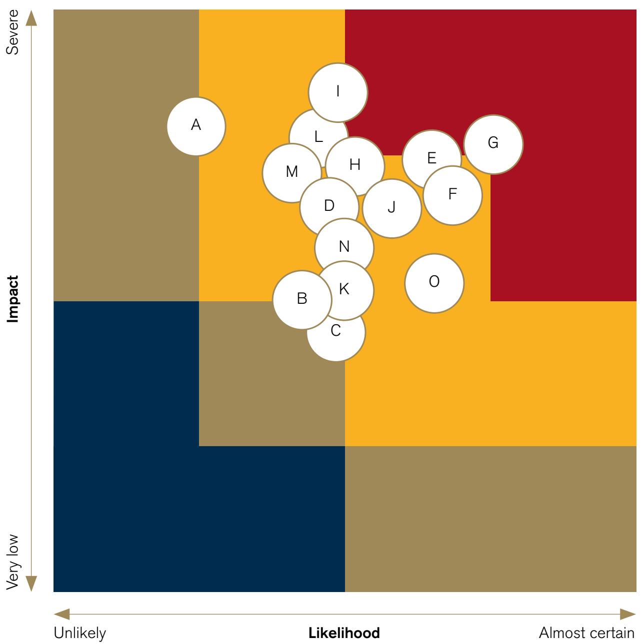
The risk heat map (opposite) summarises the overall risk rating of each Level 2 risk.

The risk profile and ratings for the majority of Level 2 risks have remained consistent during 2012. Changes to Level 2 risks are presented in the table below.

Risk	Risk change in 2012	Description of risk change
Credit	⬇	Market conditions have improved along with the credit quality of our counterparties.
Liquidity	⬇	Increased balances held with the Bank of England.
Pension	⬇	Lower scheme deficit.
Business change	⬆	Significant activity and increasing number of projects planned for 2013.

Risk heat map

The risk heat map illustrates the relative overall positioning of our Level 2 risk categories (as described on pages 29 to 31) in terms of residual impact and likelihood.



Financial risks

Reference	Level 2 risk	Residual rating: Impact	Residual rating: Likelihood	Definition	Key mitigators
A	Credit	High	Very low	Risk associated with one or more counterparties failing to fulfil its contractual obligations, including stock settlement.	• Banking committee oversight. • Counterparty limits and credit reviews. • Treasury policy and procedures manual. • Active monitoring of exposures. • Annual Individual Capital Adequacy Assessment Process.
B	Liquidity	Low	Low	Risk of insufficient financial resources to meet obligations as they fall due, or can only secure access to such resources at excessive cost.	• Banking committee oversight. • Daily reconciliations and reporting to senior management. • Cash flow forecasting. • Contingency funding plan. • Annual Individual Liquidity Adequacy Assessment (including stress testing).
C	Market	Low	Low	Risk that earnings or capital will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices.	• Banking committee oversight. • Documented policies and procedures. • Daily monitoring of interest rates, exchange rates and maturity mismatch. • Robust application of policy and investment limits.
D	Pension	Medium	Low	Risk that the obligation to fund any deficit arising from defined benefit schemes materially affects dividend, reserves and capital.	• Management and trustee oversight. • Monthly valuation estimates. • Triennial independent actuarial valuations. • Investment policy and oversight. • Monthly management information. • Annual Individual Capital Adequacy Assessment Process.

Further detailed discussion of the Group's exposures to financial risks is included in note 30 to the consolidated financial statements.

Business risks

Reference	Level 2 risk	Residual rating: Impact	Residual rating: Likelihood	Definition	Key mitigators
E	Business model	Medium	Medium	Risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth or market share is adversely affected.	• Board and executive oversight. • Documented strategy. • Annual business targets, subject to regular review and challenge. • Regular reviews of pricing structure. • Continued investment in marketing, the investment process and service standards. • Trade body participation.
F	Performance and advice	Medium	Medium	Risk of inappropriate financial or investment advice, inadequate documentation, unsuitable portfolios or inadequate performance failing to meet our clients' investment and/or other objectives or expectations.	• Investment governance and structured committee oversight, specifically strategic asset allocation and stock selection. • Management oversight and active client service, performance measurement and attribution analysis. • Weekly investment management meetings. • Monthly investment manager peer reviews. • Consistent and competitive remuneration schemes. • Compliance monitoring.

Business risks continued

Reference	Level 2 risk	Residual rating: Impact	Residual rating: Likelihood	Definition	Key mitigators
G	Regulatory	High	High	Risk that the introduction of new regulation or changes to interpretation or enforcement of existing regulation materially affects the business model, services or operations.	• Active involvement with representative industry bodies. • Compliance monitoring and oversight of regulatory developments. • Close contact with the regulators. • Documented policy and procedures.
H	Reputational	Medium	Low	Risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations.	• Board and executive oversight with a strong compliance culture. • Investment in staff training and development. • Proactive communications with shareholders/investor relations. • Investment process, management and performance monitoring. • Treating clients fairly culture, values and governance. • Monitoring of media coverage.

Operational risks

Reference	Level 2 risk	Residual rating: Impact	Residual rating: Likelihood	Definition	Key mitigators
I	Business change	High	Low	Risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes.	• Project and IT committees. • Dedicated project office function. • Documented business plans and IT strategy. • Two-stage assessment, challenge and approval of project plans. • Documented project and change procedures.
J	Business continuity	Medium	Low	Risk that an internal or external event results in either failure or detriment to core business processes or services.	• Group business continuity committee oversight. • Documented crisis/incident management and disaster recovery plans. • Regular disaster recovery testing. • Continuous monitoring of IT systems availability. • Off-site data centre.
K	Data integrity and security	Low	Low	Risk of inappropriate access to, disclosure of or integrity of client or company sensitive information.	• Data security committee oversight. • Data protection policy and procedures. • System access controls. • Training and employee awareness programmes. • Office and physical security within all locations.

Operational risks continued

Reference	Level 2 risk	Residual rating		Definition	Key mitigators
		Impact	Likelihood		
L	Legal and compliance	Medium	Low	Risk of remediation, censure, fines or legal action as a result of a failure to identify or inability to comply with regulatory or legislative requirements.	• Executive oversight. • Retained specialist legal advisers. • Compliance department. • Data protection policy and compliance monitoring. • Documented policies and procedures. • Training and employee awareness programmes.
M	Outsourcing	Medium	Low	Risk of one or more third parties failing to provide or perform outsourced services to standards expected by the Group, impacting the ability to deliver core services.	• Executive oversight. • Active relationship management, including regular service review meetings. • Service level agreements and monitoring of key performance indicators. • Compliance monitoring.
N	People	Low	Low	Risk of loss of key staff (or group), insufficiently skilled resources and inappropriate (individual or group) behaviour or actions.	• Executive oversight. • Succession and contingency planning. • Transparent, consistent and competitive remuneration schemes. • Investment in staff training and development. • Contractual clauses with restrictive covenants.
O	Processing	Low	Medium	Risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets.	• Authorisation limits and management oversight. • Dealing limits and supporting system controls. • Active investment in automated processes. • Counter review/four-eyes processes. • Segregation of duties. • Documented procedures. • Annual controls assessment (ISAE3402 report).

Kathryn Matthews
Chairman of the group risk committee

Introduction

I am pleased to introduce the fifth annual corporate responsibility report of the social and environmental committee (SEC), which I chair. The SEC is responsible for ensuring that Rathbones effectively manages its sustainability issues. It is formed by members of staff from key functions such as facilities, HR, marketing, IT and investment management. It meets on a quarterly basis and reports directly to the executive committee of the Board.

With regard to environmental, social and governance (ESG) matters as they affect our business, the Board believes that the SEC has identified and assessed the significant risks to the Company's short and long term value.

2012 was a challenging year for our IT and facilities teams with the move of our head office in February and a number of other office changes and planned openings. I am pleased that our new London office uses approximately 5% less electricity per square metre than our old London offices. However, we are now in a shared office which makes energy usage measurement and waste recycling rather more challenging.

Despite the growth in our business, our total carbon footprint has remained broadly unchanged at 2,362 tonnes of carbon dioxide equivalent (tCO_2e). I am pleased to report that our carbon intensity per employee has fallen by 5.6% in 2012 following on from a fall of 4.7% in 2011.

The Company has continued its partnership with ClimateCare and offset 2,300 tCO_2e in 2012. We will, however, continue to strive to reduce our environmental impact wherever possible.

Rathbones is committed to act as a good corporate citizen and takes its responsibilities as investment manager, employer and purchaser seriously. The Company remains a constituent company of the FTSE4Good Index Series.

Andy Pomfret
Chief Executive
Chairman of the SEC

Our strategy

Rathbones' corporate responsibility strategy can be summarised as follows:

- **Environment**
  Manage our environmental impact and reduce our carbon footprint by the efficient use of resources.
- **Clients**
  Maintain and develop the relationships we have with our clients, treat them fairly and continue to meet their needs.
- **Investments**
  Consider corporate responsibility and governance issues in the companies in which we invest on behalf of our clients.
- **Employees**
  Motivate and reward appropriately, encouraging their development.
- **Communities**
  Engage in the communities in which we operate.

Environment

As a responsible business, Rathbones believes that environmental concerns should be central to our strategy, so we take responsibility for, and action to, reduce our impact on the environment. We have been calculating our greenhouse gas emissions (from buildings and business travel), paper use and waste generation for the past five years and we continue to use this data to drive reductions.

2013 is going to see a change in corporate reporting. UK registered companies are to be required under the Companies Act 2006 to calculate and declare their CO_2-equivalent emissions using an established methodology, including a 'CO_2 intensity ratio' – for example, kilograms of CO_2 per square metre of floor area.

Whilst these requirements will only take effect for next year's reporting period, we are confident that the accuracy and transparency of the reporting herein, and for the previous four years, more than meets the requirements.

Scope

Our reporting period covers the year to 30 September 2012 (2011/12) with comparative figures for our previous reporting period (2010/11) and baseline year (2007/8).

Building energy use

This year has seen a change in our London operations. In February 2012 we moved into a modern new head office at 1 Curzon Street. For the previous 12 years we were in two adjacent buildings on New Bond Street.

Factors such as this and a warmer winter[1] have meant that our CO_2 from gas and electricity per m^2 of floor area has dropped by 10% across our offices compared to 2010/11[2].

Environment continued

Our new head office uses approximately 5% less electricity per m² of floor area than our previous offices

Building kgCO_2 per m²

2011/12: 141
2010/11: 157
2007/8: 173

We are also using our space more efficiently: our CO_2 emissions from gas and electricity have reduced by 3% per employee compared with 2010/11 across our offices.

Tonnes of CO_2 from buildings per full time equivalent (FTE) staff member

2011/12: 2.4
2010/11: 2.6
2007/8: 2.9

This has contributed to a steady reduction in the total CO_2 emissions from gas and electricity of 4% since 2007/8 (the year in which data first became available).

Travel

Business travel accounts for 19% of our carbon footprint and we are taking steps to make reductions in this area. We have rolled out video conferencing facilities across all our offices, and our travel team have been encouraging employees to use the most effective way of travelling from a cost and CO_2 perspective.

Travel kgCO_2 per full time equivalent staff member

2011/12: 583
2010/11: 565
2007/8: 714

These and other factors have resulted in our travel CO_2 emissions per staff member decreasing 18% since 2007/8, although this has increased 3% since 2010/11 which is due to an overall increase in journeys. For example, the distance we travelled on trains has gone up 23%. This is largely due to a number of regional investment managers spending an increased amount of their time in the London office, along with the roll out across all offices of a major IT project.

Paper

We consider the two key environmental performance indicators for us are:

- the recycled content of our paper and printed material; and
- the total amount of printed material we use per £bn funds under management (FUM).

Tens of thousands of A4 sheets equivalent per £bn funds under management at 31 December

2011/12: 117
2010/11: 122
2007/8: 160

The overall weight of paper used has gone up 16% since 2010/11. This is partly due to the development of our marketing material, including an improved private client magazine, Rathbones Review, which now has a significantly increased circulation, and an expanded range of marketing material issued to a larger number of potential clients.

Percentage of the pulp that went into making our paper and printed materials that was post-consumer (recycled)

2011/12: 54
2010/11: 66
2007/8: 78

The recycled content of our paper and printed materials has decreased from 78% in 2007/8 to 54%. This is linked to the increase in marketing materials. The quality of high recycled content paper was seen to be too low for our marketing purposes. However, we aim to use paper with the highest recycled content acceptable, and we always require that our paper stocks are covered by a chain of custody certificate such as Forest Stewardship Council (FSC), which ensures that the wood used to make the paper is obtained from sustainably managed forests.

All printed material issued by Rathbone Greenbank Investments uses 100% recycled paper.

1 2011/12 was warmer than 2010/11: there were approximately 10% fewer heating degree days (Liverpool and London average)

2 During 2010/11, core IT and communications facilities in our London office were outsourced to an offsite data centre. As per the Greenhouse Gas Protocol, electricity consumed by the data centre since the relocation has been included under Scope 3 emissions. However, where we have stated herein a figure that includes electricity use we have included the data centre, as we felt that to exclude it would be misleading

Environment continued

Waste and recycling

50 tonnes of furniture was sent for reuse when we moved offices in London.

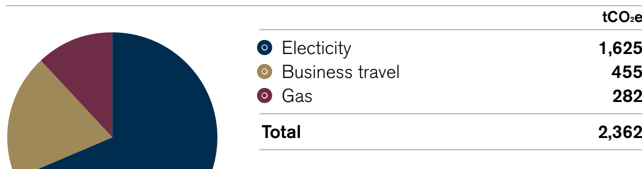
Gathering robust waste and recycling data is proving challenging. We have had to recognise that we cannot draw conclusions from our waste data this year.

All our offices have recycling facilities and we are confident that we are recycling a significant proportion of our waste, but we are not able to support this with robust data.

One of our objectives for the coming year is to ensure (with Carbon Smart's help) that we put in place protocols to capture robust data on our waste management performance. These protocols will help to ensure that next year we can establish whether we are continuing our previous good practice in managing the environmental impact of our waste streams.

Carbon footprint

Our carbon footprint of 2,362 tCO_2e[3] includes 455 tCO_2e from our staff business travel; this includes air (189 tCO_2e), cars (140 tCO_2e), trains (120 tCO_2e) and taxis (6 tCO_2e).



	tCO_2e
Electicity	**1,625**
Business travel	**455**
Gas	**282**
Total	**2,362**

We have achieved an absolute reduction of 5% in our total tCO_2e since 2007/8. At the same time, our business has expanded; for every billion pounds of FUM, we produce 131 tCO_2e, a 13% reduction since 2010/11 and a 45% reduction since 2007/8.

Total tCO_2e per £bn FUM

2011/12: 131
2010/11: 150
2007/8: 237

We consider FUM to be a key indicator of our business activity, so tCO_2e per £bn FUM is an important metric for how well we are managing our environmental impact. Other metrics for 2011/12 include:

- 15.18 tCO_2e per £m operating income: down 8% from 2010/11 and 19% from 2007/8
- 3.03 tCO_2e per full time equivalent staff member: down 6% from 2010/11 and 18% from 2007/8
- 0.17 tCO_2e from building energy use per m^2 internal floor area: down 11% from 2011/12 and 23% since 2007/8

CO_2 intensity

				CO_2 intensity*		
	2011/12	2010/11	2007/8	**2011/12**	2010/11	2007/8
Staff (FTE)	**780**	741	673	**3.03**	3.21	3.69
Net internal area (m^2)	**13,567**	12,475	11,496	**0.17**	0.19	0.22
Operating income (£m)	**155.6**	144.5	131.8	**15.18**	16.48	18.83
Funds under management (£bn)	**17.98**	15.85	10.46	**131**	150	237

* tCO_2e per: FTE; m^2; £m of operating income; £bn funds under management

3 Throughout this report, we have expressed our carbon footprint in terms of tonnes of CO_2 equivalent (tCO_2e) to accommodate non-CO_2 greenhouse gas emissions

4 The Greenhouse Gas Protocol defines three scopes of CO_2e emissions. Scope 1 consists of all direct operational emissions mainly from fuels combusted at Rathbones' sites (natural gas for heating) and our company cars, Scope 2 covers purchased electricity and Scope 3 consists of significant indirect operational emissions, primarily from business travel

5 During 2010/11, core IT and communications facilities in our London office were outsourced to a data centre. As per the Greenhouse Gas Protocol, electricity consumed by the data centre since the relocation has been included under Scope 3 emissions. In 2011/12, the amount of equipment installed and data traffic through the data centre increased significantly. However, where we have stated herein a figure that includes electricity use we have included the data centre, as we felt that to exclude it would be misleading

6 In accordance with reporting standards, the 2010/11 emissions have been recalculated using the latest emission factors. This has resulted in a reduction of 14 tCO_2e

Environment continued

Carbon footprint

	2011/12	2010/11	2007/8
Scope 1[4]			
Natural gas	**282**	282	293
Company cars	**–**	1	17
Scope 2[4]			
Electricity	**1,503**	1,628	1,691
Scope 3			
Data centre[5]	**122**	50	–
Business travel	**455**	420	481
Total tonnes of CO_2e	**2,362**	2,381[6]	2,482

Procedures and calculations used in compiling this data are in accordance with the requirements of the following standards: the World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version); Defra Guidance on How to Report GHG Emissions (September 2009) and ISO 14064 – part 1.

Carbon offsetting

This year we have again taken responsibility for our unavoidable business emissions, by purchasing 2,300 tonnes of carbon credits through high-quality emission reduction projects offered by ClimateCare.

We chose the projects not only for their robust approach to emissions reductions but also because each one contributes towards the sustainable development of local communities, whilst helping to improve incomes, health and education opportunities.

The specific projects we have invested in are certified under the Voluntary Carbon Standard and the Gold Standard for Verified Emissions Reduction[7].

Further details are available from the ClimateCare website (www.climatecare.org).

Objectives

The objectives we set for 2011/12

1 Ensure our new London office is more energy efficient than the previous London offices.

Achieved
Approximately 5% less electricity per m^2 floor area (gas data is less reliable, as we only have cost data from the landlord).

2 Encourage the increased use of video conferencing and reduce the number of domestic flights.

On track
There is video conferencing in all offices and we have made a 5% reduction in the number of domestic flights.

3 Clarify expenses procedures to ensure journey details are provided for all flights and rail journeys.

On track
If we receive an expenses claim that does not detail 'to' and 'from' we send it back and ask for more information.

4 Improve our waste data quality rating to 3 in 2012.

Not achieved
Waste data quality downgraded to 1. Objective carried over to next year.

5 Increase the proportion of clients who receive portfolio information in digital format rather than hardcopy.

On track
Approximately 10% of our clients now receive their portfolio information solely in digital format, up from 2% in 2010/11.

Our objectives for 2012/13

1 Continue to grow our business without a corresponding increase in our CO_2 emissions.

2 Put in place protocols to capture robust data on our waste management performance.

3 Include the CO_2 from our paper use and waste generation in our carbon footprint and start to use this to drive reductions.

4 Investigate the opportunities for improving the quality of data that we have on our energy use at our head office.

7 The three projects are: Improved Cook Stoves in Cambodia, Wayang Windu geothermal in Indonesia and Gyapa Stoves in Ghana

Environment continued

Carbon Smart opinion statement

Carbon Smart's statement provides Rathbones and its stakeholders with a third party assessment of the quality and reliability of Rathbones' carbon footprint data for the reporting period 1 October 2011 to 30 September 2012. It does not represent an independent third party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbones for the fifth consecutive year to calculate Rathbones' carbon footprint for all offices for its 2012 corporate responsibility report. Through this engagement Carbon Smart has assured Rathbones that the reported carbon footprint is representative of the business and that the data presented is credible and compliant with appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 – part 1 standard and verified against the WRI GHG Protocol principles of completeness, consistency and accuracy.

Carbon Smart's work has included interviews with key Rathbones' personnel, a review of internal and external documentation, interrogation of source data and data collection systems including comparison with, and appropriate recalculation of, the previous years' data. Carbon Smart has concluded the points listed below.

Relevance

We have ensured the GHG inventory appropriately reflects the GHG emissions of the Company and serves the decision making needs of users, both internal and external to the Company.

Completeness

Rathbones continues to use the financial control approach and calculate total direct Scope 1, 2 and major Scope 3 emissions. Reported environmental data covers all employees and all entities that meet the criteria of being subject to control or significant influence of the reporting organisation. We recommend that Rathbones continues to improve its data collection processes, particularly in the area of waste management.

Consistency

In order to ensure comparability, we have used the same calculation methodologies and assumptions as previous years and changed the emission factors used for the newest appropriate releases.

Transparency

Where relevant, we have included appropriate references to the accounting and calculation methodologies, assumptions and re-calculations performed.

Accuracy

To our knowledge, data is considered accurate within the limits of the quality and completeness of the data provided.

Data quality

Carbon Smart has assessed the data quality against the WRI GHG Protocol principles. Data from each emission source has been rated 1 (poorest) to 5 (best). For this year, overall data quality has been reduced to 3.0 from 3.6 in 2010/11. Contributing factors include:

- Head office gas data is derived from a monetary figure provided by the landlord;
- Head office electricity data is derived from an overall kWh figure provided by the landlord; and
- The Birmingham, Exeter and Jersey offices could not provide energy data, so benchmarks were used (Birmingham provided electricity data, but not gas).

	% Carbon footprint 2011/12	Data quality rating		
		2011/12	2010/11	2007/8
Overall	100%	3.0	3.6	2.6
Scope 1	13%	3.0	4.0	2.0
Scope 2	64%	3.0	4.0	3.0
Scope 3	23%	4.0	4.0	2.0
Paper	–	4.0	4.0	4.0
Waste and recycling	–	1.0	2.0	2.0

Ben Murray
Director

Carbon Smart Limited

19 February 2013

Clients and investments

Responsible investment

Although general investment activities are not covered by a formal responsible investment policy, we take into account social, environmental and ethical considerations for specific mandates throughout the Group, particularly those managed by our specialist ethical investment unit, Rathbone Greenbank Investments.

As at 31 December 2012, Rathbone Greenbank Investments had £525 million of funds under management, representing 3.1% of funds managed by Investment Management.

Through Rathbone Greenbank Investments and Rathbone Unit Trust Management's Ethical Bond Fund, the Company is able to provide investment services tailored to clients' interests in the area of socially responsible or sustainable investment. Where appropriate, the Company is also able to participate in new share issues offered by companies that provide environmentally or socially beneficial products or services.

Affiliations

Rathbone Brothers Plc has been a signatory to the Carbon Disclosure Project (CDP) since 2006 and to its Water Disclosure programme since 2010.

The Group also became a signatory to the UN-backed Principles for Responsible Investment in September 2009. In addition, Rathbone Greenbank Investments is a long-standing member of influential groups such as the UK Sustainable and Investment Finance association (UKSIF) and the Ecumenical Council for Corporate Responsibility, as well as being a founding endorser of the Forest Footprint Disclosure Project, which will become part of the CDP from 2013.

Voting

The Group's voting activity is coordinated by its corporate governance committee. Composed of investment managers and representatives of internal teams from across the business, the committee maintains Group policy on corporate governance, and ensures its application in proxy voting through the maintenance of a contract with an external corporate governance consultant. Advice and research received by the committee supplements the analysis carried out by the stock selection and collectives committees as part of the investment process.

The committee was established in line with Rathbones' obligations under the Principles for Responsible Investment (PRI), and pays heed to the Stewardship Code, set up by the Financial Reporting Council. Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code, while Rathbone Investment Management exercises the voting rights attached to approximately 90% of the UK equity it holds on behalf of its clients. Voting is also undertaken on any company if requested by an underlying shareholder.

During 2012, the committee oversaw active proxy voting at 269 company meetings and on 3,428 resolutions in total. Voting on these resolutions include consideration of such issues as executive remuneration, auditor independence, appointment of directors and non-financial reporting, among others.

Engagement

Engagement with companies on ESG matters is mainly undertaken by Rathbone Greenbank Investments' ethical research team. This ranges from low-level contact with companies on issues relating to ESG disclosure to participation in co-filing and voting on shareholder resolutions at company AGMs. These activities may occur as a result of fundamental analysis of companies' ESG reporting or through collaborative efforts initiated by interest groups such as UKSIF or the PRI's Engagement Clearinghouse.

FTSE4Good ESG ratings scores for Rathbones

As institutional investors around the world put increasing focus on the ESG practices of the companies they invest in, ESG risk measures are an increasingly important part of the investment process.

The FTSE4Good Index and ratings have been designed to measure the performance of companies that meet or exceed globally recognised standards.

The Index's latest semi-annual review in September 2012 confirmed Rathbone Brothers Plc as a constituent of the FTSE4Good Index Series, awarding the Company the following ESG ratings.

Overall ESG rating (0 – 5)			
Environment	Social	Governance	Absolute score
3	**3**	**4**	**3.4**

FTSE4Good ESG ratings also award an overall score relative to each company's super-sector, which, in the case of Rathbone Brothers Plc, is Financial Services. An adjusted score based on the level of risk associated with our super-sector is calculated and then readjusted relative to our peers. On this basis, Rathbones scored 78 out of 100 in this review.

Employees

Our approach

As with all professional services firms, Rathbones' greatest asset is its people. Employee relations, learning and development, performance management, remuneration and benefits and resourcing are all key objectives sitting at the heart of Rathbones human resources (HR) strategy and contribute to the continuing success of the business.

Employee relations

Rathbones aims to provide objective and consistent support to all staff, underpinned by clear policies and procedures, ensuring that we continue to be a fair employer and provide a supportive working environment.

Work-life balance

Rathbones recognises the importance of an appropriate work-life balance both to the health and welfare of employees and to the business. Holiday entitlements are 25 days increasing to 30 days after five years' service. Employees are able to buy up to five additional days of leave with the agreement of their manager. We also provide time off for dependants, parental leave and paternity leave and have a childcare voucher scheme in place.

Maternity benefits remain in excess of those required under statutory provisions. Career breaks of up to two years are also available for those with childcare responsibilities.

Flexible working policies are offered with a high number of successful applications, particularly from parents with young children. On completion of five years' service, employees have the opportunity to take up to three months' unpaid leave once in every 10 years without any loss of service-related benefits such as pension or death in service cover.

The uptake and effectiveness of these policies is monitored together with other indicators of staff satisfaction levels such as average annual sickness rates and staff turnover.

Staff welfare

Rathbones is committed to providing a safe and healthy environment in which its employees can work. With the help of external consultants our health and safety policy for the UK offices is regularly updated to reflect current legislation and best practice. We provide a range of training courses for those staff with health and safety responsibilities and a steering group comprising representatives from all our offices meets twice a year to share knowledge and to ensure that health and safety standards are maintained.

During 2012 we committed to the Government's Health at Work initiative, the Workplace Wellbeing Charter. The initiative promotes the positive links between health and work and aims to help more people with health conditions to stay in or return to employment.

Upon completion of a qualifying period, all UK employees (and their direct family members) are eligible for private medical cover paid for by the Company. All UK staff have the opportunity to attend an annual medical examination and Rathbones also provides an independent and confidential employee assistance programme offering advice on employment, personal and legal concerns.

Learning and development

Rathbones ensures that all employees have the opportunity to develop the skills, knowledge and behaviours to fulfil their current roles effectively and are supported to realise their potential.

Our investment in the development of our employees makes good business sense and this year has seen the introduction of new development programmes along with the continuation of our existing successful programmes and a focus on regulatory requirements in particular as a result of RDR. We expect high standards of performance from all employees and therefore take an inclusive approach to development that means we encourage employees at all levels to focus on enhancing their skills.

RDR – Professionalism

We successfully obtained Statements of Professional Standing (SPS) for all of our employees who give advice on investments. This has been the culmination of four years work to ensure that they all held appropriate qualifications, attended additional 'gap fill' training courses and maintained their expertise through regular learning sessions. Over that period the direct cost of qualifications and 'gap fill' was £167,000 plus the additional time away from the desk. The investment has been high and we continue to support the aims of RDR; we are committed to implementing the ongoing Continuing Professional Development (CPD) requirements to achieve the maximum benefits for our clients, employees and the Company.

We continue to run a number of development programmes at different levels; all use a similar 'learn – do – review' formula that we have found to be successful.

This means that the programmes are run over a period of 9 – 18 months and comprise modules covering topics that are directly relevant to the participant's role. The feedback suggests that participants find it helpful to review how they have used the training and to learn from others in similar positions.

There have also been two new programmes established in 2012 at opposite ends of the business; a graduate programme for talent new to the business and a leadership programme for our senior managers.

Employees continued

Graduate development programme

This year we created a programme to bring together recent graduate level joiners and provide training to help them understand the business and their role within it, to enable them to translate exam theory into practical day to day application back at the desk and to create a supportive group. We now have 14 graduates taking part.

Leadership development programme

This year we started a leadership development programme for some of our senior managers. This is the first time we have run a programme of this type and it is indicative of a growing and increasingly complex organisation where a continuous updating of leadership capabilities is crucial. To ensure application of learning to the business the participants are working together on relevant corporate projects, the aim of which is to deliver enhanced service to our clients. We are partnering with experienced business school tutors to deliver this programme.

Other programmes

We continue with some of our well-established and successful training programmes. Now in its sixth year, the Rathbone development programme targets a different audience each year. The 2012 group is made up of early career investment managers from across the UK. In addition to the stated aims of improving skills in developing new business and enhancing client relationships, the benefits of the internal relationships that are created though this shared experience has long lasting advantages.

We continue to run the introduction to management course which culminates in the achievement of a nationally recognised management qualification awarded by the Chartered Management Institute. The team-working for results programme also continues; this has been designed to provide team members, who are performing well, have a track record of achievement and have potential for the future, with the skills to work effectively in a team by recognising and building on their strengths.

Coaching and mentoring

Many of the training programmes include individual coaching or mentoring to help with applying the learning to particular circumstances. Additionally, internal and external coaching is made available across the business where employees are seeking further skills enhancements; this can be a valuable way of helping implementation of personal development plans.

IT training

The team responsible for this activity has grown this year in response to the ever increasing development and complexity of our IT systems. Given the high investment in our core IT systems development it is vital that we assist employees to maximise their IT literacy to achieve the greatest efficiencies and levels of service.

Training opportunities

In addition to formal ongoing programmes we support employees to gain appropriate qualifications and attend external specialist courses. In 2012 our investment in training was an average of £707 per head (2011: £589 per head) and 2.6 days (2011: 2.2 days). The increase is due to the newly established programmes, for example, graduates and leadership development along with supporting executive coaching.

Performance management

We ensure that fair and consistent practices are in place to enable managers and employees to work together to recognise achievements, address issues and agree objectives which will motivate and encourage high performance.

In common with most organisations we operate a performance appraisal system, the aim of which is to support employees to contribute fully to the organisation and to assist them to fulfil their potential. During the year, we updated our process to include more specific competencies and key performance indicators. This has facilitated more discussion about individuals' development and progression.

Remuneration and benefits

Rathbones provides remuneration and financial/non-financial benefits which attract, retain, motivate and reward employees, ensuring that we remain competitive through regular review and benchmarking.

Resourcing

We attract, recruit and retain people with the right skills and experience who demonstrate high levels of professionalism and enthusiasm which impact positively on the business.

Equality and diversity

Rathbones is an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation.

Communities

Donations and fundraising

During the year, the Group made total charitable donations of £206,000, representing 0.53% of Group pre-tax profits (2011: £196,000, representing 0.50% of Group pre-tax profits).

Employees are encouraged to donate to charity in a tax efficient manner through the Give As You Earn (GAYE) payroll giving scheme. In 2012, Rathbone employees made payments totalling £167,000 (2011: £189,000) through this scheme, which is administered by the Charities Aid Foundation. The Company matched staff donations of up to £200 per month made through GAYE and in 2012 donated £118,000 (2011: £108,000) to causes chosen by employees through this method.

In addition to corporate and payroll giving, for many years Rathbones has selected charities by employee ballot with funds being raised by a number of events. For 2012 and 2013, employees voted to support the Claire House Hospice for children in the North West and The Oliver King Foundation, a Liverpool based charity which raises awareness of Sudden Arrhythmic Death Syndrome. In 2012, £15,000 was raised for these good causes.

Lacrosse sponsorship

Rathbones is the proud sponsor of both the National Schools Lacrosse Championships and Lacrosse Scotland.

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Chairman

Mark Nicholls

Title: Chairman
Appointment: 1 December 2010
Age: 63
Board committees: Re N

Mark Nicholls is a lawyer and corporate financier. After studying law at Cambridge he took articles at Linklaters before joining S G Warburg in 1976. He became a director in 1984 and head of investment banking in 1994. In 1996 he joined Royal Bank of Scotland and became head of their private equity group, leaving in 2003 to pursue a plural career. He is currently chairman of the West Bromwich Building Society and a non-executive director of Northern Investors Company PLC. He became chairman following the AGM on 11 May 2011 and is considered to be independent.

Executive directors

Andy Pomfret

Title: Chief Executive
Appointment: 1 August 1999
Age: 52
Board committees: E N Ri

Andy Pomfret qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG). Prior to joining Rathbones in July 1999, he spent over 13 years with Kleinwort Benson as a corporate financier, venture capitalist and latterly finance director of the investment management and private banking division. He became chief executive in October 2004. He is also a non-executive director of Graphite Enterprise Trust plc and a director of the Association of Private Client Investment Managers & Stockbrokers (APCIMS). He chairs the Group's executive and social and environmental committees.

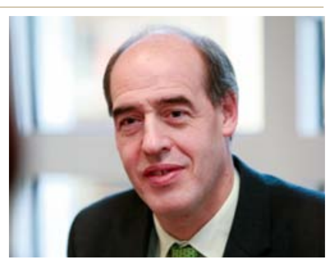
Ian Buckley

Title: Head of the Trust, Tax and Pension Advisory Businesses; Head of Risk Management
Appointment: 21 December 2001
Age: 62
Board committees: E Ri

Ian Buckley qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG) in 1975. He was chief executive of Smith & Williamson for 10 years from 1985 to 1995, and subsequently chief executive of EFG Private Bank Limited and Tenon Group Plc. He is responsible for marketing and is also chairman of the Group's IT steering committee. He is also a committee member of Family Assurance Friendly Society and is on the board of Miller Insurance Services LLP. He stepped down from the Board at the end of 2012.

Paul Chavasse

Title: Head of Investment Management
Appointment: 26 September 2001
Age: 48
Board committees: E Ri



Paul Chavasse started his career working for the institutional fund management arm of NatWest, which was later merged with Gartmore. After a period in the private client businesses of NatWest and Coutts, his final role before joining the Group as chief operating officer in 2001 was as head of NatWest Portfolio Management in Bristol. He became head of investment management on 1 March 2012.

Andrew Morris

Title: Head of Investment Management – Liverpool and other Northern Offices
Appointment: 1 November 2000
Age: 48
Board committees: None

Andrew Morris has spent his entire working career at Rathbones in private client investment management. He is chairman of the Group's business continuity and training and competence committees and manages a large number of client portfolios. He stepped down from the Board at the end of 2012.

Executive directors continued

Richard Smeeton

Title: Head of Investment Management – London and Jersey
Appointment: 1 November 2000
Age: 48
Board committees: None

Richard Smeeton trained with County Bank and joined Laurence Keen in 1988 prior to its acquisition by Rathbones in 1995. He sits on a number of the Group's management and investment committees and also manages a large number of client portfolios. He stepped down from the Board at the end of 2012.

Paul Stockton

Title: Finance Director
Appointment: 24 September 2008
Age: 47
Board committees: E Ri

Paul Stockton qualified as a chartered accountant with Price Waterhouse (now PwC) in 1992. In 1999 he joined Old Mutual Plc as group financial controller, becoming director of finance in 2001 and finance director of Gerrard Limited eight months later. Following the sale of Gerrard to Barclays in 2003, he left in 2005 and has since worked for Euroclear in Brussels and as a division finance director of the Pearl Group. He joined Rathbones in August 2008 and is also a non-executive director of the Financial Services Compensation Scheme.

Board committees

The principal Board committees are the executive, audit, remuneration, nomination and group risk committees. The Board has delegated full authority to the executive committee, subject to a list of matters which are reserved for decision by the full Board. The other Board committees have formal terms of reference, which are reviewed and approved by the Board on an annual basis. These are available on request from the Company's registered office and on the Group website.

E Executive committee

The purpose of the executive committee is to monitor every aspect of the Group businesses on a continuing basis and to analyse and plan all business proposals in detail for submission to and consideration by the Board. The executive committee meets monthly and more frequently when required.

A Audit committee

Full details of its role are set out in the audit committee report on page 61.

Re Remuneration committee

Full details of its role are set out in the remuneration report on page 53.

N Nomination committee

Full details of its role are set out in the nomination committee report on page 63.

Ri Group risk committee

Full details of its role are set out in the group risk committee report on page 27.

Commitee membership

	Executive	Audit	Remuneration	Nomination	Group risk
Mark Nicholls			● member	● chairman	
Andy Pomfret	● chairman			● member	● member
Ian Buckley	● member				● member
Paul Chavasse	● member				● member
Andrew Morris					
Richard Smeeton					
Paul Stockton	● member				● member
David Harrel		● member	● chairman	● member	
Kate Avery		● member	● member	● member	
Caroline Burton		● member	● member	● member	
Oliver Corbett		● chairman	● member	● member	● member
Kathryn Matthews		● member	● member	● member	● chairman

● Committee chairman
● Committee member

Non-executive directors

David Harrel

Title: Senior Independent Director
Appointment: 1 December 2007
Age: 64
Board committees: A Re N

David Harrel was one of the founding partners of S J Berwin LLP in 1982, and was made senior partner in 1992. He relinquished this role in 2006 and is now a consultant to the firm. David has a variety of other appointments. He is non-executive chairman of Savile Group Plc, a member of the board of the English National Opera and a trustee of the Clore Duffield Foundation. He became chairman of the remuneration committee with effect from 1 November 2012.

Kate Avery

Title: Non-executive Director (Independent)
Appointment: 6 January 2010
Age: 53
Board committees: A Re N

Kate Avery began her career with Barclays Plc, where she worked for some 18 years, becoming managing director of Barclays Bank Trust Company and Barclays Stockbrokers. She subsequently joined Legal and General Group Plc and served on its main board for eight years until January 2009, latterly as group executive director for wealth management. She also served as a non-executive director with Kelda Group plc until its sale to an infrastructure fund in 2008. She is currently chairman of Openwork Holdings Limited and is a non-executive director of the Newcastle Building Society. She is standing down from the Board at the AGM on 14 May 2013.

Caroline Burton

Title: Non-executive Director (Independent)
Appointment: 1 November 2003
Age: 63
Board committees: A Re N

Caroline Burton is a highly experienced figure within the asset management industry. She spent 26 years with Guardian Royal Exchange Plc, where she was executive director in charge of investments from 1990 until 1999. She was also a director of The Scottish Metropolitan Property Plc until June 2000 and was a member of the service authority for the National Crime Squad and National Criminal Intelligence Service until March 2006. She is a non-executive director of TR Property Investment Trust Plc, LV Friendly Society and Blackrock Smaller Companies Trust plc. She stood down as chairman of the remuneration committee on 1 November 2012 when, for UK Corporate Governance Code purposes, she was no longer considered to be independent, having served on the Board for nine years. She will remain on the audit, nomination and remuneration committees until her retirement from the Board at the AGM on 14 May 2013.

Oliver Corbett

Title: Non-executive Director (Independent)
Appointment: 7 March 2006
Age: 48
Board committees: A Re Ri N

Oliver Corbett is the chief financial officer of LCH.Clearnet Group Limited. He is a chartered accountant and worked for SG Warburg, Phoenix Securities (later Donaldson Lufkin and Jenrette) and Dresdner Kleinwort Wasserstein, where he was managing director of investment banking. He was group finance director of Novae Group plc from October 2003 to November 2012. He is chairman of the audit committee.

Kathryn Matthews

Title: Non-executive Director (Independent)
Appointment: 6 January 2010
Age: 53
Board committees: A Re Ri N

Kathryn Matthews has spent her entire career in investment management, most recently as chief investment officer, Asia Pacific (ex Japan) for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a non-executive director of Royal London, Hermes Fund Managers Limited, Aperam, S.A. Fidelity Asian Values Plc, Montanaro UK Smaller Companies Investment Trust Plc and J P Morgan Chinese Investment Trust Plc. She is chairman of the group risk committee.

The information contained in the chairman's statement, chief executive's statement, Rathbones at a glance, strategy and key performance indicators, business review, financial review, group risk committee report, directors' profiles, corporate governance report, audit committee report, nomination committee report, corporate responsibility report and directors' responsibility statement form part of the directors' report.

Group results and Company dividends

The Rathbone Brothers Plc Group profit after taxation for the year ended 31 December 2012 was £29,216,000 (2011: £28,706,000).

The directors recommend the payment of a final dividend of 30.0p (2011: 29.0p) on 16 May 2013 to shareholders on the register on 26 April 2013. An interim dividend of 17.0p (2011: 17.0p) was paid on 3 October 2012 to shareholders on the register on 14 September 2012. This results in total dividends of 47.0p (2011: 46.0p) per ordinary share for the year. These dividends amount to £21,220,000 (2011: £20,001,000) – see note 11 to the consolidated financial statements.

A full review of the Group's business performance is set out in the business review and financial review on pages 16 to 26. Information about environmental, employee and social and community issues are set out in the corporate responsibility report on pages 32 to 40.

Post balance sheet events

Details of events after the balance sheet date are set out in note 36 to the consolidated financial statements.

Capital structure

The Company's share capital comprises one class of ordinary shares of 5p each. At 31 December 2012, 45,954,071 shares were in issue (2011: 43,561,140). 50,000 shares were held in treasury (2011: 50,000). The shares carry no rights to fixed income and each share carries the right to one vote at general meetings. All shares are fully paid.

The purported purchase of 50,000 shares on 7 December 2012 was not effective (and those shares accordingly were not in treasury as at 31 December 2012) as, although the Company had sufficient distributable reserves at the time of the transaction, the Company had not filed the requisite interim accounts at Companies House to demonstrate such distributable reserves.

There are no specific restrictions on the size of a shareholding or on the transfer of shares, which are both covered by the provisions of the Articles of Association and prevailing legislation.

The Board currently has the authority to allot 14,400,000 shares (approximately one third of the issued share capital at 12 March 2012). The Board currently has the authority to buy back up to 2,100,000 shares under certain stringent conditions.

Regarding the appointment and replacement of directors, the Company is governed by the Company's Articles of Association, the UK Corporate Governance Code ('the Code'), the Companies Act 2006 and related legislation. Amendment of the Articles of Association requires a special resolution of shareholders.

Directors and their interests

The interests of directors and connected persons in the share capital of the Company are shown in table 1. Since 31 December 2012, I M Buckley (1,303 shares), A T Morris (651 shares), A D Pomfret (1,303 shares), R P Stockton (651 shares) and R I Smeeton (1,303 shares) acquired shares under the terms of the Save As You Earn Scheme. Details of directors' share options are shown in table 6 on page 59.

Table 1. Directors' shareholdings

	Number of 5p ordinary shares at 1 January 2012 Beneficial	Number of 5p ordinary shares at 31 December 2012 Beneficial
Chairman		
M P Nicholls	**2,146**	**3,513**
Executive		
I M Buckley	**49,622**	**60,276**
P D G Chavasse	**70,159**	**81,694**
A T Morris	**66,747**	**75,540**
A D Pomfret	**111,115**	**112,171**
R I Smeeton	**134,572**	**137,989**
R P Stockton	**18,430**	**32,952**
Non-executive		
C R R Avery	**6,335**	**6,658**
C M Burton	**4,207**	**4,692**
O R P Corbett	**2,381**	**2,833**
D T D Harrel	**161**	**529**
K A Matthews	**623**	**1,009**

Since the date of this report and 7 March 2013, the last practicable date for inclusion in this report before its publication, I M Buckley sold 14,803 shares and R I Smeeton sold 20,609 shares.

Executive directors

The directors with executive responsibilities are Andy Pomfret, Paul Chavasse and Paul Stockton. Ian Buckley, Andrew Morris and Richard Smeeton stepped down from the Board at the year end. Their biographies are on pages 42 and 43. Richard Lanyon retired from the Board at the AGM on 10 May 2012.

Non-executive directors

The directors with non-executive responsibilities are Mark Nicholls, Kate Avery, Caroline Burton, Oliver Corbett, David Harrel and Kathryn Matthews. Their biographies are on pages 42 and 44. The senior independent director is David Harrel, who is available to shareholders if they have concerns that they would rather not address to the chairman or executive directors or which remain unresolved after an approach through the normal channels. The Board considers that all non-executive directors are independent.

Retirement and re-appointment of directors

In accordance with provision B.7.1 of the Code, all directors are subject to annual election by shareholders.

Substantial shareholdings

At 19 February 2013, the Company had received notifications in accordance with the Financial Services Authority's Disclosure and Transparency Rule 5.1.2 of the following interests of 3% or more in the voting rights of the Company.

Table 2. Substantial shareholdings at 19 February 2013

Shareholder	Date of notification	Number of voting rights	% of voting rights
BlackRock Inc.	1 February 2013	6,892,241	15.03%
Lindsell Train Ltd.	2 August 2012	4,021,768	9.18%
Massachusetts Financial Services Company	19 May 2011	2,254,063	5.19%
BlackRock UK Emerging Companies Hedge Fund	8 January 2013	1,384,853	3.02%

There were no changes between the date of this report and 7 March 2013.

Political and charitable donations

No contributions were made for political purposes during the year (2011: nil). Details of the Company's charitable donations can be found in the corporate responsibility report on page 40.

Employees

Details of the Company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the corporate responsibility report on pages 38 and 39.

The Company encourages the involvement of its employees in its performance through both a Share Incentive Plan launched in 2001 and a Save As You Earn scheme launched in 2009.

Policy on the payment of creditors

Rathbones does not follow a published code or standard on payment practice. Its policy is to fix terms of payment with each supplier in accordance with its requirements and financial procedures. Rathbones ensures that suppliers are aware of those terms and abides by them subject to the resolution of any disagreement regarding the supply. In the majority of cases, the terms agreed with suppliers are for payment within 30 days of their invoice date. Trade creditors of the UK subsidiaries at 31 December 2012 represented 24 days of annual purchases (2011: 36 days). The 2011 figure was unusually high due to high levels of capital expenditure on the new London office incurred towards the year end.

Financial instruments and risk management

The risk management objectives and policies of the Group are set out in note 30 to the consolidated financial statements.

Indemnification of directors

The Company has granted indemnities, which are uncapped, to all directors and to the company secretary by way of deed. Qualifying third party indemnity provisions as defined by Section 234 of the Companies Act 2006 were therefore in place throughout 2012 and remain in force at the date of this report.

Share price

The mid-market price of the Company's shares at 31 December 2012 was £12.99 (2011: £10.60) and the range during the year was £10.35 to £13.73 (2011: £9.77 to £12.57).

Auditor

The audit committee reviews the appointment of the external auditor and their relationship with the Group, including monitoring the Group's use of the auditor for non-audit services. Note 7 to the consolidated financial statements sets out details of the auditor's remuneration. Having reviewed the independence and effectiveness of the external auditor, the audit committee has recommended to the Board that the existing auditor, KPMG Audit Plc, be reappointed. KPMG Audit Plc have indicated their willingness to continue in office and ordinary resolutions reappointing them as auditor and authorising the directors to set their remuneration will be proposed at the 2013 AGM.

The directors in office at the date of signing of this report confirm that there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make him or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

Details of the Group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's statement, strategy and key performance indicators, business review, financial review and group risk committee report. In addition, notes 30 and 31 to the consolidated financial statements provide further details.

The Company is regulated by the FSA and performs annual capital adequacy assessments which include the modelling of certain extreme stress scenarios. The Company publishes Pillar III disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. During the year, and as at 31 December 2012, the Group has had no external borrowings and is fully equity financed.

In 2012, the Group has continued to generate organic growth in client funds under management despite challenging market conditions and this is expected to continue. The directors believe that the Company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook.

As the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In forming their view, the directors have considered the Company's prospects for a period exceeding 12 months from the date the financial statements are approved.

Annual General Meeting

The 2013 AGM will be held on Tuesday 14 May 2013 at 12.00 noon at 1 Curzon Street, London W1J 5FB. Full details of all resolutions and explanatory notes are set out in the separate notice of the meeting.

Special business

The resolutions proposed include an ordinary resolution to give the directors the authority to allot up to 15.1 million shares (with an aggregate nominal amount of up to £755,000). The Board is also seeking to renew, by special resolution, the existing authorities to waive pre-emption rights and to make market purchases of ordinary shares under certain stringent conditions (both subject to limits). The annual special resolution seeking the authority to convene a general meeting (other than the AGM) with not less than 14 days' notice is also proposed.

A resolution will also be proposed regarding the payment of the interim dividend. Distributions made by a company must not exceed the distributable profits as reported in the last set of 'relevant accounts' of the company. In addition, Section 831 of the Companies Act 2006 imposes an additional requirement on a public company which may only make a distribution if its net assets are not less than the aggregate of its called up share capital and undistributable reserves and the distribution does not reduce the amount of those assets to less than that aggregate.

At the date of the payment of the interim dividend on 7 October 2012, the relevant accounts were the 2011 annual accounts. Following the payment of the 2011 final dividend and when taking into account treasury shares and other own shares held in employee benefit trusts (which reduce the amount distributable under the test in Section 831), the 2012 interim dividend exceeded the value of the Company's net assets less the aggregate of its called up share capital and undistributable reserves (as stated in the 2011 annual report and accounts).

This technical non-compliance with the terms of the Companies Act 2006 could, in theory, result in a right for the Company to claim for repayment of the relevant dividends from shareholders who received those dividend payments and/or from the directors who approved the payments. In order to put the shareholders and directors into the position in which they were always intended to be, the Company proposes to release and waive any such claims. A resolution will be put to shareholders at the AGM to approve such release and waiver and to protect current and former directors and shareholders against any claim in connection with the 7 October 2012 interim dividend payment.

It is anticipated that all directors will be at the AGM and available to answer questions.

By Order of the Board

Richard Loader
Company Secretary

19 February 2013

Registered office: 1 Curzon Street, London W1J 5FB

In relation to compliance with the UK Corporate Governance Code, this report together with the directors' report states the position at 19 February 2013.

The UK Corporate Governance Code compliance statement

The UK Corporate Governance Code ('the Code') was issued in June 2010 by the Financial Reporting Council (FRC). Explanations of how the Code principles and supporting principles have been applied are set out in the Governance sections of the report and accounts.

The directors believe the Company was in compliance with the Code throughout the year with the following exception:

Composition of the Board (Provision B.1.2)

During 2012, the Company was not in compliance with the Code requirement that at least half the Board, excluding the chairman, should be independent non-executive directors. However, following the Board changes made at the year end there are now a majority of independent non-executive directors on the Board.

Board meetings

The Board meets a minimum of seven times per annum with one meeting devoted entirely to strategic issues. Some Board meetings are preceded by Board dinners which allow for broader discussions. In months where no formal Board meeting is scheduled, an informal meeting of the non-executive directors and the chairman and chief executive is generally held. The non-executive directors also have informal meetings without the chairman or chief executive present.

Board membership

The Board currently consists of a non-executive chairman, three executive directors and five other non-executive directors. The roles of the chairman, Mark Nicholls, and the chief executive, Andy Pomfret, are separated and are clearly defined in writing and agreed by the Board. The chairman's role includes setting a Board agenda which is primarily focused on strategy, performance, value creation and accountability and ensuring that issues relevant to these areas are reserved for Board decision. The chief executive is the most senior executive director on the Board, with responsibility for proposing strategy to the Board, and for delivering the strategy as agreed.

The Board considers that all of the non-executive directors are independent. Caroline Burton was appointed to the Board on 1 November 2003. Provision B.1.1 of the Code notes that board service of over nine years is a factor that a board should consider when assessing the independence of a director. Whilst still considered to be independent, Caroline stood down as chairman of the remuneration committee on 1 November 2012 and will retire from the Board at the AGM on 14 May 2013. Kate Avery is also standing down from the Board at the AGM.

The non-executive directors participate fully with their executive colleagues in Board meetings and have access to any information they need to perform their duties. They bring an independent judgement to bear on Group policies and strategies as well as management actions and performance, including resourcing and standards of conduct. The senior independent director is David Harrel, who is available to shareholders if they have concerns that they would rather not address to the chairman or executive directors or which remain unresolved after an approach through the normal channels.

The Board has a formal schedule of matters reserved for its attention, which covers key areas of the Group's business. These include determination of the Group's aims and the strategy to be adopted in achieving those aims, reviews of budgets and financial statements, company acquisitions and disposals, major capital expenditure and the review of decisions taken by the boards of subsidiary companies.

Board performance

The Board undertakes an annual review of its operation and performance. In 2012 this was carried out based on an internal questionnaire, developed and executed with assistance from Lintstock Limited, a London-based corporate advisory firm. On completion of the review process, Lintstock produced a report highlighting the key issues raised. In the review there was a consensus that the Board was working better than in the previous year. It was not felt that the Board lacked any specific area of non-executive expertise but that we should recruit a second person with appropriate financial expertise to support the chairman of the audit committee. It was agreed that there should be more discussion of strategic matters at Board meetings and Board papers should reflect better a strategic context. Other actions arising from the review included the arrangement of regular discussions with the management layer below Board level and improvements to Board papers to ensure that the key issues were highlighted.

Board performance continued

Directors

Individual appraisal of each director's performance is undertaken by the chief executive (in respect of the executive directors' executive roles) and the chairman (for all directors in respect of their contribution to the Board). This involves meetings with each director on a one to one basis. The non-executive directors, led by the senior independent director, carry out an appraisal of the performance of the chairman.

Board training

Rathbones is committed to the training and development of all staff to ensure professional standards are maintained and enhanced. All directors are required to dedicate a certain number of hours to their own development. Training and development include activities to keep up to date with Rathbones' specific issues and industry, market and regulatory changes.

New directors are involved in a thorough induction process designed to enable them to become quickly familiar with the business. This includes meeting staff in a number of key business areas, attendance at important internal meetings and demonstrations of systems and key business processes.

Board committees

The principal Board committees are the executive, audit, remuneration, nomination and group risk committees. The Board has delegated full authority to the executive committee, subject to a list of matters which are reserved for decision by the full Board. The other Board committees have formal terms of reference, which are reviewed and approved by the Board on an annual basis. These are available on request from the Company's registered office and on the Group website.

Executive committee

The executive committee is chaired by the chief executive, Andy Pomfret, and comprises Ian Buckley, Paul Chavasse and Paul Stockton together with the chief operating officer, Andrew Butcher. The purpose of the executive committee is to monitor every aspect of the Group businesses on a continuing basis and to analyse and plan all business proposals in detail for submission to and consideration by the Board. It meets monthly and more frequently when required.

Audit committee

Current members of the audit committee are Oliver Corbett (chairman), Kate Avery, Caroline Burton, David Harrel and Kathryn Matthews. Details of its work are set out in the audit committee report.

Group risk committee

Current members of the group risk committee are Kathryn Matthews (chairman), Ian Buckley, Paul Chavasse, Oliver Corbett, Richard Lanyon, Andy Pomfret and Paul Stockton together with the chief operating officer, chief executive of Rathbone Unit Trust Management, heads of compliance, internal audit, HR and treasury. Full details of its role are set out in the group risk committee report.

Remuneration committee

Current members of the remuneration committee are David Harrel (chairman), Kate Avery, Caroline Burton, Oliver Corbett, Kathryn Matthews and Mark Nicholls. Full details of its role are set out in the remuneration report.

Nomination committee

Current members of the nomination committee are Mark Nicholls (chairman), Kate Avery, Caroline Burton, Oliver Corbett, David Harrel, Kathryn Matthews and Andy Pomfret. Full details of its role are set out in the nomination committee report.

Conflicts of interest

A director has a duty under the Companies Act 2006 ('the Act') to avoid a situation where he has, or can have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. The Act allows the Board to authorise a director's conflict or potential conflict of interest where the Articles of Association contain a provision to this effect and also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. Shareholders approved the necessary changes to the Company's Articles of Association at the AGM on 7 May 2008.

There are safeguards which apply when directors decide whether to authorise a conflict or potential conflict. Only independent directors (those who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the directors must act in a way which they consider, in good faith, will be most likely to promote the Company's success. The directors are also able to impose limits or conditions when giving authorisation.

A register of actual or potential conflicts notified and authorised is maintained and reviewed regularly by the Board.

Other Board issues

The Company has appropriate insurance cover in place in respect of legal action against its directors. Any director has access to the advice and services of the company secretary and may seek independent professional advice, if necessary, at the Company's expense. The company secretary is responsible to the Board for ensuring Board procedures are followed and compliance with rules and regulations applicable to the Company. Any removal or appointment of the company secretary is decided by the Board.

Table 1. Board meeting and committee attendance in 2012

	Plc Board[1]	Executive committee[2]	Audit committee	Remuneration committee	Nomination committee	Group risk committee
C R R Avery	6/7		5/7	7/7	1/2	
I M Buckley	7/7	12/12				4/4
C M Burton	7/7		6/7	7/7	2/2	
P D G Chavasse	6/7	10/12				4/4
O R P Corbett	6/7		7/7	7/7	2/2	4/4
D T D Harrel	7/7		7/7	6/7	2/2	
R P Lanyon	2/2	3/4				3/4
K A Matthews	7/7		7/7	6/7	2/2	4/4
A T Morris	7/7					
M P Nicholls	7/7			7/7	2/2	
A D Pomfret	7/7	12/12			1/2	4/4
R I Smeeton	6/7					
R P Stockton	7/7	12/12				3/4

1 Scheduled bi-monthly meeting
2 Scheduled monthly meeting

Shareholder relations

The Company is committed to ensuring that there is effective communication with all shareholders. All regulatory news announcements, press releases and financial reports are available on the Group website. Following the publication of the interim and full year results, presentations are given to major shareholders, investment managers, analysts and employees. The presentation packs used and any webcasts are also on the Group website. Meetings with major shareholders provide an opportunity to discuss governance and strategy issues and to introduce other directors including non-executive directors. Feedback from these meetings is reported to the Board. All shareholders have the opportunity to meet non-executive directors at the AGM. At least 20 business days' notice of the AGM is given to allow time for proper consideration of the resolutions by shareholders. Separate resolutions are proposed for each substantially separate issue.

Every effort is made to ensure that all directors, and in particular committee chairmen, are at the meeting. The Board welcomes questions and comments from shareholders.

Votes are taken on a show of hands (unless a poll is requested) and full details of proxy voting figures are reported at the meeting and on the Group website.

Going concern

The Company's business activities, risks and uncertainties, financial performance in 2012 and the financial position at 31 December 2012 are summarised in the business and financial review on pages 16 to 26 and group risk committee report on pages 27 to 31. Note 30 to the consolidated financial statements summarises how the Group manages its financial risk.

Regulation

Rathbone Investment Management Limited, Rathbone Unit Trust Management Limited and Rathbone Pension & Advisory Services Limited are all authorised and regulated by the Financial Services Authority (FSA).

Rathbone Investment Management Limited is registered as an investment adviser with the US Securities and Exchange Commission.

Rathbone Investment Management International Limited is regulated by the Jersey Financial Services Commission.

The Board together with the executive committee and the audit committee have implemented systems and procedures to ensure adherence to the statutes and regulations relevant to each of the Group companies.

Model code

The Company has its own internal dealing rules which extend the FSA Listing Rules Model Code provisions to all employees.

The Board presents the remuneration report for the year ended 31 December 2012.

Remuneration committee chairman's statement

The 2012 AGM season was marked by a few high-profile cases of shareholder unhappiness at a perceived disconnect in some companies between pay and performance, which was branded the 'shareholder spring' in the media. I am pleased to report that our 2011 remuneration report was well received by shareholders in May 2012 with 99.7% approval.

2012 was a year of little change to remuneration at main Board level. The committee has however continued to review the structure of directors' remuneration packages, and in particular, the Long Term Incentive Plan (LTIP) where the identification of suitable performance targets remains a challenge. Rathbones has few listed peers, which makes peer comparison difficult, whilst its performance is closely linked to stock market performance, which is a factor management are unable to influence.

During 2012, the committee reviewed changes to the new business incentive arrangements which reward investment managers for the introduction of new clients. Awards are deferred, linked to revenue earned and are subject to clawback in certain circumstances (for example, if a client account is closed within three years).

The Board considers that the Company's remuneration arrangements are consistent with the risk profile of the business.

David Harrel
Chairman of the remuneration committee

Remuneration committee

The Board has delegated the determination of executive director remuneration to the remuneration committee ('the committee'). The current members of the committee are the independent non-executive directors David Harrel (chairman), Kate Avery, Caroline Burton, Oliver Corbett and Kathryn Matthews. Mark Nicholls was considered to be independent on his appointment as Company chairman and is also a member of the committee. Caroline Burton chaired the committee until 1 November 2012.

The chief executive attends meetings at the invitation of the committee. Neither the chairman nor chief executive is present when their own remuneration is discussed. The committee met on seven occasions in 2012 (2011: six). Details of attendance at meetings are shown on page 51.

Remuneration policy for executive directors

The overall aim of the remuneration policy is to support our longer term business objectives and promote behaviours which support value creation for shareholders, whilst at the same time providing a competitive remuneration package which is sufficient to attract and retain directors of the quality needed to manage and develop the Company successfully. Total reward is designed to include a balance of fixed and variable pay with a high level of deferral. External data is used to validate rather than to benchmark total reward.

The current remuneration package for an executive director has four main elements: basic salary and benefits, profit share, equity incentives and pension. The various elements are designed to:

- align the interests of the directors with shareholders in generating long term shareholder value. Achieved through participation in:
  - an LTIP with a relative total shareholder return performance condition; and
  - profit share deferrals invested in Rathbone Brothers Plc shares.
- align remuneration practices with effective risk management. Achieved by the use of:
  - profit share based on profit before tax rather than an income or contribution based bonus; and
  - deferred awards (LTIP and partial deferral of profit share).

The committee also ensures that up-to-date, best practice contracts are adopted. The committee is satisfied that the incentive structure does not increase environmental, social and governance risks by inadvertently encouraging irresponsible behaviour.

The elements of remuneration packages are summarised below.

Total executive director reward for 2012

Table 1. Directors' remuneration (audited information)

	Salary or fee[1] £'000	Payments in lieu of pension contributions £'000	Profit sharing: Cash £'000	Profit sharing: Deferred shares[2] £'000	Benefits[3] £'000	2012 total £'000	2011 total £'000	2012 pension contributions[4] £'000	2011 pension contributions[4] £'000
Chairman									
M P Nicholls	120	–	–	–	2	122	99	–	–
Executive									
A D Pomfret (Chief Executive)	340	–	86	172	4	602	640	39	38
I M Buckley	206	–	53	105	4	368	364	24	23
P D G Chavasse	221	–	79	157	4	461	457	–	–
R P Lanyon	91	9	42	83	2	227	567	–	–
A T Morris	203	–	56	112	4	375	345	–	–
R I Smeeton	228	–	74	148	4	454	508	–	–
R P Stockton	233	–	80	159	4	476	445	22	22
Non-executive									
C R R Avery	40	–	–	–	3	43	41	–	–
C M Burton	48	–	–	–	3	51	48	–	–
O R P Corbett	50	–	–	–	3	53	49	–	–
D T D Harrel	52	–	–	–	3	55	48	–	–
K A Matthews	48	–	–	–	3	51	41	–	–
Former chairman	–	–	–	–	–	–	62	–	–
Total	1,880	9	470	936	43	3,338	3,714	85	83

1 Reviewed annually on 1 January. P D G Chavasse's paid salary reflects a short sabbatical taken during the year. His full year salary was £249,000
2 This is the cash equivalent of deferred share awards at the date of the award. Deferred share awards vest after three years
3 Benefits include medical insurance and the value of SIP free shares and matching shares
4 During the year, retirement benefits accrued under money purchase schemes in relation to three directors (2011: three)

Basic salary and benefits

An executive director's basic salary is determined by the committee. Any change is implemented on 1 January of each year or when an individual changes position or responsibility. In deciding appropriate levels, the committee considers salaries throughout the Group as a whole and the information obtained on comparable companies in the financial sector as provided by the advisers to the committee. The views of the chairman and chief executive are also taken into consideration when considering the salaries of other directors.

Salaries were increased by 3.0% on 1 January 2012 in line with the increase given to most employees. The only exception was Richard Lanyon whose salary was unchanged in view of his retirement from the Board on 10 May 2012. Following the Board restructuring on 1 January 2013, the salaries of the executive directors (Andy Pomfret, Paul Chavasse and Paul Stockton) were increased by 2.5%.

In addition Rathbones provides a range of benefits including life, private medical and permanent health insurance.

Profit share

The current profit sharing scheme was introduced on 1 January 2010. Awards to all executive directors are made from a pool of profits of 3% – 5% of Group profit before tax with an expectation that in a normal year the percentage is around 4%. The percentage for 2012 was 4% (2011: 4%). An additional profit share payment of £61,000 was made to Richard Smeeton in 2011 as a result of his giving up legacy entitlements.

The committee has the discretion to adjust the calculation of Group profit before tax for the purposes of the profit share to ensure that it appropriately reflects underlying business performance. No adjustments were made in 2012 or 2011.

Awards to individual directors are determined by the committee following recommendations by the chief executive and chairman, having due regard of the performance of the director, the results of the business for which the director has responsibility (where relevant) and market data where this is available. Awards are capped at 200% of basic salary.

Awards are made in both cash (one third) and deferred shares (two thirds) with interim, on account awards payable during the financial year, and final awards made shortly after the announcement of the Group's results for the year. The proportion paid in cash may be increased at the request of the participant but this will cause the overall award to be reduced such that the total will be reduced by a maximum of one third if 100% of the award is taken in cash. No executive directors chose to increase the cash element of the award in 2012 or 2011.

No performance criteria are attached to the deferred share awards. The committee's view is that share price movements reflect the performance of the business and therefore further performance conditions are not necessary. Half of deferred share awards will lapse if a director is a 'bad leaver'. Deferred shares attract the monetary equivalent of declared dividends over the deferral period from the end of the financial year of the award. Awards vest on the third anniversary of the financial year end at which point a nil paid option will be granted over the deferred share award (including a further number of additional shares representing the value of dividends received and reinvested in relation to vested shares). This option may be exercised within seven years of grant.

The final deferred share award for 2011 was made on 20 March 2012. An interim deferred share award for 2012 was made on 25 September 2012. Awards were also made following dividend payments in May and October. The final award for 2012 will be made following the announcement of the 2012 results on 20 February 2013.

Table 2. Profit share – deferred share awards in 2012 (audited information)

	Opening balance	2011 final award	Dividend	2012 interim award	Dividend	Closing balance
Date of award		**20/03/12**	**17/05/12**	**25/09/12**	**03/10/12**	
Market price at award date		**£12.61**	**£12.08**	**£13.185**	**£13.05**	
I M Buckley	15,536	**4,321**	**476**	**4,110**	**264**	**24,707**
P D G Chavasse	17,801	**7,409**	**605**	**5,077**	**336**	**31,228**
R P Lanyon	33,896	**7,004**	**981**	**6,327**	**545**	**48,753**
A T Morris	14,155	**3,965**	**435**	**3,667**	**241**	**22,463**
A D Pomfret	31,174	**8,056**	**941**	**7,858**	**523**	**48,552**
R I Smeeton	35,083	**5,149**	**965**	**5,682**	**536**	**47,415**
R P Stockton	17,204	**6,739**	**574**	**5,480**	**319**	**30,316**
Total	164,849	**42,643**	**4,977**	**38,201**	**2,764**	**253,434**

Equity incentives

Long Term Incentive Plan (LTIP)

Executive directors are awarded rights to acquire ordinary shares at the start of a three year plan cycle. Awards are limited to 75% of salary other than in exceptional circumstances when the committee considers that a 100% limit would be appropriate. At the end of each plan cycle, the Company's performance is assessed against the performance targets for that cycle. The extent to which the targets have been achieved determines the actual number of shares (if any) attributable to each participant.

A new LTIP was approved by shareholders at the AGM on 11 May 2011 and came into effect for the 2011/13 plan cycle.

The performance conditions for the earlier plan cycles are as follows:

Performance targets

2009/11 and 2010/12 plan cycles

Table 3. LTIP performance targets (2009/11 and 2010/12 plan cycles)

% of award	
a Total Shareholder Return (TSR) over the plan cycle	50%
b Earnings per Share (EPS) growth over the plan cycle	50%

a TSR

TSR ranking relative to the constituents of the FTSE All Share Index	Vesting of award (TSR element)
Below the 50th percentile	0%
Between the 50th and 75th percentiles	Straight line increase
At or above the 75th percentile	100%

b EPS

EPS growth over the plan cycle	Vesting of award (EPS element)
Less than 15%	0%
15%	25%
Over 15% but less than 37.5%	Straight line increase
37.5% or over	100%

2011/13 and future plan cycles

A combination of two performance targets will continue to be used. Whilst the EPS performance target will continue unchanged, changes to the TSR performance target were approved as detailed below in table 4.

Table 4. LTIP TSR performance target (2011/13 and future plan cycles)

TSR over the plan cycle (50%)

Rathbone Brothers Plc Total Return Index (TRI) relative to the FTSE All Share TRI	Vesting of award (TSR element)
Below the percentage change in the FTSE All Share TRI	0%
Equal to the percentage change in the FTSE All Share TRI	25%
Greater than the percentage change in the FTSE All Share TRI by 0.1% to 9.9%	Straight line increase
Equal to or greater than the percentage change in the FTSE All Share TRI plus 10%	100%

As mentioned earlier in this report, the LTIP performance targets are under review. Whilst they have limitations, the current combination of EPS and TSR are commonly used and ensure not only a focus on a key financial driver (via EPS), but also alignment of shareholder interests (via TSR), reflecting both the change in the share price and dividends, assuming that they are reinvested.

If a participant ceases to be employed for 'good leaver' reasons, the award shall normally continue in effect and vest on the original date set for vesting, but with the award based on the performance during the plan cycle as a whole, reduced pro rata to reflect the fact that the participant was not an executive director for the whole plan cycle. In all other circumstances, any provisional award would lapse on cessation of employment.

Vesting of historic awards

2009/11 plan cycle

The TSR for the three year period was 46.2%, which ranked the Company at the 40th percentile relative to the constituents of the FTSE All Share Index. Basic EPS decreased from 67.02p in 2008 to 66.72p in 2011. No awards were therefore made from either element of the plan.

Equity incentives continued

2010/12 plan cycle

The TSR for the three year period was 84.0%, which ranked the Company at the 80th percentile relative to the constituents of the FTSE All Share Index resulting in an award of 100% of the TSR element of the plan. Continuing basic EPS increased from 46.87p in 2009 to 67.00p in 2012, an increase of 43.0%, resulting in awards of 100% of the EPS element of the plan. The market value of the Rathbone Brothers Plc shares at the date of the awards was £8.23 compared with a market value at 31 December 2012 of £12.99.

2011/13 and 2012/14 plan cycles

Details of the awards for the 2011/13 and 2012/14 plan cycles are set out in table 5. The market value of Rathbone Brothers Plc shares at the date of awards for the 2011/13 plan was £10.825 and for the 2012/14 plan was £12.61.

Were the maximum possible awards to be made in shares to current and former directors as shown in table 5, 214,683 ordinary shares (2011: 257,231) would be awarded, representing 0.5% (2011: 0.6%) of the issued share capital at 31 December 2012, excluding shares held in treasury. In practice, awards under the LTIP are intended to be satisfied using market purchased shares. Expected actual awards are difficult to predict with any accuracy.

Table 5. LTIP awards of ordinary shares (audited information)

	Plan cycle	At 1 January 2012	Granted in 2012	Vested in 2012	Lapsed in 2012	At 31 December 2012
I M Buckley	2010/12	16,904	–	(16,904)	–	–
	2011/13	13,856	–	–	–	13,856
	2012/14	–	12,252	–	–	12,252
P D G Chavasse	2010/12	21,187	–	(21,187)	–	–
	2011/13	16,766	–	–	–	16,766
	2012/14	–	14,825	–	–	14,825
R P Lanyon	2010/12	21,187	–	(16,479)	(4,708)	–
	2011/13	16,766	–	–	–	16,766
	2012/14	–	14,393	–	–	14,393
A T Morris	2010/12	16,585	–	(16,585)	–	–
	2011/13	13,648	–	–	–	13,648
	2012/14	–	12,073	–	–	12,073
A D Pomfret	2010/12	28,933	–	(28,933)	–	–
	2011/13	22,863	–	–	–	22,863
	2012/14	–	20,222	–	–	20,222
R I Smeeton	2010/12	19,365	–	(19,365)	–	–
	2011/13	15,311	–	–	–	15,311
	2012/14	–	13,536	–	–	13,536
R P Stockton	2010/12	18,909	–	(18,909)	–	–
	2011/13	14,951	–	–	–	14,951
	2012/14	–	13,221	–	–	13,221
Total	2010/12	143,070	–	(138,362)	(4,708)	–
	2011/13	114,161	–	–	–	114,161
	2012/14	–	100,522	–	–	100,522

Share Incentive Plan (SIP) and Save As You Earn (SAYE)

All directors are entitled to take part in the SIP on the same terms as all other employees. This allows all employees to purchase shares in the Company and currently these are matched on a one-for-one basis by the Company. Performance-related SIP shares are also offered to employees if there is year on year EPS growth over the rate of inflation. SIP shares are included in the table of directors' share interests on page 46.

Executive directors may also participate in the Rathbones SAYE scheme on the same terms as all other employees. Details of grants to directors are shown in table 6. It is anticipated that a further grant will be made in March 2013 following the announcement of the 2012 results.

Equity incentives continued

Table 6. The Rathbones SAYE scheme (audited information)

	Grant date	At 1 January 2012	Granted in 2012	Exercised in 2012	Lapsed in 2012	At 31 December 2012	Earliest exercise date	Latest exercise date	Exercise price pence
I M Buckley	23/12/09	**1,303**	–	–	–	**1,303**	01/02/13	01/08/13	696
P D G Chavasse	23/12/09	**1,303**	–	–	–	**1,303**	01/02/13	01/08/13	696
R P Lanyon	23/12/09	**1,303**	–	–	–	**1,303**	01/02/13	01/08/13	696
A T Morris	23/12/09	**651**	–	–	–	**651**	01/02/13	01/08/13	696
A T Morris	29/03/11	**483**	–	–	–	**483**	01/05/14	01/11/14	934
A D Pomfret	23/12/09	**1,303**	–	–	–	**1,303**	01/02/13	01/08/13	696
R I Smeeton	23/12/09	**1,303**	–	–	–	**1,303**	01/02/13	01/08/13	696
R P Stockton	23/12/09	**651**	–	–	–	**651**	01/02/13	01/08/13	696
R P Stockton	29/03/11	**483**	–	–	–	**483**	01/05/14	01/11/14	934
Total		**8,783**	–	–	–	**8,783**			

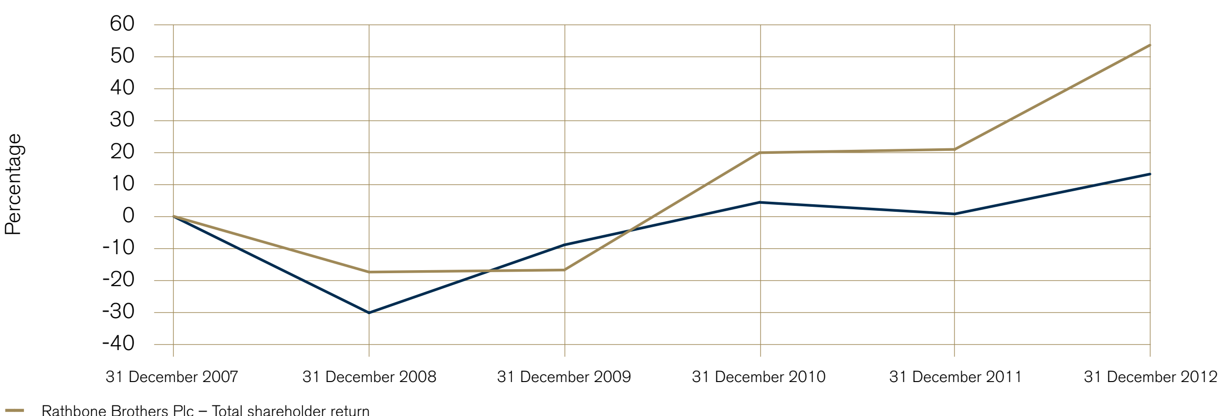
Dilution

Not more than 10% of the issued ordinary share capital of the Company (adjusted for bonus and rights issues) will be issued for all LTIP and share incentive schemes operated by the Company in any rolling 10 year period. While it remains best practice to do so, treasury shares will be treated as newly issued shares for the purposes of dilution calculations. The Company satisfies the various equity-based schemes it operates using a combination of market purchased, newly issued and treasury shares.

Total shareholder return (TSR)

Chart 1 shows the Company's TSR against the FTSE All Share Index. TSR is calculated assuming that dividends are reinvested on receipt. The FTSE All Share Index has been selected as a comparator as it is a suitably broad market index and has been used as a performance comparator for LTIP plan cycles since 2005/07.

Chart 1. Total Shareholder Return (TSR) over the last five financial years



Pension arrangements

UK employees who joined Rathbones prior to 1 April 2002 were offered membership of a defined benefit scheme, the Rathbone 1987 Pension Scheme, with a normal retirement age of 60. Prior to 1 April 2006, the accrual rate was 1/60th for each year of membership. With effect from 1 April 2006, employees were given the choice of either remaining on a 1/60th accrual rate (but increasing their contribution rate from 5% to 6.5% at 1 April 2006 and to 8% from 1 January 2008) or switching to a 1/70th accrual rate for future pensionable service (but continuing to contribute at 5%). With effect from 1 July 2009, future service benefits are based on career average revalued earnings (CARE) with a normal retirement age of 65 rather than 60.

Details of the Company's contributions are set out in note 26 to the consolidated financial statements.

Since 1 April 2002, new employees have been offered membership of a Group defined contribution plan, established with Scottish Widows. In the case of certain directors and senior staff, the Group contributes to their personal pension arrangements.

Pension arrangements continued

Paul Chavasse, Andrew Morris and Richard Smeeton are members of the Rathbone 1987 Pension Scheme. Richard Lanyon transferred out of this scheme on 15 March 2011 and has since been paid 10% of salary in lieu of pension scheme contributions. Ian Buckley, Richard Lanyon, Andy Pomfret and Paul Stockton participate in the scheme for death in service benefits only.

Richard Smeeton is also a member of the Laurence Keen Retirement Benefits Scheme for service prior to 1 October 1999. Ian Buckley and Andy Pomfret have arrangements under self-invested personal pension schemes whilst Paul Stockton is a member of the Group defined contribution plan.

The changes in pension entitlements arising in the year, required to be disclosed by the UK Listing Authority, are shown in table 7. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors. The increases in transfer values are mainly due to changed assumptions for inflation, post-retirement discount rates and future mortality.

Table 7. Directors' accrued benefits under defined benefit schemes (audited information)

	Age at 31/12/12	Years of service at 31/12/12	Accrued benefit at 31/12/12[1] £	Increase in accrued benefits excluding inflation[2] £	Increase in accrued benefits including inflation[3] £	Transfer value of increase in accrued benefits less directors' contributions £	Transfer value of accrued benefits at 31/12/12 £	Transfer value of accrued benefits at 31/12/11 £	Increase in transfer value less directors' contributions[4] £
P D G Chavasse	48	12	**46,702**	**3,879**	**5,167**	**38,649**	**705,399**	702,659	**(17,201)**
A T Morris	48	24	**76,873**	**3,780**	**5,977**	**59,718**	**1,544,731**	1,562,614	**(34,123)**
R I Smeeton	48	24	**88,570**	**3,190**	**5,758**	**36,490**	**1,518,673**	1,559,473	**(59,008)**

During 2012, three directors (2011: four) accrued benefits under defined benefit schemes

1 The pension entitlement shown above for the three participating directors is that which would be paid annually on retirement at age 60 or 65 based on service to 31 December 2012 (or normal retirement date, if earlier)
2 The additional pension earned in the year excluding UK inflation (RPI)
3 The additional pension earned in the year including UK inflation (RPI)
4 A 0.3% increase in the discount rate used to calculate the transfer value of accrued benefits has either resulted in a modest fall or very small increase in transfer values in 2012, depending on the length of pensionable service. The 'Increase in transfer value less directors' contributions' figures are therefore negative

There is no undertaking or expectation for any other pension benefit to be arranged for any director by the Company.

Service contracts for executive directors

The Company has service contracts with its executive directors which were reviewed and modernised in 2011. Following his appointment as head of investment management, Paul Chavasse's notice period was increased from 6 to 12 months. It is Company policy that such contracts should not normally contain notice periods of more than 12 months. Details of the notice periods in the contracts of employment of executive directors serving during the year are as shown in table 8.

Table 8. Executive directors' service contracts

Executive Director	Date of contract	Notice period
I M Buckley	24 October 2011	6 months
P D G Chavasse	15 November 2011	12 months
A T Morris	26 October 2011	6 months
A D Pomfret	13 October 2011	12 months
R I Smeeton	9 December 2011	6 months
R P Stockton	14 October 2011	6 months

There are no provisions within the contracts to provide automatic payments in excess of payment in lieu of notice upon termination by the Company and no pre-determined compensation package exists in the event of termination of employment.

Payment in lieu of notice would include basic salary, pension contributions and benefits. There are no provisions for the payment of liquidated damages or any statements in respect of the duty of mitigation. Compensation payments will be determined on a case by case basis in the light of current market practice. Compensation will include loss of salary and other contractual benefits but mitigation will be applied where appropriate. In the event of entering into a termination agreement, the Board will take steps to impose a legal obligation on the director to mitigate any loss incurred. There are no clauses in contracts amending employment terms and conditions on a change of control. Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the AGM.

Shareholdings

New executive directors are encouraged to build up and maintain a shareholding at least equivalent to the value of one year's basic salary within five years of taking up their appointment.

External appointments

Executive directors are encouraged to take on external appointments as non-executive directors, but are discouraged from holding more than one other position in a quoted company given the time commitment. Prior approval of any new appointment is required by the Board with fees generally being payable to the Company.

An exception is Ian Buckley. Following his appointment as a committee member of the Family Assurance Friendly Society on 14 December 2009, he retains the fee paid of £32,000 per annum (2011: £30,000). Following his appointment to the board of Miller Insurance Services LLP on 1 May 2012, he retains the fee payable of £50,000 per annum.

Advisers to the remuneration committee

The remuneration committee has appointed Deloitte LLP ('Deloitte') as advisers to the committee. Deloitte attend at least one committee meeting per annum and advise on best practice and latest developments in senior executive remuneration. The committee is confident that their advice is objective and independent and they operate in line with the executive remuneration consulting voluntary code of conduct.

Deloitte also provides occasional ad hoc advice to the Company, particularly on share scheme issues. The appointment is reviewed annually. The committee is also assisted by the HR department and by the company secretary.

Non-executive directors

Non-executive directors do not have contracts of employment but, as with all other directors, are now required to stand for re-election annually in accordance with the UK Corporate Governance Code. The effectiveness of the non-executive directors is subject to an annual assessment. The executive directors are responsible for determining the fees of the non-executive directors, who do not receive pension or other benefits from the Group and do not participate in any Group incentive scheme, other than the SIP.

Non-executive directors' fees

Fees were increased with effect from 1 January 2012 as shown in table 9. No change was made on 1 January 2013.

Table 9. Non-executive directors' fees

	2012	2011
Basic fee	**£40,000**	£38,000
Additional fees		
– Chairman of the audit committee	**£10,000**	£8,000
– Chairman of the remuneration committee	**£10,000**	£7,000
– Chairman of the group risk committee	**£10,000**	–
– Senior independent director	**£10,000**	£8,000

The chairman, Mark Nicholls, received a fee at the rate of £60,000 per annum prior to his appointment as chairman on 11 May 2011. From that date his fee has been paid at the rate of £120,000 per annum.

Annual General Meeting

The committee considers that, taken together, these various remuneration components help to align the interests of directors with those of shareholders and conform to the principles laid down in the UK Corporate Governance Code published in June 2010. The Board will move at the AGM an ordinary resolution seeking approval of the directors' remuneration report for 2012. The Notice of Annual General Meeting has been circulated separately.

Approved by the Board on 19 February 2013 and signed on its behalf by

David Harrel
Chairman of the remuneration committee

Audit committee report

Audit committee chairman's statement

2012 was a busy year for the audit committee in spite of relatively modest changes to the financial reporting regime. In addition to its regular activities, the committee considered the judgement areas referred to below, reviewed the accounting implications of the head office move, approved a revised policy on non-audit services provided by the auditors and reviewed Group recharges between legal entities. Internal audit reported its findings to the committee across a wide range of topics on a regular basis. In addition, the committee undertook detailed and specific training on reporting and regulatory matters, and reviewed auditor rotation.

Areas of particular focus in 2013 will include the key regulatory capital and liquidity reports, a review of acquisitions made in 2012, the impact on capital and reserves of any future acquisitions and the efficacy of the external audit process.

Committee members

The current members of the audit committee are the independent non-executive directors Oliver Corbett (chairman), Kate Avery, Caroline Burton, David Harrel and Kathryn Matthews.

The Board is satisfied that at least one member of the committee has recent and relevant financial experience. The chairman is a chartered accountant whilst other members have extensive experience of financial matters and of the financial services industry.

The committee met on seven occasions in 2012 (2011: seven). Details of attendance by members are set out on page 51.

Role and responsibilities of the committee

These are set out in the terms of reference of the committee, which are reviewed annually.

Financial reporting

The committee regularly considers:

- significant financial reporting issues and judgements made in connection with the parent company and consolidated financial statements;
- the appropriateness of accounting policies and bases;
- narrative statements and disclosures to ensure that they are reasonable and consistent with the reported results; and
- regulatory financial reporting.

Key judgement areas considered in 2012 included the carrying value of the Jersey loan notes received on the sale of the Group's Jersey trust operation in 2008, the valuation of goodwill and intangible assets, provisions and the valuation of defined benefit pension obligations.

Internal controls and risk management systems

The review of the effectiveness of the Group's internal financial controls is achieved primarily by the assessment of the work of the Group internal audit department, reports produced by the compliance functions, the half year and annual financial statements, the scope and findings of the annual external audit and periodic reviews of identified risks and mitigating controls undertaken by senior management.

A separate group risk committee report considers risk management issues (see page 27).

Internal audit

The Group internal audit department reviews Group operations on a continuing basis. The frequency of reviews is determined by an internal risk-based audit programme which is approved by the audit committee. This ensures that whilst the focus is on higher risk areas, all parts of the business are covered over a three year cycle. Regular updates are given to the committee on the findings of internal audit reviews, the status of scheduled work and on the follow up of reviews to ensure that agreed recommendations are acted upon promptly. The committee sees all reviews containing a high risk-related recommendation and a sample of other reviews.

The internal audit department will also undertake occasional ad hoc reviews at the request of management or the committee. The committee also regularly reviews the resources and authority of the internal audit department.

External audit

The committee is responsible for reviewing external audit arrangements and for any recommendation to the Board regarding change of audit firm. This review includes consideration of the external auditor's period in office, their compensation and the scope, quality and cost-effectiveness of their work. The last audit services contract tender process was undertaken in June 2009, which led to the appointment of KPMG as auditors. The committee plan to undertake an audit services contract tender process again before the tenth anniversary of their appointment.

The committee reviews the independence and the nature of non-audit services supplied by the auditor and non-audit fee levels relative to the audit fee. Prior approval by the committee is required where the fee for an individual non-audit service is expected to exceed £25,000. Fees for non-audit services paid to the auditor should not, in aggregate, exceed 50% of the audit fee in any year without the prior written approval of the committee.

Non-audit fees payable to the auditor in 2012 were £65,000. This represents 13.1% of the fees for assurance services of £497,000, which includes the audit of regulatory returns and of the interim statement (2011: £114,000, 23.2% of £491,000).

The committee recognises that, given their knowledge of the business, there are often advantages in using the auditor to provide certain non-audit services.

The committee is satisfied that the independence of the auditor has not been impaired by providing these services. Details of the auditor's fees are shown in note 7 to the consolidated financial statements. The committee also reviews the audit engagement letters each year and has discussions with the auditor with no management present.

Regarding the year end audit, presentations were received from the auditor on audit progress, findings and recommendations and any adjusted and unadjusted errors.

Confidential reporting policy

The committee annually reviews the Group's Public Interest Disclosure Act 1998 confidential reporting policy and approves any changes to the document. It also receives details of any reports made.

Other

On invitation, the finance and other executive directors, compliance officers, senior finance and internal audit staff and the external auditor attend meetings to assist the committee to fulfil its duties. The committee can access independent professional advice if it considers it necessary. The committee performs an annual review of its performance and this is also reviewed by the Board.

Oliver Corbett
Chairman of the audit committee

Nomination committee report

Committee members

The current members of the nomination committee are Mark Nicholls (chairman), Kate Avery, Caroline Burton, Oliver Corbett, David Harrel, Kathryn Matthews and Andy Pomfret.

The committee met formally on two occasions in 2012 (2011: one). Details of attendance by members are set out on page 51. It also had informal discussions on a number of other occasions during the year.

Role of the committee

The committee considers and makes recommendations to the Board for the appointment of directors; the Board as a whole decides upon any such appointment. During the year, the remit of the committee was widened to cover issues such as appraisals, training and director development.

An external search consultancy and/or open advertising are generally used when recruiting new non-executive directors and may often be used when recruiting executive directors. When considering possible candidates, the committee evaluates the skills, knowledge and experience of the candidates and, in the case of non-executive appointments, their other commitments.

The committee is mindful of the benefits of a diverse Board with a broad range of skills and experience and this has been reflected in recent Board appointments.

During 2012, the committee focused on the Board effectiveness review process, the proposed reduction in Board size and succession planning.

With regard to the Board effectiveness review, it was agreed that an independent third party be used to oversee the process and, having interviewed a number of candidates, it was agreed to re-appoint Lintstock with a wider brief.

With regard to the reduction in size of the Board, it was agreed that the Board should ensure it had more exposure to a broader range of attendees who would be asked to attend and speak on specific topics. It was also agreed that non-executive directors should have more interaction with senior executives and that a programme of lunches and informal meetings would be arranged.

With regard to succession planning it was agreed that we needed to formalise both short term (emergency) and long term succession plans for executives in management roles and for non-executives. This would reinforce and supplement the current process whereby the Board is regularly exposed to senior management below Board level during visits to other offices, attendance at internal meetings and presentations by senior managers to the Board. Regarding non-executive director succession, the committee will be looking to recruit in 2013 following the retirement from the Board of Kate Avery and Caroline Burton at the 2013 AGM. In particular, the committee are mindful of the need to ensure that the audit committee includes members with accounting and/or auditing experience. It will be looking to recruit a suitably qualified accountant to provide support for the current chairman of the committee and to potentially succeed him as audit committee chairman in due course.

In accordance with the UK Corporate Governance Code, all directors are required to seek election by the members at the AGM following their appointment, and re-election every year thereafter. A non-executive director is not appointed for a fixed term but would not normally serve as a director for more than nine years.

The committee is mindful of the UK Corporate Governance Code requirement that any term beyond six years for a non-executive director should be subject to particularly vigorous review and should take into account the need for progressive refreshing of the Board.

Mark Nicholls
Chairman of the nomination committee

Statement of directors' responsibilities in respect of the report and accounts

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

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the consolidated and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance report that complies with that law and those regulations.

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

Disclosure of information to the auditor

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

Statement as a result of the Disclosure and Transparency Rules of the Financial Services Authority

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and its undertakings included in the consolidation taken as a whole; and
- the directors' report, together with the information provided in the business review, financial review and group risk committee report, includes a fair view of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

A D Pomfret
Chief Executive

19 February 2013

Consolidated Financial Statements

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Independent auditor's report to the members of Rathbone Brothers Plc

We have audited the financial statements of Rathbone Brothers Plc for the year ended 31 December 2012 set out on pages 68 to 141. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 64, 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 Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 48, in relation to going concern;
- the part of the corporate governance report on page 49 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

I Cummings (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square, London E14 5GL

19 February 2013

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Interest and similar income		**11,162**	11,259
Interest expense and similar charges		**(1,258)**	(1,238)
Net interest income	4	**9,904**	10,021
Fee and commission income		**152,154**	141,484
Fee and commission expense		**(8,756)**	(10,029)
Net fee and commission income	5	**143,398**	131,455
Dividend income	6	**110**	98
Net trading income	6	**562**	480
Gains on disposal of financial securities	6	**–**	1,095
Other operating income	6	**1,586**	1,303
Share of profit of associates	20	**21**	–
Operating income		**155,581**	144,452
Amortisation of acquired client relationships	7	**(6,025)**	(5,134)
Head office relocation costs	8	**(300)**	(3,028)
Other operating expenses		**(110,444)**	(97,138)
Operating expenses	7	**(116,769)**	(105,300)
Profit before tax		**38,812**	39,152
Taxation	10	**(9,596)**	(10,446)
Profit after tax		**29,216**	28,706
Profit for the period attributable to equity holders of the Company		**29,216**	28,706
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net actuarial gain/(loss) on retirement benefit obligations	26	**660**	(6,383)
Deferred tax relating to net actuarial gain/(loss) on retirement benefit obligations	19	**(399)**	1,477
Items that may be reclassified to profit or loss			
Net gain/(loss) from changes in fair value of available for sale investment securities	16	**923**	(134)
Deferred tax relating to revaluation of available for sale investment securities	19	**(154)**	94
Other comprehensive income net of tax		**1,030**	(4,946)
Total comprehensive income for the year net of tax attributable to equity holders of the Company		**30,246**	23,760
Dividends paid and proposed for the year per ordinary share	11	**47.00p**	46.00p
Dividends paid and proposed for the year		**21,220**	20,001
Earnings per share for the period attributable to equity holders of the Company:	12		
– basic		**67.00p**	66.72p
– diluted		**66.41p**	65.90p

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2011		2,169	32,488	31,835	2,219	(2,899)	119,562	185,374
Profit for the year							28,706	28,706
Net actuarial loss on retirement benefit obligations	26						(6,383)	(6,383)
Revaluation of available for sale investment securities	16				(134)			(134)
Deferred tax relating to components of other comprehensive income	19				94		1,477	1,571
Other comprehensive income net of tax		–	–	–	(40)	–	(4,906)	(4,946)
Dividends paid	11						(19,491)	(19,491)
Issue of share capital	27	9	1,728					1,737
Share-based payments:								
– value of employee services							1,989	1,989
– cost of own shares acquired	28					(2,955)		(2,955)
– cost of own shares vesting	28					1,125	(1,125)	–
– tax on share-based payments	19						239	239
At 1 January 2012		**2,178**	**34,216**	**31,835**	**2,179**	**(4,729)**	**124,974**	**190,653**
Profit for the year							**29,216**	**29,216**
Net actuarial gain on retirement benefit obligations	26						**660**	**660**
Revaluation of available for sale investment securities	16				**923**			**923**
Deferred tax relating to components of other comprehensive income	19				**(154)**		**(399)**	**(553)**
Other comprehensive income net of tax		**–**	**–**	**–**	**769**	**–**	**261**	**1,030**
Dividends paid	11						**(20,074)**	**(20,074)**
Issue of share capital	27	**120**	**27,944**					**28,064**
Share-based payments:								
– value of employee services							**2,129**	**2,129**
– cost of own shares acquired	28					**(1,630)**		**(1,630)**
– cost of own shares vesting	28					**515**	**(515)**	**–**
– tax on share-based payments	19						**105**	**105**
At 31 December 2012		**2,298**	**62,160**	**31,835**	**2,948**	**(5,844)**	**136,096**	**229,493**

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated balance sheet

as at 31 December 2012

	Note	2012 £'000	2011 £'000
Assets			
Cash and balances with central banks	13	**116,003**	4
Settlement balances		**12,606**	13,443
Loans and advances to banks	14	**169,795**	65,008
Loans and advances to customers	15	**71,711**	47,787
Investment securities:			
– available for sale	16	**55,749**	68,563
– held to maturity	16	**559,025**	843,983
Prepayments, accrued income and other assets	17	**40,279**	38,413
Property, plant and equipment	18	**11,950**	10,660
Net deferred tax asset	19	**1,930**	3,134
Investment in associates	20	**1,237**	–
Intangible assets	21	**97,423**	92,844
Total assets		**1,137,708**	1,183,839
Liabilities			
Deposits by banks	22	**518**	513
Settlement balances		**18,592**	22,196
Due to customers	23	**828,443**	908,656
Accruals, deferred income, provisions and other liabilities	24	**55,004**	50,924
Current tax liabilities		**3,528**	3,557
Retirement benefit obligations	26	**2,130**	7,340
Total liabilities		**908,215**	993,186
Equity			
Share capital	27	**2,298**	2,178
Share premium	27	**62,160**	34,216
Merger reserve		**31,835**	31,835
Available for sale reserve		**2,948**	2,179
Own shares	28	**(5,844)**	(4,729)
Retained earnings		**136,096**	124,974
Total equity		**229,493**	190,653
Total liabilities and equity		**1,137,708**	1,183,839

The financial statements were approved by the Board of directors and authorised for issue on 19 February 2013 and were signed on its behalf by:

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number: 01000403

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Profit before tax		**38,812**	39,152
Share of profit of associates	20	**(21)**	–
Net interest income		**(9,904)**	(10,021)
Net impairment charges/(recoveries) on impaired loans and advances	15	**801**	(1)
Net charge for provisions	25	**290**	2,465
Profit on disposal of property, plant and equipment		**(9)**	(17)
Depreciation and amortisation		**10,237**	8,997
Defined benefit pension scheme charges	26	**2,859**	1,484
Defined benefit pension contributions paid	26	**(7,409)**	(7,170)
Share-based payment charges	9	**3,232**	2,604
Interest paid		**(1,272)**	(1,282)
Interest received		**12,523**	10,359
		50,139	46,570
Changes in operating assets and liabilities:			
– net increase in loans and advances to banks and customers		**(131,154)**	(8,523)
– net decrease in settlement balance debtors		**837**	4,726
– net increase in prepayments, accrued income and other assets		**(3,209)**	(1,133)
– net (decrease)/increase in amounts due to customers and deposits by banks		**(80,208)**	143,841
– net decrease in settlement balance creditors		**(3,604)**	(1,516)
– net (decrease)/increase in accruals, deferred income, provisions and other liabilities		**(742)**	3,725
Cash (used in)/generated from operations		**(167,941)**	187,690
Tax paid		**(8,885)**	(10,345)
Net cash (outflow)/inflow from operating activities		**(176,826)**	177,345
Cash flows from investing activities			
Purchase of equity-accounted associate	20	**(1,216)**	–
Acquisition of subsidiaries, net of cash received		**(1,244)**	–
Purchase of property, plant, equipment and intangible assets		**(11,690)**	(12,976)
Proceeds from sale of property, plant and equipment		**42**	41
Purchase of investment securities	16	**(1,353,137)**	(1,565,418)
Proceeds from sale and redemption of investment securities	16	**1,638,004**	1,472,520
Net cash generated from/(used in) investing activities		**270,759**	(105,833)
Cash flows from financing activities			
Purchase of shares for share-based schemes		**–**	(2,259)
Issue of ordinary shares	35	**26,434**	1,041
Dividends paid	11	**(20,074)**	(19,491)
Net cash generated from/(used in) financing activities		**6,360**	(20,709)
Net increase in cash and cash equivalents		**100,293**	50,803
Cash and cash equivalents at the beginning of the year		**129,872**	79,069
Cash and cash equivalents at the end of the year	35	**230,165**	129,872

The accompanying notes form an integral part of the consolidated financial statements.

1 Principal accounting policies

Rathbone Brothers Plc ('the Company') is a public company incorporated and domiciled in England and Wales under the Companies Act 2006.

1.1 Developments in reporting standards and interpretations

Standards affecting the reported results or the financial position

In the current year, there have been no new or revised standards and interpretations that have been adopted and which have had a significant impact on the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

- amendments to IAS 1 '*Presentation of items in other comprehensive income*' (this amendment has been adopted earlier than its mandatory date);
- amendments to IFRS 7 '*Financial instruments: Disclosures*'.

New standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group except for IFRS 9 '*Financial Instruments*', which is not expected to become mandatory for periods commencing before 1 January 2015, and IAS 19 '*Employee Benefits*', which is mandatory for periods that commenced on or after 1 January 2013.

IFRS 9 '*Financial Instruments*' could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined. IFRS 9 '*Financial Instruments*' has not yet been adopted by the EU.

IAS 19 '*Employee Benefits*' is mandatory for the Group's consolidated financial statements for the year ending 31 December 2013. The amendments to IAS 19, if applied for the year ended 31 December 2012, would reduce profit after tax by approximately £230,000 and reduce the actuarial gain in other comprehensive income by the same amount. There would be no effect on total comprehensive income or total equity.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries and special purpose entities), together 'the Group', made up to 31 December each year.

Subsidiaries are all entities in which the Company has a controlling interest, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity is a subsidiary of the Company. Special purpose entities are consolidated where the substance of the Group's relationship with the entity indicates control by the Group.

Subsidiaries and special purpose entities are fully consolidated from the date on which control is obtained and deconsolidated from the date that control ceases; their results are included in the consolidated financial statements up to the date that control ceases.

Intercompany transactions and balances between Group companies are eliminated on consolidation.

Associates are companies over which the Group has significant influence, either by holding 20% or more of the voting rights of the associate and/or through other means (note 1.4).

For associates with non-coterminous year ends, financial statements are drawn up to 31 December for the purposes of equity accounting.

1 **Principal accounting policies** continued

1.3 Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they arise within 12 months of the acquisition date. Later changes in the fair value of contingent consideration are charged to profit or loss or other comprehensive income, except for obligations that are classified as equity, which are not remeasured.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements which are measured in accordance with applicable accounting policies described in this note.

1.4 Investments in associates

Investments in associates are accounted for under the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates from the date that significant influence commences until the date that significant influence ceases.

1.5 Basis of preparation

The consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Company financial statements are presented on pages 122 to 141.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (notes 1.13 and 1.17). The principal accounting policies adopted are set out below and, unless otherwise stated, have been applied consistently to all periods presented in the consolidated financial statements.

1.6 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the directors' report on page 48.

1.7 Foreign currencies

The Company's functional and presentational currency is sterling. The Group's presentational currency is sterling.

Transactions in currencies other than the relevant Group entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in profit or loss for the period.

1.8 Income

Net interest income

Interest income or expense from interest-bearing financial instruments, except those classified as held for trading, is calculated using the effective interest method and recognised within net interest income. Dividends received from money market funds are included in net interest income when received.

The effective interest method is the method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

1 **Principal accounting policies** continued

Net fee and commission income

Portfolio or asset management fees, trail commissions receivable or payable and fees from advisory services are recognised on a continuous basis over the period that the related service is provided.

Commission charges for executing transactions on behalf of clients are recognised when the transaction is dealt.

Initial charges receivable from the sale of unit holdings in the Group's collective investment schemes and related rebates are recognised at the point of sale.

Dividend income

Dividend income from final dividends on equity securities is accounted for on the date the security becomes ex-dividend. Interim dividends are recognised when received.

1.9 Operating leases

Lease agreements which do not transfer substantially all of the risks and rewards of ownership of the leased assets to the Group are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. The impact of any lease incentives is spread over the term of the lease.

1.10 Share-based payments

The Group engages in cash-settled and equity-settled share-based payment transactions in respect of services received from its employees.

Equity-settled awards

For equity-settled share-based payments, the fair value of the award is measured by reference to the fair value of the shares or share options granted on the grant date. The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss over the vesting period, with a corresponding credit to equity.

The fair value of the awards or options granted is determined using a binomial pricing model, which takes into account the current share price, the risk-free interest rate, the expected volatility of the Company's share price over the life of the option or award, any applicable exercise price and other relevant factors. Only those vesting conditions that include terms related to market conditions are taken into account in estimating fair value. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in profit or loss reflects the number of vested shares or share options, with a corresponding adjustment to equity. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market-related vesting condition is met, provided that any non-market vesting conditions are also met. Shares purchased and issued are charged directly to equity.

Cash-settled awards

For cash-settled share-based payments, a liability is recognised for the services received to the balance sheet date, measured at the fair value of the liability. At each subsequent balance sheet date and at the date on which the liability is settled, the fair value of the liability is remeasured with any changes in fair value recognised in profit or loss.

1.11 Taxation

Current tax

Current tax is the expected tax payable or receivable on net taxable income for the year. Current tax is calculated using tax rates enacted or substantively enacted by the balance sheet date, together with any adjustment to tax payable or receivable in respect of previous years.

1 **Principal accounting policies** continued

Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised, except where the temporary difference arises:

- from the initial recognition of goodwill;
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination; or
- in relation to investments in subsidiaries and associates, where the Group is able to control the reversal of the temporary difference and it is the Group's intention not to reverse the temporary difference in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.12 Cash and cash equivalents

Cash comprises cash in hand.

Cash equivalents comprise money market funds which are realisable on demand and loans and advances to banks with a maturity of less than three months from the date of acquisition.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.13 Financial assets

Initial recognition

Financial assets are initially recognised at fair value.

Classification and subsequent valuation

Financial assets are classified in the following categories:

- At fair value through profit or loss
  Financial instruments are classified in this category if they are held for trading, or if they are designated in this category by the Group. Financial assets held at fair value through profit or loss are carried at fair value, with gains and losses arising from changes in fair value taken directly to profit or loss.

  Derivatives are categorised as held for trading. Fair values of derivatives are determined using valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive, and liabilities when their fair value is negative, unless the Company has the legal ability and intention to settle net.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services to a debtor or purchases a loan or other debtor with no intention of trading the receivable. Loans and receivables are measured at amortised cost using the effective interest method (note 1.8), less any impairment.

  If the fair value of the loan on initial recognition is lower than the amount advanced, the shortfall is charged to profit or loss.

- Held to maturity
  Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities (other than those that meet the definition of loans and receivables or that the Group has classified as available for sale or fair value through profit or loss) that the Group has the positive intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method (note 1.8), less any impairment.

1 **Principal accounting policies** continued

- Available for sale
  Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available for sale investments are those intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

  Available for sale financial assets are subsequently carried 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 and presented in the available for sale reserve in equity. When the financial asset is sold, derecognised or impaired, the cumulative gain or loss previously recognised in equity is recycled to profit or loss.

Trade date accounting
Financial assets, excluding loans and receivables, are recognised on trade date, being the date on which the Group commits to purchase the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

Fair value measurement
The fair values of quoted financial instruments in active markets are based on current bid prices. If an active market for a financial asset does not exist, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Impairment of financial assets
- Financial assets carried at amortised cost
  If there is objective evidence that a financial asset carried at amortised cost, or a group of such financial assets, has suffered an impairment loss, the recoverable amount of the asset, or group of assets, is estimated in order to determine the extent of the impairment loss. The Group measures the amount of the impairment loss as the difference between the carrying amount of the asset, or group of assets, and the present value of estimated future cash flows from the asset, or group of assets, discounted at the effective interest rate of the asset, or group of assets, at initial recognition. The present value of estimated future cash flows excludes future credit losses that have not been incurred. Any impairment loss is recognised in profit or loss.

  All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed through profit or loss.

  Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

- Financial assets carried at fair value
  When a decline in the fair value of a financial asset classified as available for sale has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through profit or loss, but those on available for sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

1.14 Property, plant and equipment

All property, plant and equipment is stated at historical cost, which includes directly attributable acquisition costs, less accumulated depreciation and impairment losses. Depreciation is charged so as to write off the cost of assets to their estimated residual value over their estimated useful lives, using the straight line method, on the following bases:

- leasehold property: over the lease term
- plant, equipment and computer hardware: over three to 10 years

The assets' residual lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in profit or loss.

1 **Principal accounting policies** continued

1.15 Intangible assets

Goodwill

Goodwill arises through business combinations and represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a business at the date of acquisition.

Goodwill is recognised as an asset and is allocated to groups of cash generating units. Cash generating units are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

On disposal of a subsidiary the attributed amount of goodwill that has not been subject to impairment is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 January 2004, being the date of the Group's transition to IFRS, has been retained at the previous UK GAAP carrying amounts and is tested for impairment annually.

Client relationships

Individually purchased client relationships are initially recognised at cost. Client relationships acquired as part of a business combination are initially recognised at fair value. Client relationships are subsequently carried at cost less accumulated amortisation, which is calculated using the straight line method over their estimated useful lives (normally 10 to 15 years, but not more than 15 years).

When client relationships are lost, the full amount of unamortised cost is recognised immediately in profit or loss and the intangible asset is derecognised.

Computer software and software development costs

Costs incurred to acquire and bring to use computer software licences are capitalised and amortised through profit or loss over their expected useful lives (three to four years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group are recognised as intangible assets when the Group is expected to benefit from future use of the software and the costs are reliably measurable. Other costs of producing software are charged to profit or loss as incurred. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

1.16 Impairment of goodwill and intangible assets

At each balance sheet date the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Goodwill is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units. The carrying amount of each cash generating unit is compared to its value-in-use, calculated using a discounted cash flow method. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Client relationship intangibles are tested for impairment on a portfolio basis by comparing the fair value of funds under management for each acquired portfolio of clients with their associated amortised value.

If the recoverable amount of any asset other than client relationships or goodwill is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Any impairment loss is recognised immediately in profit or loss.

1 Principal accounting policies continued

1.17 Financial liabilities

Financial liabilities are initially recognised at fair value and classified as fair value through profit or loss (if designated as such or if held for trading) or at amortised cost.

The Group has not designated any liabilities as fair value through profit or loss and holds no liabilities as held for trading.

Deposits and borrowings
After initial recognition, deposits and borrowings are subsequently measured at amortised cost using the effective interest rate method through net interest income (note 1.8). Amortised cost is calculated by taking into account any issue costs and any discounts or premiums on settlement.

1.18 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits that can be reliably estimated will occur. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Contingent liabilities are possible obligations that depend on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of crystallisation is judged to be remote.

1.19 Retirement benefit obligations

The cost of providing benefits under defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in other comprehensive income.

Past service cost is recognised immediately to the extent that the associated changes to benefits are already vested. Where changes to benefits do not vest immediately, past service cost is amortised on a straight line basis over the average vesting period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The amount recognised in the balance sheet for death in service benefits represents the present value of the estimated obligation, reduced by the extent to which any future liabilities will be met by insurance policies.

Contributions to defined contribution retirement benefit schemes are charged to profit or loss as an expense as they fall due.

1.20 Segmental reporting

The Group determines and presents operating segments based on the information that is provided internally to the executive committee, which is the Group’s chief operating decision maker. Operating segments are organised around the services provided to clients; a description of the services provided by each segment is given in our services on page 9. No operating segments have been aggregated in the Group’s financial statements.

Transactions between operating segments are reported within the income or expenses for those segments; intra-segment income and expenditure is eliminated at Group level. Indirect costs are allocated between segments in proportion to the principal cost driver for each category of indirect costs that is generated by each segment.

1.21 Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Such assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group. Largely as a result of cash and settlement processing, the Group holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Services Authority (FSA) or the Jersey Financial Services Commission, as applicable. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the Group is not beneficially entitled to them.

1 **Principal accounting policies** continued

1.22 Financial guarantees

The Group provides a limited number of financial guarantees, which are backed by assets in clients' portfolios. Financial guarantees are initially recognised in the balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the guarantee.

2 Critical accounting judgements and key sources of estimation and uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1 Loan notes (note 15)

The Group holds loan notes ('Notes') with a nominal value of £5,000,000 issued by the acquirer of the Group's Jersey trust operations in 2008. The Notes are repayable on the occurrence of certain events, principally the refinancing of the operations disposed of.

The carrying value of the Notes, net of provision for impairment, was £2,821,000 at 31 December 2012. The impairment has been calculated using a discounted cash flow model based on the estimated repayment date of the Notes, using a discount rate equal to the initial effective interest rate of the loan. Changing the estimated repayment date of the Notes by one year would result in an increase or decrease in their carrying value, net of provision for impairment, of approximately £230,000. A 1% increase/decrease in the assumed rate at which interest accrues under the loan would increase/decrease the net carrying value, net of provision for impairment, by approximately £110,000, with a consequent equal change in profit before tax.

2.2 Client relationship intangibles (note 21)

The Group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations for the future. During the year client relationship intangible assets were amortised over a 10 to 15 year period. Amortisation of £6,025,000 was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £516,000. At 31 December 2012, the carrying value of client relationship intangibles was £45,548,000.

In determining whether a client relationship is lost, the Group considers factors such as the level of funds withdrawn and the existence of other retained family relationships.

2.3 Retirement benefit obligations (note 26)

The Group makes estimates about a range of long term trends and market conditions to determine the value of the deficit on its retirement benefit schemes, based on the Group's expectations of the future and advice taken from qualified actuaries. Long term forecasts and estimates are necessarily highly judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the Group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

The principal assumptions underlying the reported deficit of £2,130,000, the history of experience adjustments and information on the sensitivity of the retirement benefit obligations to changes in underlying estimates is set out in note 26.

2.4 Financial Services Compensation Scheme levies (note 32)

The arrangements put in place by the Financial Services Compensation Scheme (FSCS) to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years. The financial impact of unexpected FSCS levies are largely out of the Group's control as they result from other industry failures.

There is significant uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the deposit class, investment fund management class and investment intermediation levy classes and accrues levy costs for future levy years when the obligation arises.

The FSCS announced in its November outlook statement that it expected to face a total deficit on the investment fund management and investment intermediation sub-classes of £36,000,000 as a result of tariff data resubmissions. This amount is in addition to a potential £25,000,000 levy on the investment intermediation sub-classes arising from the failures of Pritchard Stockbrokers, Worldspreads and MF Global. A final announcement concerning the levy on deposit takers on the unrecoverable cost of five major depositor failures is expected in early 2013.

2 Critical accounting judgements and key sources of estimation and uncertainty continued

Levies of £1,022,000 have been included within administrative expenses in 2012 (2011: £425,000). It is only possible for the Group to estimate its share of these losses until invoices are received.

In July 2012, the FSA issued a consultation paper following its preliminary review of the funding arrangements for the FSCS. Feedback on the consultation paper was published on 18 January 2013 but a further consultation was launched at that time into the cross-subsidy arrangements between levy paying classes within the scheme. The result of this review may have a potentially significant impact on the Group's future share of levies raised.

3 Segmental information

For management purposes the Group is currently organised into two operating segments: Investment Management and Unit Trusts. The products and services from which each reportable segment derives its revenues are described in our services on page 9. Complementary services, as described in our services, are reported within the Investment Management segment. These segments are the basis on which the Group reports its performance to the executive committee, which is the Group's chief operating decision maker. Certain items of income are presented within different categories of operating income in the financial statements compared to the presentation for internal reporting. Staff costs for internal reporting purposes include only those staff directly involved in the provision of the services from which each segment's revenue is generated. The cost of staff providing support services is included in indirect expenses.

The presentation of underlying operating income has been amended to show net interest income separately from other income. Other income is now presented together with fees from advisory services. This change follows a change in presentation in the information provided to the executive committee and facilitates easier analysis of the Group's revenue margin on funds under management. Comparatives have been re-presented accordingly.

31 December 2012	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	89,607	8,160	97,767
Net commission income	37,403	–	37,403
Net interest income	9,904	–	9,904
Fees from advisory services and other income	9,766	741	10,507
Underlying operating income	146,680	8,901	155,581
Staff costs – fixed	(36,116)	(2,877)	(38,993)
Staff costs – variable	(16,774)	(913)	(17,687)
Total staff costs	(52,890)	(3,790)	(56,680)
Other direct expenses	(16,052)	(2,189)	(18,241)
Allocation of indirect expenses	(33,171)	(2,352)	(35,523)
Underlying operating expenses	(102,113)	(8,331)	(110,444)
Underlying profit before tax	44,567	570	45,137
Amortisation of client relationships (note 21)	(6,025)	–	(6,025)
Segment profit before tax	38,542	570	39,112
Head office relocation costs (unallocated) (note 8)			(300)
Profit before tax attributable to equity holders of the Company			38,812
Taxation (note 10)			(9,596)
Profit for the year attributable to equity holders of the Company			29,216

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	1,102,144	19,837	1,121,981
Unallocated assets			15,727
Total assets			1,137,708

3 Segmental information continued

31 December 2011 (re-presented)	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	80,086	7,562	87,648
Net commission income	36,170	–	36,170
Net interest income	10,021	–	10,021
Fees from advisory services and other income	8,832	686	9,518
Underlying operating income	135,109	8,248	143,357
Staff costs – fixed	(31,649)	(2,503)	(34,152)
Staff costs – variable	(15,770)	(1,071)	(16,841)
Total staff costs	(47,419)	(3,574)	(50,993)
Other direct expenses	(13,284)	(1,828)	(15,112)
Allocation of indirect expenses	(29,013)	(2,020)	(31,033)
Underlying operating expenses	(89,716)	(7,422)	(97,138)
Underlying profit before tax	45,393	826	46,219
Gains on disposal of financial securities (note 6)	1,095	–	1,095
Amortisation of client relationships (note 21)	(5,134)	–	(5,134)
Segment profit before tax	41,354	826	42,180
Head office relocation costs (unallocated) (note 8)			(3,028)
Profit before tax attributable to equity holders of the Company			39,152
Taxation (note 10)			(10,446)
Profit for the year attributable to equity holders of the Company			28,706

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	1,154,085	16,428	1,170,513
Unallocated assets			13,326
Total assets			1,183,839

The following table reconciles underlying operating income to operating income:

	2012 £'000	2011 £'000
Underlying operating income	**155,581**	143,357
Gains on disposal of financial securities (note 6)	**–**	1,095
Operating income	**155,581**	144,452

Included within Investment Management net fee and commission income is £1,797,000 (2011: £1,547,000) of fee and commission income receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

Centrally incurred indirect expenses are allocated to operating segments on the basis of the cost drivers that generate the expenditure; principally the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and the segment's total revenue.

Geographic analysis

The following table presents underlying operating income analysed by the geographical location of the Group entity providing the service:

	2012 £'000	2011 £'000
United Kingdom	**150,822**	139,128
Jersey	**4,759**	4,229
Underlying operating income	**155,581**	143,357

3 Segmental information continued

The following is an analysis of the carrying amount of non-current assets analysed by the geographical area in which the assets are located:

	2012 £'000	2011 £'000
United Kingdom	**107,603**	102,641
Jersey	**1,770**	863
	109,373	103,504

Major clients

The Group is not reliant on any one client or group of connected clients for generation of revenues.

4 Net interest income

	2012 £'000	2011 £'000
Interest income		
Cash and balances with central banks	**107**	–
Held to maturity investment securities	**7,783**	9,016
Available for sale investment securities	**490**	309
Loans and advances to banks	**1,286**	881
Loans and advances to customers	**1,496**	1,053
	11,162	11,259
Interest expense		
Banks and customers	**(1,258)**	(1,238)
Net interest income	**9,904**	10,021

5 Net fee and commission income

	2012 £'000	2011 £'000
Fee and commission income		
Investment Management	**136,590**	126,980
Unit Trusts	**15,564**	14,504
	152,154	141,484
Fee and commission expense		
Investment Management	**(3,149)**	(4,634)
Unit Trusts	**(5,607)**	(5,395)
	(8,756)	(10,029)
Net fee and commission income	**143,398**	131,455

6 Dividend, net trading and other operating income

Dividend income

Dividend income comprises income from available for sale equity securities of £110,000 (2011: £98,000).

Net trading income

Net trading income of £562,000 (2011: £480,000) comprises unit trust net dealing profits.

Gains on disposal of financial securities

In 2011, a one-off gain of £1,095,000 was recognised in relation to certain long stock positions held by firms acquired by the Group in the 1990s. All claims against these holdings were considered to be exhausted and they were recognised in the Group's financial statements following regulatory approval.

6 Dividend, net trading and other operating income continued

Other operating income

Other operating income of £1,586,000 (2011: £1,303,000) comprises rental income from sub-leases on certain properties leased by Group companies and sundry income.

7 Operating expenses

	2012 £'000	2011 £'000
Staff costs (note 9)	72,610	64,503
Depreciation of property, plant and equipment (note 18)	2,720	2,384
Amortisation of internally generated intangible assets included in operating expenses (note 21)	401	357
Amortisation of purchased software (note 21)	1,091	1,122
Auditor's remuneration (see below)	562	605
Net impairment charges/(recoveries) on impaired loans and advances (note 15)	801	(1)
Operating lease rentals	6,294	7,366
Other	25,965	20,802
Other operating expenses	110,444	97,138
Amortisation of client relationship intangible assets (note 21)	6,025	5,134
Head office relocation costs (note 8)	300	3,028
Total operating expenses	116,769	105,300

A more detailed analysis of auditor's remuneration is provided below:

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	88	87
Fees payable to the Company's auditor and their associates for other services to the Group:		
– audit of the Company's subsidiaries pursuant to legislation	236	236
– audit-related assurance services	173	168
– tax compliance services	42	34
– tax advisory services	–	5
– other assurance services	23	75
	562	605

Of the above, audit-related services for the year totalled £497,000 (2011: £491,000).

Fees for audit-related assurance services include £75,000 for the audit of the Group's regulatory returns and review of the interim statement (2011: £71,000).

8 Head office relocation costs

Rathbones completed the move of its head office premises to 1 Curzon Street, London W1J 5FB, on 27 February 2012. Charges of £300,000 relating to the move have been recognised during the year ended 31 December 2012 (2011: £3,028,000).

In addition to the above costs charged to profit or loss, a further £2,023,000 (2011: £4,815,000) of costs for fitting out the new London premises have been capitalised during the year (note 18).

9 Staff costs

	2012 £'000	2011 £'000
Wages and salaries	**57,250**	52,554
Social security costs	**7,024**	6,090
Share-based payments	**3,232**	2,604
Pension costs (note 26):		
– defined benefit schemes	**2,859**	1,484
– defined contribution schemes	**2,245**	1,771
	5,104	3,255
	72,610	64,503

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2012	2011
Investment Management:		
– investment management services	**483**	467
– advisory services	**67**	66
Unit Trusts	**30**	29
Shared services	**209**	184
	789	746

10 Income tax expense

	2012 £'000	2011 £'000
Current tax:		
– charge for the year	**9,218**	9,766
– adjustments in respect of prior years	**(378)**	(470)
Deferred tax (note 19):		
– charge for the year	**718**	1,219
– adjustments in respect of prior years	**38**	(69)
	9,596	10,446

The tax charge on profit for the year is higher (2011: higher) than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £'000	2011 £'000
Tax on profit from ordinary activities at the standard rate of 24.5% (2011: 26.5%)	**9,508**	10,373
Effects of:		
– disallowable expenses	**747**	513
– share-based payments	**(146)**	(15)
– tax on overseas earnings	**(258)**	81
– overprovision for tax in previous years	**(340)**	(539)
– other	**80**	(24)
Effect of change in corporation tax rate on deferred tax	**5**	57
	9,596	10,446

11 Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2011 of 29.0p (2010: 28.0p) per share	**12,640**	12,123
– interim dividend for the year ended 31 December 2012 of 17.0p (2011: 17.0p) per share	**7,434**	7,368
Dividends paid in the year of 46.0p (2011: 45.0p) per share	**20,074**	19,491
Proposed final dividend for the year ended 31 December 2012 of 30.0p (2011: final dividend of 29.0p) per share	**13,786**	12,633

An interim dividend of 17.0p per share was paid on 3 October 2012 to shareholders on the register at the close of business on 14 September 2012 (2011: 17.0p).

A final dividend declared of 30.0p per share is payable on 16 May 2013 to shareholders on the register at the close of business on 26 April 2013. The final dividend is subject to approval by shareholders at the AGM on 14 May 2013 and has not been included as a liability in these financial statements.

12 Earnings per share

Earnings used to calculate earnings per share on the bases reported in these financial statements were:

	2012 Pre-tax £'000	2012 Taxation £'000	2012 Post-tax £'000	2011 Pre-tax £'000	2011 Taxation £'000	2011 Post-tax £'000
Underlying profit attributable to shareholders	**45,137**	**(11,145)**	**33,992**	46,219	(12,318)	33,901
Gains on disposal of financial securities (note 6)	**–**	**–**	**–**	1,095	(290)	805
Amortisation of client relationships (note 21)	**(6,025)**	**1,476**	**(4,549)**	(5,134)	1,360	(3,774)
Head office relocation costs (note 8)	**(300)**	**73**	**(227)**	(3,028)	802	(2,226)
Profit attributable to shareholders	**38,812**	**(9,596)**	**29,216**	39,152	(10,446)	28,706

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the period of 43,604,542 (2011: 43,027,127).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Long Term Incentive Plan, employee share options remaining capable of exercise and any dilutive shares to be issued under the Share Incentive Plan, weighted for the relevant period (see table below):

	2012	2011
Weighted average number of ordinary shares in issue during the period – basic	**43,604,542**	43,027,127
Effect of ordinary share options/Save As You Earn	**122,257**	201,651
Effect of dilutive shares issuable under the Share Incentive Plan	**5,589**	98,654
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**258,180**	235,027
Diluted ordinary shares	**43,990,568**	43,562,459

	2012	2011
Underlying earnings per share for the year attributable to equity holders of the Company:		
– basic	**77.96p**	78.79p
– diluted	**77.27p**	77.82p

13 Cash and balances with central banks

	2012 £'000	2011 £'000
Cash in hand	**3**	4
Balances with central banks	**116,000**	–
	116,003	4

Balances with central banks are interest-bearing and repayable on demand. The fair value of balances with central banks is not materially different to their carrying amount.

14 Loans and advances to banks

	2012 £'000	2011 £'000
Repayable:		
– on demand or at short notice	**52,614**	33,254
– 3 months or less excluding on demand or at short notice	**51,060**	31,004
– 1 year or less but over 3 months	**65,902**	750
– 5 years or less but over 1 year	**219**	–
	169,795	65,008
Amounts include loans with:		
– variable interest rates	**52,831**	33,102
– fixed interest rates	**116,637**	31,754
– non-interest-bearing	**327**	152
	169,795	65,008

The fair value of loans and advances to banks is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates.

Loans and advances to banks included in cash and cash equivalents at 31 December 2012 were £62,611,000 (note 35) (2011: £64,258,000).

The Group's exposure to credit risk arising from loans and advances to banks is described in note 30.

15 Loans and advances to customers

	2012 £'000	2011 £'000
Overdrafts	**2,939**	4,887
Investment management loan book	**65,067**	36,434
Trust and pension debtors	**884**	742
Other debtors	**2,821**	5,724
	71,711	47,787

15 Loans and advances to customers continued

The fair value of loans and advances to customers is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates. Debtors arising from the trust and pensions businesses are non-interest-bearing.

	2012 £'000	2011 £'000
Repayable:		
– on demand or at short notice	**2,959**	7,844
– 3 months or less excluding on demand or at short notice	**20,730**	11,443
– 1 year or less but over 3 months	**40,894**	25,342
– 5 years or less but over 1 year	**4,026**	–
– greater than 5 years	**386**	–
With no fixed maturity date	**3,581**	3,268
Less: allowance for losses on loans and advances (see below)	**(865)**	(110)
	71,711	47,787
Amounts include loans with:		
– variable interest rates	**70,785**	46,550
– non-interest-bearing	**926**	1,237
	71,711	47,787

Included within other debtors are loan notes ('Notes') that were issued by the acquirer of the Group's Jersey trust operations in 2008. The Notes are unsecured and have no fixed maturity, being repayable on the occurrence of certain events, principally the refinancing of the Jersey trust operations by its existing owner. The Notes are carried at amortised cost, less provision for impairment.

In light of the prevailing economic conditions, at 31 December 2012, the Group revised their estimate of the likely timing of repayment of the Notes, which reduced the estimated present value of future cash flows from the Notes due to the impact of discounting. In accordance with IAS 36, the carrying value of the Notes was written down to £2,821,000 (being the estimated present value of future cash flows), resulting in an impairment loss of £760,000 in the year.

At 31 December 2011, loans and advances to customers repayable within three months included a Swiss franc denominated loan to the acquirer of the Group's former Switzerland-based trust operations with a nominal value equivalent to £406,000. The loan did not bear interest and the final instalment was repaid on 10 February 2012.

Allowance for losses on loans and advances to customers

	2012 Trust and pension debtors £'000	2012 Other debtors £'000	2012 Total £'000	2011 Trust and pension debtors £'000	2011 Other debtors £'000	2011 Total £'000
At 1 January	**110**	**–**	**110**	143	–	143
Amounts written off	**(46)**	**–**	**(46)**	(32)	–	(32)
Amounts recovered	**–**	**–**	**–**	(6)	–	(6)
Charge to profit or loss	**41**	**760**	**801**	5	–	5
At 31 December	**105**	**760**	**865**	110	–	110

No banking loans and advances to customers were impaired as at 31 December 2012 (2011: none impaired).

The Group's exposure to credit risk arising from loans and advances to customers is described in note 30.

16 Investment securities

Available for sale securities

	2012 £'000	2011 £'000
Equity securities – at fair value:		
– listed	**3,584**	2,384
– unlisted	**614**	569
Money market funds – at fair value:		
– unlisted	**51,551**	65,610
	55,749	68,563

Held to maturity securities

	2012 £'000	2011 £'000
Debt securities – at amortised cost:		
– unlisted	**559,025**	843,983
	559,025	843,983

Maturity of debt securities

	2012 £'000	2011 £'000
Due within 1 year	**559,025**	833,983
Due after more than 1 year	**–**	10,000
	559,025	843,983

Available for sale securities include money market funds and direct holdings in equity securities. Equity securities do not bear interest. The Group continues to hold 300,000 shares in London Stock Exchange Group Plc. Money market funds, which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 35).

Debt securities comprise bank and building society certificates of deposit, which have fixed coupons, and in 2011 the Group also held UK treasury bills.

The fair value of debt securities at 31 December 2012 was £561,768,000 (2011: £848,096,000). Fair value for held to maturity assets is based on market bid prices.

The Group has not reclassified any financial asset between being measured 'at amortised cost' and being measured 'at fair value through profit or loss' during the year (2011: none reclassified).

The change in the Group's holdings of investment securities in the year is summarised below:

	Available for sale £'000	Held to maturity £'000	Total £'000
At 1 January 2011	42,587	751,085	793,672
Additions	455,110	1,565,418	2,020,528
Disposals (sales and redemption)	(429,000)	(1,472,520)	(1,901,520)
Loss from changes in fair value	(134)	–	(134)
At 1 January 2012	**68,563**	**843,983**	**912,546**
Additions	**619,425**	**1,353,046**	**1,972,471**
Disposals (sales and redemption)	**(633,162)**	**(1,638,004)**	**(2,271,166)**
Gain from changes in fair value	**923**	**–**	**923**
At 31 December 2012	**55,749**	**559,025**	**614,774**

Included within additions to available for sale securities is £91,000 (2011: £nil) of financial instruments that are not classified as cash and cash equivalents.

17 Prepayments, accrued income and other assets

	2012 £'000	2011 £'000
Trust work in progress	**995**	961
Derivative financial instruments (note 20)	**784**	–
Prepayments and other assets	**9,943**	8,952
Accrued income	**28,557**	28,500
	40,279	38,413

Included within prepayments and other assets is an investment property which is carried at fair value. The Group's interest in the investment property was acquired on 1 June 2012 and was initially recognised in the balance sheet at cost of £733,000. As at 31 December 2012, the fair value of the investment property was £752,000 (2011: £nil).

18 Property, plant and equipment

	Short term leasehold improvement £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2011	7,807	11,772	19,579
Additions	5,189	1,736	6,925
Disposals	–	(1,076)	(1,076)
At 1 January 2012	**12,996**	**12,432**	**25,428**
Additions	**1,719**	**2,316**	**4,035**
Acquisitions through business combinations	**–**	**8**	**8**
Disposals	**(3,449)**	**(3,169)**	**(6,618)**
At 31 December 2012	**11,266**	**11,587**	**22,853**
Depreciation			
At 1 January 2011	4,329	9,107	13,436
Charge for the year	906	1,478	2,384
Disposals	–	(1,052)	(1,052)
At 1 January 2012	**5,235**	**9,533**	**14,768**
Charge for the year	**1,013**	**1,707**	**2,720**
Disposals	**(3,449)**	**(3,136)**	**(6,585)**
At 31 December 2012	**2,799**	**8,104**	**10,903**
Carrying amount at 31 December 2012	**8,467**	**3,483**	**11,950**
Carrying amount at 31 December 2011	7,761	2,899	10,660
Carrying amount at 1 January 2011	3,478	2,665	6,143

Short term leasehold improvements and plant and equipment include additions totalling £1,448,000 (2011: £4,483,000) and £575,000 (2011: £332,000) respectively, in relation to the relocation of our head office to 1 Curzon Street, London W1J 5FB.

19 Net deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 23.0% (2011: 25.0%).

The UK Government has proposed that the UK corporation tax rate be reduced to 21.0% over the next two years. At 31 December 2012 only an element of this reduction, taking the UK tax rate to 23.0% in 2013, had been substantively enacted. Consequently deferred tax assets and liabilities are calculated at 23.0%.

The movement on the deferred tax account is as follows:

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Other provisions £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
As at 1 January 2011	738	2,306	919	(527)	72	(820)	(214)	2,474
Recognised in profit or loss in respect of:								
– current year	88	(1,758)	29	506	(71)	–	44	(1,162)
– prior year	(73)	–	13	129	–	–	–	69
– change in rate	(55)	47	(58)	(3)	(1)	–	13	(57)
Total	(40)	(1,711)	(16)	632	(72)	–	57	(1,150)
Recognised in other comprehensive income in respect of:								
– current year	–	1,691	–	–	–	35	–	1,726
– prior year	–	–	–	–	–	–	–	–
– change in rate	–	(214)	–	–	–	59	–	(155)
Total	–	1,477	–	–	–	94	–	1,571
Recognised in equity in respect of:								
– current year	–	–	377	–	–	–	–	377
– prior year	–	–	(106)	–	–	–	–	(106)
– change in rate	–	–	(32)	–	–	–	–	(32)
Total	–	–	239	–	–	–	–	239
As at 31 December 2011	698	2,072	1,142	105	–	(726)	(157)	3,134

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Other provisions £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
Deferred tax assets	698	2,072	1,142	105	–	–	–	4,017
Deferred tax liabilities	–	–	–	–	–	(726)	(157)	(883)
As at 31 December 2011	698	2,072	1,142	105	–	(726)	(157)	3,134

19 Net deferred tax asset continued

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Other provisions £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
As at 1 January 2012	**698**	**2,072**	**1,142**	**105**	**–**	**(726)**	**(157)**	**3,134**
Recognised in profit or loss in respect of:								
– current year	126	(1,347)	372	116	–	–	20	(713)
– prior year	(37)	–	–	(1)	–	–	–	(38)
– change in rate	(61)	163	(99)	(19)	–	–	11	(5)
Total	28	(1,184)	273	96	–	–	31	(756)
Recognised in other comprehensive income in respect of:								
– current year	–	(162)	–	–	–	(226)	–	(388)
– prior year	–	–	–	–	–	–	–	–
– change in rate	–	(237)	–	–	–	72	–	(165)
Total	–	(399)	–	–	–	(154)	–	(553)
Recognised in equity in respect of:								
– current year	–	–	157	–	–	–	–	157
– prior year	–	–	(20)	–	–	–	–	(20)
– change in rate	–	–	(32)	–	–	–	–	(32)
Total	–	–	105	–	–	–	–	105
As at 31 December 2012	**726**	**489**	**1,520**	**201**	**–**	**(880)**	**(126)**	**1,930**

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Other provisions £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
Deferred tax assets	726	489	1,520	201	–	–	–	2,936
Deferred tax liabilities	–	–	–	–	–	(880)	(126)	(1,006)
As at 31 December 2012	**726**	**489**	**1,520**	**201**	**–**	**(880)**	**(126)**	**1,930**

The impact of calculating deferred tax at 21.0% would be to reduce the net deferred tax asset to £1,758,000 at 31 December 2012.

20 Investment in associates and related derivatives

On 5 October 2012, the Group purchased 19.9% of the ordinary share capital of Vision Independent Financial Planning Limited and Castle Investment Solutions Limited, as well as certain options over the equity instruments of those companies, for a total consideration of £2,000,000. The total consideration was constituted as follows:

	2012 £'000	2011 £'000
Investment in associates	1,216	–
Fair value of associated derivative contracts (note 17)	784	–
	2,000	–

Investment in associates

Although the Group holds less than 20% of the equity shares of both companies, it exercises significant influence by virtue of its contractual right to appoint one director to the board of directors of both companies.

The movements in the Group's investment in associates are as follows:

	2012 £'000	2011 £'000
At 1 January	–	–
Additions	1,216	–
Share of profit	21	–
At 31 December	1,237	–

The results of the associates, and their aggregated assets and liabilities as at 31 December 2012, are as follows:

Name	Country of incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profit £'000	% interest held
Vision Independent Financial Planning Limited	England and Wales	227	69	167	51	19.9
Castle Investment Solutions Limited	England and Wales	175	7	55	52	19.9
		402	76	222	103	
Group's share of profit					21	

Derivative financial instruments

As part of the transaction to acquire these holdings, the Group has also entered into certain option contracts over the equity instruments of these companies. Under these contracts the Group has the right to acquire the remaining 80.1% of the share capital of both associates for a variable exercise price in the third quarter of 2015.

If the Group does not exercise its right to acquire the associates' remaining share capital, the founders of the associates have the right to re-purchase the Group's stakes in the associates for £2,000,000 in the fourth quarter of 2015.

The Group also has the right to sell its entire holdings in the associates to the founders for consideration of £1 at any time until 29 February 2016.

The option contracts were initially recognised at their fair value of £784,000. At 31 December 2012, the fair value of the option contracts remained at £784,000. The fair value of the option contracts is calculated using a probability weighted expected return model (note 30).

21 Intangible assets

	2012 £'000	2011 £'000
Goodwill	**47,241**	47,241
Other intangible assets	**50,182**	45,603
	97,423	92,844

Goodwill

The cost and carrying value of goodwill as at 31 December 2012 was £47,241,000 (2011: £47,241,000). No impairment was recognised during the year.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2012 £'000	2011 £'000
Investment management	**45,287**	45,287
Trust and tax	**1,954**	1,954
	47,241	47,241

The recoverable amounts of goodwill allocated to the CGUs are determined from value-in-use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board, covering the forthcoming year. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins will be in line with recent historical rates and equity markets will be flat for the forthcoming year. Budgets are extrapolated for up to 10 years based on a medium to long term growth rate of 3% for the investment management CGU and 2% for the trust and tax CGU based on the Group's expectation of future industry growth rates. A 10 year extrapolation period is chosen based on a prudent assessment by the Group of the likely duration of client relationships. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts.

The pre-tax rate used to discount the forecast cash flows is 10% for investment management and 12% for trust and tax (2011: 10% and 12% respectively), based on a risk-adjusted weighted average cost of capital. The Group judges that these discount rates appropriately reflect the markets in which the CGUs operate and, in particular, the relatively small size of the trust and tax CGU.

Sensitivity analysis of the key assumptions did not result in any scenarios which would have resulted in an impairment loss.

21 **Intangible assets** continued

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2011	49,713	2,520	12,468	64,701
Internally developed in the year	–	340	–	340
Purchased in the year	5,692	–	1,723	7,415
Disposals	(1,072)	–	–	(1,072)
At 1 January 2012	**54,333**	**2,860**	**14,191**	**71,384**
Internally developed in the year	**–**	**345**	**–**	**345**
Purchased in the year	**7,873**	**–**	**1,727**	**9,600**
Acquired through business combinations	**2,154**	**–**	**–**	**2,154**
Disposals	**(1,536)**	**–**	**(959)**	**(2,495)**
At 31 December 2012	**62,824**	**3,205**	**14,959**	**80,988**
Amortisation				
At 1 January 2011	8,725	1,780	9,735	20,240
Charge for the year	5,134	357	1,122	6,613
Disposals	(1,072)	–	–	(1,072)
At 1 January 2012	**12,787**	**2,137**	**10,857**	**25,781**
Charge for the year	**6,025**	**401**	**1,091**	**7,517**
Disposals	**(1,536)**	**–**	**(956)**	**(2,492)**
At 31 December 2012	**17,276**	**2,538**	**10,992**	**30,806**
Carrying amount at 31 December 2012	**45,548**	**667**	**3,967**	**50,182**
Carrying amount at 31 December 2011	41,546	723	3,334	45,603
Carrying amount at 1 January 2011	40,988	740	2,733	44,461

Purchases of client relationships relate to payments made to investment managers and third parties for the introduction of client relationships. Client relationships acquired through business combinations during the year relate to the acquisition of R.M. Walkden & Co. Limited (note 33).

Client relationship intangibles in relation to the purchase of Taylor Young Investment Management Limited's private client base will not be recognised until 2013, when the Group starts to earn revenues on the funds under management transferred.

Purchased software with a cost of £8,964,000 (2011: £8,881,000) has been fully amortised but is still in use.

22 Deposits by banks

On 31 December 2012, deposits by banks included overnight cash book overdraft balances of £518,000 (2011: £513,000).

The fair value of deposits by banks was not materially different to their carrying value. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be paid using current market rates.

23 Due to customers

	2012 £'000	2011 £'000
Repayable:		
– on demand or at short notice	**793,526**	866,427
– 3 months or less excluding on demand or at short notice	**34,347**	41,879
– 1 year or less but over 3 months	**570**	350
	828,443	908,656
Amounts include:		
– variable interest rates	**792,860**	862,285
– fixed interest rates	**25,841**	40,437
– non-interest-bearing	**9,742**	5,934
	828,443	908,656

The fair value of amounts due to customers was not materially different to their carrying value. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

24 Accruals, deferred income, provisions and other liabilities

	2012 £'000	2011 £'000
Creditors	**19,135**	13,128
Accruals and deferred income	**24,660**	27,787
Other provisions (note 25)	**11,209**	10,009
	55,004	50,924

25 Other provisions

	Deferred, variable costs to acquire client relationship intangibles £'000	Legal and compensation £'000	Property-related and other £'000	Total £'000
At 1 January 2011	5,092	622	476	6,190
Charged to profit or loss	–	1,245	1,636	2,881
Unused amount credited to profit or loss	–	(10)	(406)	(416)
Net charge to profit or loss	–	1,235	1,230	2,465
Other movements	5,692	–	–	5,692
Utilised/paid during the period	(3,988)	(191)	(159)	(4,338)
At 1 January 2012	**6,796**	**1,666**	**1,547**	**10,009**
Charged to profit or loss	**–**	**300**	**1,070**	**1,370**
Unused amount credited to profit or loss	**–**	**(598)**	**(482)**	**(1,080)**
Net (credit)/charge to profit or loss	**–**	**(298)**	**588**	**290**
Other movements	**9,497**	**–**	**–**	**9,497**
Utilised/paid during the period	**(6,126)**	**(1,152)**	**(1,309)**	**(8,587)**
At 31 December 2012	**10,167**	**216**	**826**	**11,209**

	Deferred, variable costs to acquire client relationship intangibles £'000	Legal and compensation £'000	Property-related and other £'000	Total £'000
Payable within 1 year	**5,752**	**216**	**40**	**6,008**
Payable after 1 year	**4,415**	**–**	**786**	**5,201**
	10,167	**216**	**826**	**11,209**

25 Other provisions continued

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised, and include £1,081,000 (2011: £nil) in relation to deferred consideration payable following the acquisition of R.M. Walkden & Co. Limited (note 33).

During the ordinary course of business the Group may be subject to complaints as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the Group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

Property-related and other provisions include £797,000 in relation to dilapidation provisions expected to arise on leasehold premises held by the Group (2011: £950,000). Dilapidation provisions are calculated using a discounted cash flow model; during the year, the impact of discounting has increased the provisions by £51,000.

Provisions payable after one year are expected to be settled within two years of the balance sheet date, except for property-related provisions of £786,000, which are expected to be settled within 24 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held.

26 Long term employee benefits

The Group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to this scheme during the year was £2,223,000 (2011: £1,750,000). The Group also operates a defined contribution scheme for overseas employees, for which the total contributions were £22,000 (2011: £21,000).

The Group operates two defined benefit pension schemes; the Rathbone 1987 Scheme and the Laurence Keen Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the Group.

The trustees of the schemes are required to act in the best interest of the schemes' beneficiaries. The appointment of trustees is determined by the schemes' trust documentation and legislation. The Group has a policy that one third of all trustees should be nominated by members of the schemes.

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002.

The Group provides death in service benefits to all employees through the Rathbone 1987 Scheme. Third party insurance is purchased for the benefits where possible and £614,000 of related insurance premiums were expensed to profit or loss in the year (2011: £539,000). The estimated present value of the uninsured death in service benefits is included in long term employee benefits liabilities.

The schemes are valued by independent actuaries at least every three years using the projected unit credit method, which looks at the value of benefits accruing over the years following the valuation date, based on projected salary to the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at the following dates:

Rathbone 1987 Scheme	31 December 2010
Laurence Keen Scheme	31 December 2010

26 Long term employee benefits continued

The assumptions used by the actuaries, to estimate the schemes' liabilities, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice. The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	2012 Laurence Keen Scheme %	2011 Laurence Keen Scheme %	2012 Rathbone 1987 Scheme %	2011 Rathbone 1987 Scheme %
Rate of increase in salaries	**4.00**	4.10	**4.00**	4.10
Rate of increase of pensions in payment	**3.40**	3.40	**3.00**	3.10
Rate of increase of deferred pensions	**3.00**	3.10	**3.00**	3.10
Discount rate	**4.50**	4.70	**4.50**	4.70
Expected return on scheme assets	**4.50**	4.60	**4.80**	5.00
Inflation*	**3.00**	3.10	**3.00**	3.10

* Inflation assumptions are based on the Retail Prices Index

The assumed duration of the liabilities for the Laurence Keen Scheme is 18 years (2011: 18 years) and the assumed duration for the Rathbone 1987 Scheme is 24 years (2011: 24 years). The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed below.

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S1NA actuarial tables. The assumed life expectations on retirement were:

		2012 Males	2012 Females	2011 Males	2011 Females
Retiring today:	– aged 60	**28.8**	**30.9**	28.7	30.8
	– aged 65	**24.0**	**26.0**	23.8	25.9
Retiring in 20 years:	– aged 60	**31.3**	**33.0**	31.2	32.9
	– aged 65	**26.3**	**28.0**	26.1	27.9

The amount included in the balance sheet arising from the Group's obligations in respect of the schemes is as follows:

	2012 Laurence Keen Scheme £'000	2012 Rathbone 1987 Scheme £'000	2012 Total £'000	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000
Present value of defined benefit obligations	**(14,077)**	**(114,740)**	**(128,817)**	(13,421)	(103,113)	(116,534)
Fair value of scheme assets	**14,492**	**112,195**	**126,687**	12,902	96,292	109,194
Total surplus/(deficit)	**415**	**(2,545)**	**(2,130)**	(519)	(6,821)	(7,340)

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2012 Laurence Keen Scheme £'000	2012 Rathbone 1987 Scheme £'000	2012 Total £'000	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000
Current service cost	**–**	**2,950**	**2,950**	–	2,479	2,479
Interest cost	**622**	**4,915**	**5,537**	642	4,843	5,485
Expected return on scheme assets	**(603)**	**(5,025)**	**(5,628)**	(718)	(5,762)	(6,480)
	19	**2,840**	**2,859**	(76)	1,560	1,484

Actuarial gains and losses have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £1,185,000 (2011: £500,000 rise) for the Laurence Keen Scheme and a rise in value of £9,294,000 (2011: £8,844,000 rise) for the Rathbone 1987 Scheme.

26 Long term employee benefits continued

The cumulative actuarial gains and losses reported in other comprehensive income since the adoption of IFRS is as follows:

	2012 Laurence Keen Scheme £'000	2012 Rathbone 1987 Scheme £'000	2012 Total £'000	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000
At 1 January	(1,733)	(15,609)	(17,342)	(472)	(10,487)	(10,959)
Net actuarial gains/(losses) recognised in the year	180	480	660	(1,261)	(5,122)	(6,383)
At 31 December	(1,553)	(15,129)	(16,682)	(1,733)	(15,609)	(17,342)

Movements in the present value of defined benefit obligations were as follows:

	2012 Laurence Keen Scheme £'000	2012 Rathbone 1987 Scheme £'000	2012 Total £'000	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000
At 1 January	13,421	103,113	116,534	12,041	89,312	101,353
Service cost (employer's part)	–	2,950	2,950	–	2,479	2,479
Interest cost	622	4,915	5,537	642	4,843	5,485
Contributions from members	–	1,321	1,321	–	1,283	1,283
Actuarial loss	402	3,789	4,191	1,043	8,204	9,247
Benefits paid	(368)	(1,348)	(1,716)	(305)	(3,008)	(3,313)
At 31 December	14,077	114,740	128,817	13,421	103,113	116,534

Movements in the fair value of scheme assets were as follows:

	2012 Laurence Keen Scheme £'000	2012 Rathbone 1987 Scheme £'000	2012 Total £'000	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000
At 1 January	12,902	96,292	109,194	11,951	82,759	94,710
Expected return on scheme assets	603	5,025	5,628	718	5,762	6,480
Actuarial gain	582	4,269	4,851	(218)	3,082	2,864
Contributions from the sponsoring companies	773	6,636	7,409	756	6,414	7,170
Contributions from scheme members	–	1,321	1,321	–	1,283	1,283
Benefits paid	(368)	(1,348)	(1,716)	(305)	(3,008)	(3,313)
At 31 December	14,492	112,195	126,687	12,902	96,292	109,194

The analysis of the scheme assets, measured at bid prices, and expected rates of return on those assets at the balance sheet date was as follows:

Laurence Keen Scheme	31/12/12 Expected return %	31/12/11 Expected return %	2012 Fair value £'000	2011 Fair value £'000	2012 Current allocation %	2011 Current allocation %
Equity instruments	5.95	6.05	7,246	6,198	50	48
Debt instruments	3.19	3.40	6,991	6,208	48	48
Cash	0.50	0.50	255	496	2	4
At 31 December			14,492	12,902		

Rathbone 1987 Scheme	31/12/12 Expected return %	31/12/11 Expected return %	2012 Fair value £'000	2011 Fair value £'000	2012 Current allocation %	2011 Current allocation %
Equity instruments	5.95	6.05	70,787	63,504	63	66
Debt instruments	3.12	3.25	31,551	21,791	28	23
Interest rate swap funds	2.70	2.80	6,636	8,707	6	9
Cash	0.50	0.50	3,221	2,290	3	2
At 31 December			112,195	96,292		

26 Long term employee benefits continued

At 31 December 2012 the Rathbone 1987 Scheme held 291 shares (2011: 335) with a nominal value of £6,828,000 (2011: £8,417,000) in an interest rate swap fund. During the year, the trustees switched the fund's holdings into inflation-linked interest rate swaps. The swaps are long-dated and their duration is intended to broadly align with the duration of the scheme's liabilities.

The expected return on equities is assumed to be 3.25% above the return on long-dated gilts (2011: 3.25% above). The expected rate of return on debt instruments is based on long term yields at the start of the year. Cash has been assumed to generate a similar return to the Bank of England base rate.

The statements of investment principles set by the trustees require that the assets of the schemes are invested in a balanced portfolio in the following asset classes and proportions:

	Laurence Keen Scheme	Rathbone 1987 Scheme
UK equities	35% – 55%	43% – 57%
Overseas equities	0% – 20%	21% – 35%
Fixed interest stocks	45% – 65%*	14% – 28%
Cash deposits	45% – 65%*	0% – 8%

* The total allocation of assets in the Laurence Keen Scheme to fixed interest stocks and cash deposits is expressed as a combined percentage of the two asset classes in the statement of investment principles

In the Rathbone 1987 Scheme, not more than 80% of the assets may be held in equities. A maximum of 5% of UK equities may be invested in companies outside the FTSE 350 and not more than 5% of the total portfolio can be invested in hedge funds. The trustees have initiated a programme of reducing the equity exposure of the portfolio over the next 10 years as the scheme matures by switching a proportion of the scheme's assets into fixed income and index-linked securities on the occurrence of a series of time-based and/or market-based trigger events. At 31 December 2012, £19,657,000 (2011: £17,277,000) of the scheme's assets had been switched under the programme.

In the Laurence Keen Scheme, not more than 55% of the assets may be held in equities. A maximum of 15% of UK equities may be invested in companies outside the FTSE 350 and not more than 15% of the assets may be held in alternative assets.

The sensitivities regarding the principal assumptions used to measure the total of the two schemes' liabilities are set out below:

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% increase in:		
– discount rate	(14,813)	(11.5)
– rate of inflation	10,390	8.1
– rate of salary growth	4,504	3.5
1 year increase to longevity at 60	3,740	2.9

The history of experience adjustments is as follows:

Laurence Keen Scheme	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	**(14,077)**	(13,421)	(12,041)	(11,086)	(9,750)
Fair value of scheme assets	**14,492**	12,902	11,951	10,299	8,760
Surplus/(deficit) in the scheme	**415**	(519)	(90)	(787)	(990)
Experience adjustments on scheme liabilities:					
– amount	**–**	474	–	395	(248)
– percentage of scheme liabilities	**–**	4%	–	4%	(3%)
Experience adjustments on scheme assets:					
– amount	**582**	(218)	575	940	(1,715)
– percentage of scheme assets	**4%**	(2%)	5%	9%	(20%)

26 Long term employee benefits continued

Rathbone 1987 Scheme	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	**(114,740)**	(103,113)	(89,312)	(75,581)	(55,284)
Fair value of scheme assets	**112,195**	96,292	82,759	66,955	50,551
Deficit in the scheme	**(2,545)**	(6,821)	(6,553)	(8,626)	(4,733)
Experience adjustments on scheme liabilities:					
– amount	**–**	4,338	(635)	305	2,937
– percentage of scheme liabilities	**–**	4%	(1%)	–	5%
Experience adjustments on scheme assets:					
– amount	**4,269**	3,082	4,099	6,314	(10,677)
– percentage of scheme assets	**4%**	3%	5%	9%	(21%)

The total regular contributions made by the Group to the Rathbone 1987 Scheme during the year were £3,762,000 (2011: £3,664,000) based on 22.6% of pensionable salaries (2011: 22.6%). Additional lump sum contributions of £2,874,000 were paid in 2012 (2011: £2,750,000). From 2013, the Group's regular contributions will fall to 14.8% of pensionable salaries and the Group has committed to make additional annual contributions to the scheme of £1,750,000 in 2013 and £2,750,000 per annum thereafter until 30 June 2017. With effect from 31 March 2002 the Rathbone 1987 Scheme was closed to new entrants and, consequently, the current pension cost will increase as the members of the scheme approach retirement.

The total contributions made by the Group to the Laurence Keen Scheme during the year were £756,000 (2011: £756,000). Additional lump sum contributions of £17,000 were paid in 2012 (2011: £nil). Annual contributions of £756,000 will continue to be made to the Laurence Keen Scheme until April 2013. Thereafter, annual contributions of £336,000 will be made until December 2017. As the scheme was closed to new entrants with effect from 1 October 1999, the current pension cost will increase as the members of the scheme approach retirement.

27 Share capital and share premium

The following movements in share capital occurred during the year:

	Number of shares	Exercise/ issue price pence	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2011	43,376,790		2,169	32,488	34,657
Shares issued:					
– to Share Incentive Plan	147,229	890.0 – 1,117.0	7	1,451	1,458
– to Save As You Earn scheme	1,288	696.0	–	9	9
– on exercise of options	35,833	415.0 – 852.0	2	268	270
At 1 January 2012	**43,561,140**		**2,178**	**34,216**	**36,394**
Shares issued:					
– on placing	**2,000,000**	**1,235.0**	**100**	**23,856**	**23,956**
– to Share Incentive Plan	**204,079**	**1,150.0 – 1,351.0**	**10**	**2,564**	**2,574**
– to Save As You Earn scheme	**1,160**	**696.0**	**–**	**8**	**8**
– on exercise of options	**187,692**	**415.0 – 1,172.0**	**10**	**1,516**	**1,526**
At 31 December 2012	**45,954,071**		**2,298**	**62,160**	**64,458**

The total number of issued and fully paid up ordinary shares at 31 December 2012 was 45,954,071 (2011: 43,561,140) with a par value of 5p per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. The ordinary shareholders are entitled to any residual assets on the winding up of the Company.

On 6 November 2012, the Company issued two million ordinary shares by way of a placing for cash consideration which raised £23,956,000, net of £744,000 transaction costs.

28 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 January 2011	310,285	2,899
Acquired in the year	285,728	2,955
Released on vesting	(120,559)	(1,125)
At 1 January 2012	**475,454**	**4,729**
Acquired in the year	**126,764**	**1,630**
Released on vesting	**(71,371)**	**(515)**
At 31 December 2012	**530,847**	**5,844**

Own shares represent the cost of the Company's own shares, either purchased in the market or issued by the Company, that are held by the Company or in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (note 29). The number of own shares held as treasury shares by the Company at 31 December 2012 was 50,000 (2011: 50,000). In addition, 106,604 shares were held in the Employee Benefit Trust at 31 December 2012 (2011: 106,604) and a further 374,243 (2011: 318,850) shares were held by the trustees of the Share Incentive Plan but are not yet unconditionally gifted to employees.

29 Share-based payments

Share Incentive Plan

The Group operates a Share Incentive Plan (SIP), which is available to all employees. Employees can contribute up to £125 per month to acquire partnership shares which are purchased or allotted twice a year at the end of six-month accumulation periods. The Group currently matches employee contributions on a one-for-one basis to acquire matching shares.

The Group also provides performance-related free shares, with eligible employees receiving shares valued at the rate of £100 per 1% real increase in EPS up to a maximum of £3,000 per annum.

For UK employees, SIP dividends are reinvested and used to purchase dividend shares (up to £1,500 in any tax year), whilst for Jersey employees dividends are paid in cash.

As at 31 December 2012, the trustees of the SIP held 1,428,214 (2011: 1,394,076) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £18,553,000 (2011: £14,777,000). No dividends on these shares have been waived. Of the total number of shares held by the trustees, 366,596 (2011: 310,426) have been conditionally gifted to employees and 7,647 (2011: 8,424) remain unallocated.

Long Term Incentive Plan

Details of the general terms of this plan are set out in the remuneration report on page 56. The total shareholder return-based performance criteria have been treated as market-based vesting conditions.

Historically, the Group has settled substantially all of the LTIP awards in cash as an alternative to shares. As a consequence of this, the Group treats awards under the LTIP as cash-settled rather than equity-settled. At the year end, a liability of £2,278,000 (2011: £1,175,000) has been recognised for the estimated fair value of future awards.

At 31 December 2012, the trustees held 106,604 (2011: 106,604) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £1,385,000 (2011: £1,130,000). Dividends on these shares have been waived by the trustees.

Executive profit share

Details of the terms of the executive profit share scheme are set out in the remuneration report on page 55. Shares for plan awards, all of which are yet to vest, will be provided by market purchase or treasury shares.

29 Share-based payments continued

Savings-related share option or Save As You Earn (SAYE) plan

Under the SAYE plan, employees can contribute up to £250 per month to acquire shares at the end of a three or five year savings period. Further information on the scheme is given in the remuneration report on pages 57 to 58.

Options with an aggregate estimated fair value of £180,000, determined using a binomial valuation model including expected dividends, were granted on 29 March 2012 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2012, as at the date of issue, were as follows:

	2012	2011
Share price (pence)	**1,276**	1,196
Exercise price (pence)	**984**	934
Expected volatility	**33%**	32%
Risk-free rate	**0.6%**	2.4%
Expected dividend yield	**3.7%**	3.7%

The number of share options outstanding for the SAYE plan at the end of the year, the period in which they were granted and the date on which they may be exercised are given below:

Year of grant	Exercise price pence	Exercise period	2012 Number of share options	2011 Number of share options
2009	**696.0**	**2013**	**174,253**	179,151
2011	**934.0**	**2014 and 2016**	**50,332**	54,053
2012	**984.0**	**2015 and 2017**	**52,549**	–
At 31 December			**277,134**	233,204

Share option scheme

Under the share option scheme approved by shareholders in 2000, certain employees hold options to subscribe for shares in the Company at prices ranging from 743.5p to 1,172p. Options are conditional on the employee completing three years' service (the vesting period) and are exercisable three years from grant date. The options have a contractual option term of seven years from the date they become exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The number of share options outstanding for the share option scheme at the end of the year, the periods in which they were granted and the periods in which they may be exercised, dependent on certain earnings per share targets being met, are given below:

Year of grant	Exercise price pence	Exercise period	2012 Number of share options	2011 Number of share options
2002	**810.0**	**2005 – 2012**	**–**	64,851
2003	**415.0**	**2006 – 2013**	**–**	1,500
2004	**743.5**	**2007 – 2014**	**13,440**	59,698
2005	**852.0**	**2008 – 2015**	**44,309**	116,187
2006*	**1,172.0**	**2009 – 2016**	**12,341**	–
2006*	**1,116.0**	**2009 – 2016**	**10,000**	–
At 31 December			**80,090**	242,236

* In 2012, the Group decided to exclude the impact of the loss on the disposal of the Jersey operations, recognised in 2008, from the earnings per share growth criteria calculation. This exclusion rendered the options exercisable in 2012.

29 Share-based payments continued

Movements in the number of share options outstanding for both the SAYE plan and the share option scheme were as follows:

	2012 Number of share options	2012 Weighted average exercise price pence	2011 Number of share options	2011 Weighted average exercise price pence
At 1 January	**475,440**	**782.0**	648,807	802.0
Granted in the year	**53,089**	**984.0**	54,964	934.0
Forfeited in the year	**(9,533)**	**882.0**	(35,833)	753.0
Exercised in the year	**(188,852)**	**812.0**	(192,498)	900.0
Other*	**27,080**	**1,151.0**	–	–
At 31 December	**357,224**	**821.0**	475,440	782.0

* See footnote to the table above.

The weighted average share price at the dates of exercise for share options exercised during the year was £12.60 (2011: £11.91). The options outstanding at 31 December 2012 had a weighted average contractual life of 1.7 years (2011: 2.1 years). Options exercisable at 31 December 2012 had a weighted average exercise price of £8.21 (2011: £7.82).

The Group recognised total expenses of £3,232,000 in relation to share-based payment transactions in 2012 (2011: £2,604,000).

30 Financial risk management

The Group has identified the financial, business and operational risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the group risk committee report on pages 27 to 31.

The Group categorises its financial risks into the following primary areas:

(i) credit risk (which includes counterparty default risk);

(ii) liquidity risk;

(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk); and

(iv) pension risk.

The Group's exposures to pension risk are set out in note 26.

The Group's financial risk management policies are designed to identify and analyse the financial risks that the Group faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its financial risk management policies and systems to reflect changes in the business, counterparties, markets and the range of financial instruments that it utilises.

The treasury department, reporting through the banking committee, has principal responsibility for monitoring exposure to credit risk, liquidity risk and market risk. Procedures and delegated authorities are documented in a Group treasury manual and policy documents prescribe the management and monitoring of each type of risk. The primary objective of the Group's treasury policy is to manage short term liquidity requirements whilst maintaining an appropriate level of exposure to other financial risks in accordance with the Group's risk appetite.

30 **Financial risk management** continued

Eurozone credit crisis

Following the escalation of the eurozone credit crisis in 2011, the second half of 2012 saw concerted action within Europe to address the crisis. This reduced volatility in the credit markets towards the end of the year.

The banking committee has continued to be vigilant during the year in assessing the risks of exposure to the eurozone and the exposures that had been placed with Spanish and Italian counterparties was reduced to zero in the first half of 2012.

In response to the ongoing issues within the eurozone, the analysis of geographical concentration of credit exposures has been amended to show separately the total exposure to counterparties based in the UK, the eurozone and the rest of the world. Comparatives have been re-presented accordingly.

The Group's treasury portfolio remains well diversified and includes £276,500,000 of certificates of deposit and holdings in money market funds issued or managed by a number of banks based in the eurozone (2011: £444,500,000). At 31 December 2012, the Group had no direct exposure to eurozone sovereign entities (2011: none). The controls around the treasury portfolio are set out below.

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its banking, treasury, trust and pensions advisory activities. The principal source of credit risk arises from placing funds in the money market and holding interest-bearing securities. The Group also has exposure to credit risk through its loan book, guarantees given on clients' behalf and loans made to the acquirers of the Group's Jersey operations in 2008 (note 15).

It is the Group's policy to place funds generated internally and from deposits by clients with a range of high-quality financial institutions, including the Bank of England. Investments are spread to avoid excessive exposure to any individual counterparty. Loans made to clients are secured against clients' assets that are held and managed by Group companies.

Exposure to credit risk is managed through setting appropriate ratings requirements and lending limits. Limits are reviewed regularly, taking into account the ability of borrowers and potential borrowers to meet repayment obligations.

The Group categorises its exposures based on the long term ratings awarded to counterparties by Fitch Ratings Ltd. ('Fitch') or Moody's Corporation ('Moody's'). Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the banking committee also utilises market intelligence information to assist its ongoing monitoring.

The Group's financial assets are categorised as follows:

Cash and balances with central banks

The Group has exposure to central banks through its deposits held with the Bank of England.

Settlement balances

Settlement risk arises in any situation where a payment in cash or transfer of a security is made in the expectation of a corresponding delivery of a security or receipt of cash. The majority of transactions are carried out on a delivery versus payment basis, which results in securities and cash being exchanged within a very close timeframe. Settlement balances outside standard terms are monitored on a daily basis.

The Investment Management and Unit Trusts businesses have exposure to market counterparties in the settlement of trades. Settlement balances arising in the Investment Management segment are primarily in relation to client trades and risk of non-settlement is borne by clients.

30 **Financial risk management** continued
(i) **Credit risk** continued

Loans and advances to banks and debt and other securities
The Group has exposures to a wide range of financial institutions through its treasury portfolio, which includes bank deposits, certificates of deposit and money market funds. These exposures principally arise from the placement of clients' cash, where it is held under a banking relationship, and the Group's own reserves.

The Group's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long term rating of A by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis by the treasury department and reviewed by the banking committee on a monthly basis, or more frequently when necessary. The banking committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers
The Group provides loans to clients through its investment management operations (the investment management loan book). The Group is also exposed to credit risk on trade debtors arising from the trust, tax and pensions advisory businesses (trust and pension debtors).

(a) Overdrafts
Overdrafts on clients' investment management accounts arise from time to time due to short term timing differences between the purchase and sale of assets on a client's behalf. Overdrafts are actively monitored and reported to the banking committee on a monthly basis.

(b) Investment management loan book
Loans are provided as a service to investment management clients who are generally asset rich but have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name. Extensions to the initial loan period may be granted subject to credit criteria.

The banking committee reviews all loans on a monthly basis and approves all loan extensions. Where possible, repayment plans are established with clients before loans become overdue or uncovered.

At 31 December 2012, the total lending exposure limit for the investment management loan book was £85,000,000 (2011: £60,000,000), of which £65,067,000 had been advanced (2011: £36,434,000) and a further £3,002,000 had been committed (2011: £6,925,000).

(c) Trust and pension debtors
Trust and pension debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and pension debtors are reviewed on a monthly basis by the management committees of the Group's trust and pension advisory companies. Impairment provisions are made for any debts which are considered to be doubtful for collection.

(d) Other debtors
Other loans and advances to customers are principally constituted by loans made to the acquirers of the Group's Jersey trust operations in 2008 (note 15). Such debts do not usually arise within the course of the Group's day to day operations and therefore they are not subject to formalised standard lending criteria.

Derivative financial instruments
At 31 December 2012, the only derivative financial instruments held by the Group were the option contracts over shares in the Group's associates (note 20). These options expose the Group to credit risk from the potential for non-delivery by the associate companies' founders, who are private individuals.

30 **Financial risk management** continued
(i) **Credit risk** continued

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually, or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis. The assessment considers, where applicable, the value of any collateral held, any changes to the external credit rating and the anticipated receipts for each individual exposure.

Impairment provisions for credit risk, which relate solely to trust and pension debtors and other debtors, are set out in note 15.

Maximum exposure to credit risk

	2012 £'000	2011 £'000
Credit risk relating to on-balance sheet exposures:		
Cash and balances with central banks	116,000	–
Settlement balances	12,606	13,443
Loans and advances to banks	169,795	65,008
Loans and advances to customers:		
– overdrafts	2,939	4,887
– investment management loan book	65,067	36,434
– trust and pension debtors	989	852
– other debtors	5,000	7,463
Debt securities:		
– unlisted debt securities and money market funds	610,576	909,593
Derivative financial instruments	784	–
Other financial assets	31,140	31,155
Credit risk relating to off-balance sheet exposures:		
Loan commitments	3,002	6,925
Financial guarantees	578	578
	1,018,476	1,076,338

The above table represents the gross credit risk exposure to the Group at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

23.9% of the total maximum exposure is derived from loans and advances to banks and customers (2011: 10.7%) and 59.9% represents investments in debt securities (2011: 84.5%).

Cash and balances with central banks

All cash and balances with central banks were neither past due nor impaired. The credit quality of these balances is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the balance sheet date.

	2012 £'000	2011 £'000
AAA	116,000	–

Settlement balances

Settlement balances are summarised as follows:

	2012 £'000	2011 £'000
Neither past due nor impaired	9,424	11,812
Past due but not impaired < 90 days	3,166	1,615
Past due but not impaired > 90 days	16	16
Carrying value	12,606	13,443

30 Financial risk management continued
(i) **Credit risk** continued

Loans and advances

Loans and advances are summarised as follows:

	2012 Loans and advances to banks £'000	2012 Loans and advances to customers £'000	2011 Loans and advances to banks £'000	2011 Loans and advances to customers £'000
Neither past due nor impaired	**169,795**	**68,409**	65,008	47,255
Past due but not impaired	**–**	**471**	–	504
Impaired (see (c) below)	**–**	**3,696**	–	138
Gross carrying value	**169,795**	**72,576**	65,008	47,897
Less: allowance for impairment (note 15)	**–**	**(865)**	–	(110)
Net carrying value	**169,795**	**71,711**	65,008	47,787

No loans and advances have been renegotiated (2011: none).

(a) Neither past due nor impaired

The credit quality of loans and advances to banks that were neither past due nor impaired at 31 December 2012 is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the balance sheet date:

	2012 £'000	2011 £'000
AA+ to AA-	**41,590**	21,007
A+ to A	**127,803**	44,001
Other*	**402**	–
	169,795	65,008

* Cash held within the Employee Benefit Trust

The credit quality of loans and advances to customers that were neither past due nor impaired at 31 December 2012, which are all externally unrated, is analysed below between those loans that are subject to standard lending criteria, which are described on page 105, and, where applicable, those loans for which there are no standard lending criteria. All loans initially made subject to standard lending criteria remained within those criteria at 31 December 2012 (2011: all loans). An exposure is reported as past due when the contractual due date for settlement has passed and the balance has not been repaid, except in the case of trust and pension debtors, where a normal settlement period of up to 30 days is expected.

At 31 December 2012	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	**2,939**	**65,067**	**403**	**–**	**68,409**
	2,939	**65,067**	**403**	**–**	**68,409**

At 31 December 2011	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	4,887	36,434	210	–	41,531
Not subject to standard lending criteria	–	–	–	5,724	5,724
	4,887	36,434	210	5,724	47,255

30 Financial risk management continued
(i) **Credit risk** continued

(b) Past due but not impaired

Loans and advances that are past due are assessed for impairment and provided against where objective evidence of impairment exists. Trust and pension debtors may be outstanding for some time before collection, but this is not necessarily an indication that the debt will not ultimately be collected. At 31 December 2012 and 2011, no overdrafts, loans and other debtors were past due but not impaired. The gross amounts of trust and pension debtors that were past due but not impaired were:

At 31 December	2012 £'000	2011 £'000
<90 days overdue	156	162
90-180 days overdue	181	202
180-270 days overdue	43	52
270-365 days overdue	53	59
>365 days overdue	38	29
	471	504

(c) Impaired

Allowance has been made for individually impaired loans and advances to customers, as set out below:

Movement in impairment provision during the year	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
At 1 January 2012	–	–	110	–	110
Amounts written off	–	–	(46)	–	(46)
Charge to profit or loss	–	–	41	760	801
At 31 December 2012	–	–	105	760	865
Gross carrying value of impaired loans and advances to customers					
As at 31 December 2012	–	–	115	3,581	3,696
As at 31 December 2011	–	–	138	–	138

There were no other impaired credit exposures at 31 December 2012 (2011: £nil).

During the year, an impairment of £760,000 has been recognised on the loan notes issued by the vendor of the Jersey trust business due to a change in the expected timing of repayment, as discussed in note 15.

Debt securities

The table below presents an analysis of debt securities by rating agency designation, as at 31 December 2012, based on Fitch or Moody's long term rating designation.

	2012 Government securities £'000	2012 Money market funds £'000	2012 Certificates of deposit £'000	2012 Total £'000	2011 Government securities £'000	2011 Money market funds £'000	2011 Certificates of deposit £'000	2011 Total £'000
AAA	–	51,551	–	51,551	86,983	65,610	–	152,593
AA+ to AA-	–	–	149,025	149,025	–	–	258,000	258,000
A+ to A-	–	–	410,000	410,000	–	–	499,000	499,000
	–	51,551	559,025	610,576	86,983	65,610	757,000	909,593

30 Financial risk management continued
(i) Credit risk continued

Concentration of credit risk

The Group has counterparty credit risk within its treasury assets in that exposure is to a number of similar credit institutions. The banking committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal Fitch or Moody's rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

(a) Geographical sectors

The following table analyses the Group's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2012	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	116,000	–	–	116,000
Settlement balances	11,704	20	882	12,606
Loans and advances to banks	169,795	–	–	169,795
Loans and advances to customers:				
– overdrafts	2,471	37	431	2,939
– investment management loan book	62,890	487	1,690	65,067
– trust and pension debtors	884	–	–	884
– other debtors	–	–	2,821	2,821
Debt securities:				
– unlisted debt securities and money market funds	199,076	276,500	135,000	610,576
Derivative financial instruments	784	–	–	784
Other financial assets	28,512	1,577	1,013	31,102
	592,116	278,621	141,837	1,012,574

At 31 December 2011 (re-presented)	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Settlement balances	12,479	162	802	13,443
Loans and advances to banks	65,008	–	–	65,008
Loans and advances to customers:				
– overdrafts	4,310	21	556	4,887
– investment management loan book	34,758	556	1,120	36,434
– trust and pension debtors	742	–	–	742
– other debtors	2,050	–	3,674	5,724
Debt securities:				
– unlisted debt securities and money market funds	317,093	444,500	148,000	909,593
Other financial assets	28,800	1,764	591	31,155
	465,240	447,003	154,743	1,066,986

Materially all eurozone exposures at 31 December 2012 were to counterparties based in the Netherlands, France, Finland, Germany and Ireland.

As described on page 104, the comparative figures in the above table have been re-presented to group separately exposures to counterparties based in the eurozone.

30 Financial risk management continued
(i) Credit risk continued

(b) Industry sectors

The Group's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2012	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	116,000	–	–	116,000
Settlement balances	–	12,606	–	12,606
Loans and advances to banks	–	169,795	–	169,795
Loans and advances to customers:				
– overdrafts	–	–	2,939	2,939
– investment management loan book	–	–	65,067	65,067
– trust and pension debtors	–	–	884	884
– other debtors	–	–	2,821	2,821
Debt securities:				
– unlisted debt securities and money market funds	–	610,576	–	610,576
Derivative financial instruments	–	–	784	784
Other financial assets	–	2,894	28,208	31,102
	116,000	795,871	100,703	1,012,574

At 31 December 2011	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Settlement balances	–	13,443	–	13,443
Loans and advances to banks	–	65,008	–	65,008
Loans and advances to customers:				
– overdrafts	–	–	4,887	4,887
– investment management loan book	–	–	36,434	36,434
– trust and pension debtors	–	–	742	742
– other debtors	–	–	5,724	5,724
Debt securities:				
– unlisted debt securities and money market funds	86,983	822,610	–	909,593
Other financial assets	–	5,580	25,575	31,155
	86,983	906,641	73,362	1,066,986

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The primary objective of the Group's treasury policy is to manage short to medium term liquidity requirements. In addition to setting the treasury policy, Rathbone Investment Management ('the Bank') performs an annual assessment of liquidity adequacy in accordance with the regulatory requirements of the FSA (our 'Individual Liquidity Adequacy Assessment'). The Bank faces two principal risks, namely that a significant proportion of client funds are withdrawn over a short period of time (retail funding risk) and the risk that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

Retail funding risks are monitored by daily cash mismatch analyses and Basel Committee ratios using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market wide stresses. Marketable assets risk is primarily managed by holding cash and marketable instruments that are realisable at short notice. The Group operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the Board at least annually in addition to an amount being prescribed by the FSA.

The Group does not rely on external funding to finance its activities.

30 Financial risk management continued

(ii) **Liquidity risk** continued

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Group under non-derivative financial assets and liabilities analysed by the remaining contractual maturities at the balance sheet date.

At 31 December 2012	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets							
Cash and balances with central banks	116,003	45	–	–	–	–	116,048
Settlement balances	–	12,606	–	–	–	–	12,606
Loans and advances to banks	52,614	51,307	66,269	219	–	–	170,409
Loans and advances to customers	2,959	20,730	41,664	4,166	386	5,255	75,160
Debt securities and money market funds	49,074	306,031	257,010	–	–	–	612,115
Other financial assets	940	26,805	300	237	7	–	28,289
Cash flows arising from financial assets	221,590	417,524	365,243	4,622	393	5,255	1,014,627
Cash flows arising from financial liabilities							
Deposits by banks	518	–	–	–	–	–	518
Settlement balances	–	18,592	–	–	–	–	18,592
Due to customers	793,527	34,363	573	–	–	–	828,463
Other financial liabilities	1,651	21,938	5,464	14,558	1,883	–	45,494
Cash flows arising from financial liabilities	795,696	74,893	6,037	14,558	1,883	–	893,067
Net liquidity gap	(574,106)	342,631	359,206	(9,936)	(1,490)	5,255	121,560
Cumulative net liquidity gap	(574,106)	(231,475)	127,731	117,795	116,305	121,560	

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets							
Cash and balances with central banks	4	–	–	–	–	–	4
Settlement balances	–	13,443	–	–	–	–	13,443
Loans and advances to banks	33,254	31,078	771	–	–	–	65,103
Loans and advances to customers	4,944	12,244	27,865	–	–	5,203	50,256
Debt securities and money market funds	65,653	484,863	355,457	10,602	–	–	916,575
Other financial assets	825	26,056	9	50	–	–	26,940
Cash flows arising from financial assets	104,680	567,684	384,102	10,652	–	5,203	1,072,321
Cash flows arising from financial liabilities							
Deposits by banks	513	–	–	–	–	–	513
Settlement balances	–	22,196	–	–	–	–	22,196
Due to customers	866,431	41,897	351	–	–	–	908,679
Other financial liabilities	969	27,109	94	10,119	–	–	38,291
Cash flows arising from financial liabilities	867,913	91,202	445	10,119	–	–	969,679
Net liquidity gap	(763,233)	476,482	383,657	533	–	5,203	102,642
Cumulative net liquidity gap	(763,233)	(286,751)	96,906	97,439	97,439	102,642	

Liabilities which do not have a contractual maturity date are categorised as 'on demand'. Included within the amounts due to customers on demand are balances which historical experience shows are unlikely to be called in the short term. A prudent level of highly liquid assets is retained to cover reasonably foreseeable short term changes in client deposits. All debt securities are readily marketable and can be realised through disposals.

The Group holds £4,198,000 of equity investments (2011: £2,953,000) which are subject to liquidity risk but are not included in the table above. These assets are held as available for sale securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

30 **Financial risk management** continued
(ii) **Liquidity risk** continued

Derivative cash flows

The Group's exposure to derivative financial instruments is limited to option contracts over the equity instruments of its associates. These contracts do not create an obligation for the Group to deliver cash or a financial asset and therefore they are not included in the liquidity tables (note 20).

Off-balance sheet items

Cash flows arising from the Group's off-balance sheet financial liabilities (note 32) are summarised in the table below.

The contractual value of the Group's commitments to extend credit to clients and maximum potential value of financial guarantees are analysed by the duration of the commitment. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates. Capital commitments are summarised by the earliest expected date of payment.

At 31 December 2012	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	3,002	–	–	–	3,002
Financial guarantees	–	–	578	–	578
Operating lease commitments	1,369	4,188	21,401	28,852	55,810
Capital commitments	470	–	–	–	470
Total off-balance sheet items	4,841	4,188	21,979	28,852	59,860

At 31 December 2011	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	6,925	–	–	–	6,925
Financial guarantees	–	–	578	–	578
Operating lease commitments	1,171	1,855	20,981	34,448	58,455
Capital commitments	2,223	–	–	–	2,223
Total off-balance sheet items	10,319	1,855	21,559	34,448	68,181

Total liquidity requirement

At 31 December 2012	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	795,696	74,893	6,037	14,558	1,883	893,067
Total off-balance sheet items	–	4,841	4,188	21,979	28,852	59,860
	795,696	79,734	10,225	36,537	30,735	952,927

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	867,913	91,202	445	10,119	–	969,679
Total off-balance sheet items	–	10,319	1,855	21,559	34,448	68,181
	867,913	101,521	2,300	31,678	34,448	1,037,860

30 **Financial risk management** continued

(iii) Market risk

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities. In particular, customer accounts and loan balances are repriced very shortly after changes in base rates, whereas the yield on the Group's interest-bearing assets is correlated to the future expectation of base rates and varies depending on the maturity profile of the Group's treasury portfolio. The average maturity mismatch is controlled by the banking committee, which generally lengthens the mismatch when the yield curve is expected to rise and shortens it when the yield curve is expected to fall.

The table below shows the consolidated repricing profile of the Group's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2012	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Cash and balances with central banks	116,000	–	–	–	–	3	116,003
Settlement balances	–	–	–	–	–	12,606	12,606
Loans and advances to banks	103,709	65,759	–	–	–	327	169,795
Loans and advances to customers	70,785	–	–	–	–	926	71,711
Investment securities:							
– equity securities	–	–	–	–	–	4,198	4,198
– debt securities and money market funds	355,576	175,000	80,000	–	–	–	610,576
Derivative financial instruments	–	–	–	–	–	784	784
Other financial assets	–	–	–	–	–	31,102	31,102
Total financial assets	**646,070**	**240,759**	**80,000**	**–**	**–**	**49,946**	**1,016,775**
Liabilities							
Deposits by banks	518	–	–	–	–	–	518
Settlement balances	–	–	–	–	–	18,592	18,592
Due to customers	818,131	570	–	–	–	9,742	828,443
Other financial liabilities	–	–	–	–	–	38,633	38,633
Total financial liabilities	**818,649**	**570**	**–**	**–**	**–**	**66,967**	**886,186**
Interest rate repricing gap	**(172,579)**	**240,189**	**80,000**	**–**	**–**	**(17,021)**	**130,589**

30 Financial risk management continued

(iii) Market risk continued

At 31 December 2011	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 6 months but not more than 6 months £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Cash and balances with central banks	–	–	–	–	–	4	4
Settlement balances	–	–	–	–	–	13,443	13,443
Loans and advances to banks	64,091	750	–	–	–	167	65,008
Loans and advances to customers	46,586	–	–	–	–	1,201	47,787
Investment securities:							
– equity securities	–	–	–	–	–	2,953	2,953
– debt securities and money market funds	551,750	289,843	58,000	10,000	–	–	909,593
Other financial assets	–	–	–	–	–	31,155	31,155
Total financial assets	662,427	290,593	58,000	10,000	–	48,923	1,069,943
Liabilities							
Deposits by banks	513	–	–	–	–	–	513
Settlement balances	–	–	–	–	–	22,196	22,196
Due to customers	902,372	350	–	–	–	5,934	908,656
Other financial liabilities	134	–	–	–	–	31,580	31,714
Total financial liabilities	903,019	350	–	–	–	59,710	963,079
Interest rate repricing gap	(240,592)	290,243	58,000	10,000	–	(10,787)	106,864

The banking committee has set an overall pre-tax interest rate exposure limit of £5,000,000 (2011: £5,000,000) for the total potential profit or loss resulting from an unexpected immediate and sustained 2% movement in sterling interest rates for the Bank, the principal operating subsidiary. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest-bearing liabilities compared with the period to repricing on a corresponding amount of interest-bearing assets.

At 31 December 2012, the Bank had £792.2 million (2011: £876.2 million) of sterling interest-bearing liabilities averaging two days (2011: two days) to repricing, which were matched by sterling assets averaging 51 days (2011: 65 days) to repricing, creating an exposure of 49 days (2011: 63 days). The total potential impact on profit after tax and equity was £2,126,000 (2011: £2,211,000) at the balance sheet date for a 2% decrease or increase in interest rates. The Group held no forward rate agreements at 31 December 2012 (2011: none).

Foreign exchange risk

The Group is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to foreign exchange rate fluctuations. The Group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time to time, so as to reduce any currency exposure to a minimal amount. The Group has no structural foreign currency exposure.

30 Financial risk management continued

(iii) Market risk continued

The Group does not have any material exposure to transactional foreign exchange risk. The table below summarises the Group's exposure to foreign currency translational risk at 31 December 2012. Included in the table are the Group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2012	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	116,003	–	–	–	116,003
Settlement balances	11,999	397	91	119	12,606
Loans and advances to banks	133,163	25,177	5,568	5,887	169,795
Loans and advances to customers	70,263	709	692	47	71,711
Investment securities:					
– equity securities	3,589	–	609	–	4,198
– debt securities and money market funds	610,576	–	–	–	610,576
Derivative financial instruments	784	–	–	–	784
Other financial assets	30,909	193	–	–	31,102
Total financial assets	977,286	26,476	6,960	6,053	1,016,775
Liabilities					
Deposits by banks	479	–	–	39	518
Settlement balances	16,000	1,607	768	217	18,592
Due to customers	793,332	23,978	5,468	5,665	828,443
Other financial liabilities	38,633	–	–	–	38,633
Total financial liabilities	848,444	25,585	6,236	5,921	886,186
Net on-balance sheet position	128,842	891	724	132	130,589
Loan commitments	3,002	–	–	–	3,002

At 31 December 2011	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	4	–	–	–	4
Settlement balances	12,070	331	879	163	13,443
Loans and advances to banks	44,225	12,967	3,805	4,011	65,008
Loans and advances to customers	45,543	901	928	415	47,787
Investment securities:					
– equity securities	2,389	–	564	–	2,953
– debt securities and money market funds	909,593	–	–	–	909,593
Other financial assets	31,089	66	–	–	31,155
Total financial assets	1,044,913	14,265	6,176	4,589	1,069,943
Liabilities					
Deposits by banks	285	–	–	228	513
Settlement balances	21,103	807	–	286	22,196
Due to customers	883,631	15,266	5,494	4,265	908,656
Other financial liabilities	31,688	26	–	–	31,714
Total financial liabilities	936,707	16,099	5,494	4,779	963,079
Net on-balance sheet position	108,206	(1,834)	682	(190)	106,864
Loan commitments	6,925	–	–	–	6,925

A 10% weakening of the US dollar against sterling, occurring on 31 December 2012, would have reduced equity and profit after tax by £67,000 (2011: increased by £135,000). A 10% weakening of the euro against sterling, occurring on 31 December 2012, would have reduced equity and profit after tax by £55,000 (2011: reduced by £50,000). A 10% strengthening of the US dollar or euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

30 **Financial risk management** continued
(iii) **Market risk** continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Group is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 16).

At 31 December 2012, the fair value of equity securities recognised on the balance sheet was £4,198,000 (2011: £2,953,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £420,000 (2011: £295,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values, with the exception of held to maturity investment securities (note 16).

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- 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 or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**3,584**	**–**	**614**	**4,198**
– money market funds	**–**	**51,551**	**–**	**51,551**
Derivative financial instruments	**–**	**–**	**784**	**784**
Total financial assets	**3,584**	**51,551**	**1,398**	**56,533**

At 31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	2,384	–	569	2,953
– money market funds	–	65,610	–	65,610
Total financial assets	2,384	65,610	569	68,563

There have been no transfers between levels during the year. The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

Level 3 financial instruments

Available for sale equity securities

The fair value of unlisted equity securities is calculated by reference to net asset values with a liquidity discount applied.

A 5 percentage point increase in the liquidity discount applied to the calculation of the fair value of the unlisted equity securities would, in isolation, result in a decrease in fair value of £41,000 (2011: £38,000). A 5 percentage point decrease would have an equal and opposite effect.

Derivative financial instruments

The fair value of the option contracts is calculated using a probability weighted expected return model, based on potential valuation outcomes under a range of business growth forecast scenarios. The key assumptions underlying the forecast growth in profitability of the associates in the model are the growth of funds under management, revenue margins and the discount rate used to calculate the present value of the cash flows. The key assumptions are flexed in each scenario to generate a potential valuation for the options. The probability of each scenario occurring is estimated, based on the Group's judgement in light of the economic conditions prevailing at the time. The fair value of the options is calculated as the weighted average of the valuations derived under each scenario, taking account of the associated probabilities of occurrence.

30 Financial risk management continued
Fair values continued

The sensitivities regarding the key assumptions are set out below:

	Impact on fair value of: Increase in the assumption £'000	Decrease in the assumption £'000
10% increase/decrease in the fees and commission charged to Vision clients	**512**	**(512)**
5 percentage point increase/decrease in the share of fees and commission paid away to IFAs	**(507)**	**506**
10% increase/decrease in the rate of growth in funds under management	**281**	**(280)**
1 percentage point increase/decrease in the discount rate	**(118)**	**130**

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2012 Available for sale equity securities £'000	2012 Derivative financial instruments £'000	2012 Total £'000	2011 Available for sale equity securities £'000	2011 Derivative financial instruments £'000	2011 Total £'000
At 1 January	**569**	**–**	**569**	574	–	574
Total gains and losses recognised in other comprehensive income	**45**	**–**	**45**	(5)	–	(5)
Acquired during the year (note 20)	**–**	**784**	**784**	–	–	–
At 31 December	**614**	**784**	**1,398**	569	–	569

31 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as total equity. As at 31 December 2012 this totalled £229,493,000 (2011: £190,653,000). From time to time, the Group runs small overnight overdraft balances as part of working capital. The Group has no other external borrowings at 31 December 2012 (2011: £nil).

The Group's objectives when managing capital are to:

- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- maintain a strong capital base to be able to support the development of the business when required;
- optimise the distribution of capital across Group companies reflecting the requirements of each business;
- strive to make capital freely transferable across the Group where possible; and
- comply with regulatory requirements at all times.

Rathbones is classified under the Capital Requirements Directive (CRD) as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP), which is presented to the FSA on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with CRD rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the CRD's Pillar I and Pillar II methodology. The Group has adopted the standardised approach to calculating its Pillar I credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both Group and entity level.

At 31 December 2012 the Group's regulatory capital resources, including retained earnings for 2012, were £118,378,000 (2011: £89,770,000). Resources increased during 2012 following the share placing on 6 November 2012 (note 27).

In addition to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecasted on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions.

Regulatory capital requirements have been met throughout the financial years ended 31 December 2011 and 2012.

32 Contingent liabilities and commitments

(a) Indemnities are provided in the normal course of business to a number of directors and employees who provide tax and trust advisory services in connection with them acting as trustees/directors of client companies and providing other services.

A claim relating to the management of a Jersey trust has been filed against a former employee (and director) of Rathbone Trust Company Jersey Limited. Rathbone Trust Company Jersey Limited was a subsidiary of the Company from March 2000 until October 2008. Although the Board believe this claim will be unsuccessful, a possible obligation may exist which is contingent on whether the claim (or any parts of it) is upheld.

The Group has sought to confirm the position of the Company's civil liability (professional indemnity) insurers in relation to the claim. Based on information currently available, the Company's primary layer insurer has confirmed cover (including its share of the excess layer) subject to policy terms and conditions and unless the proceedings referred to below rule there is no liability. The remaining excess insurers have to date refused to confirm cover. On 25 July 2012, the Company issued proceedings to confirm insurance cover against the excess insurers.

Due to the complexity of the claim, the number of parties involved and the impact of insurance cover available to the trustees, it is not practicable to estimate reliably the value of any possible obligation for the Company.

The Board considers that it is unlikely that a material liability to the Group will arise from this claim, and accordingly no provision has been made.

(b) Capital expenditure authorised and contracted for at 31 December 2012 but not provided in the financial statements amounted to £470,000 (2011: £2,223,000).

(c) The contractual amounts of the Group's commitments to extend credit to its clients are as follows:

	2012 £'000	2011 £'000
Guarantees	578	578
Undrawn commitments to lend of 1 year or less	3,002	6,925
	3,580	7,503

The fair value of the guarantees is £nil (2011: £nil).

(d) The Group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Company's agreement to lease space at 1 Curzon Street, London, under which total payments over the lease term at 31 December 2012 were £34,616,000, provides for an upward only reset to market rents in 2018.

Payments under non-cancellable operating leases	2012 £'000	2011 £'000
No later than 1 year	5,557	3,026
Later than 1 year and no later than 5 years	21,401	20,981
Later than 5 years	28,852	34,448
	55,810	58,455

(e) In addition to the Financial Services Compensation Scheme levies accrued in the year further levy charges may be incurred in future years, although the ultimate cost remains uncertain. Further information is given in note 2.

33 Business combinations

On 5 April 2012, the Group acquired the entire share capital of R.M. Walkden & Co. Limited; an investment management company, which also offers tax advisory services. At 31 December 2012, the acquisition had added £75,562,000 to the Group's funds under management. In addition to a cash consideration of £1,842,000, which was paid during the year, a deferred consideration of £1,081,000 is payable based on the value of funds under management retained by the Group at 31 October 2012; this is due to be paid on 5 April 2013.

The acquired business' net assets at the acquisition date were as follows:

	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Loans and advances to banks	598	–	598
Loans and advances to customers	213	–	213
Prepayments, accrued income and other assets	38	–	38
Property, plant and equipment	8	–	8
Intangible assets	–	2,154	2,154
Accruals, deferred income and other liabilities	(73)	–	(73)
Current tax liabilities	(15)	–	(15)
Total net assets acquired	769	2,154	2,923
Total consideration			2,923

Included within the consolidated statement of comprehensive income for the year ended 31 December 2012 is operating income of £231,000 and a loss before tax of £505,000 relating to the acquired business, after taking account of redundancy costs of £214,000, as the acquired business' trade was transferred to a fellow subsidiary following acquisition. If the business had been acquired on 1 January 2012, the consolidated results would have included operating income of £471,000 and a loss before tax of £527,000.

The fair value of acquired receivables is equal to the contractual amounts receivable, all of which are expected to be collected.

Acquisition-related costs totalling £123,000 for legal and professional advice and stamp duty have been recognised in other operating expenses in the period (2011: £nil).

34 Related party transactions

The remuneration of the key management personnel of the Group, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Group, is set out below. Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 53 to 60.

	2012 £'000	2011 £'000
Short term employee benefits	8,013	6,029
Post-employment benefits	777	321
Other long term benefits	438	964
Share-based payments	2,122	1,828
	11,350	9,142

Dividends totalling £418,000 were paid in the year (2011: £399,000) in respect of ordinary shares held by key management personnel and their close family members.

At 31 December 2012, the Group had provided interest-free season ticket loans of £6,000 (2011: £8,000) to key management personnel.

At 31 December 2012, key management personnel and their close family members had gross outstanding deposits of £1,112,000 (2011: £1,040,000) and gross outstanding banking loans of £559,000 (2011: £1,685,000), all of which (2011: all) were made on normal business terms. A number of the Group's key management personnel and their close family members make use of the services provided by companies within the Group. Charges for such services are made at various staff rates.

34 Related party transactions continued

The Group's transactions with the pension schemes are described in note 26. At 31 December 2012, no amounts were due from the schemes (2011: £10,000).

The Group managed 19 unit trusts and OEICs during 2012 (2011: 18 unit trusts and OEICs). Total annual management charges of £16,110,000 (2011: £14,451,000) were earned, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the Group. Annual management fees owed to the Group as at 31 December 2012 totalled £1,172,000 (2011: £1,208,000).

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

35 Consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months until maturity from the date of acquisition:

	2012 £'000	2011 £'000
Cash and balances at central banks (note 13)	**116,003**	4
Loans and advances to banks (note 14)	**62,611**	64,258
Available for sale investment securities (note 16)	**51,551**	65,610
	230,165	129,872

Available for sale investment securities are amounts invested in money market funds which are realisable on demand.

Cash flows arising from issue of ordinary shares comprise:

	2012 £'000	2011 £'000
Share capital issued (note 27)	**120**	9
Share premium on shares issued (note 27)	**27,944**	1,728
Shares issued in relation to share-based schemes for which no cash consideration was received	**(1,630)**	(696)
	26,434	1,041

36 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

COMPANY FINANCIAL STATEMENTS

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Company statement of changes in equity
for the year ended 31 December 2012

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2011		2,169	32,488	2,219	(2,899)	30,785	64,762
Profit for the year						15,027	15,027
Net actuarial loss on retirement benefit obligations	48					(6,383)	(6,383)
Revaluation of available for sale investment securities	16			(134)			(134)
Deferred tax relating to components of other comprehensive income	45			94		1,477	1,571
Other comprehensive income net of tax		–	–	(40)	–	(4,906)	(4,946)
Dividends paid	11					(19,491)	(19,491)
Issue of share capital	49	9	1,728				1,737
Share-based payments:							
– value of employee services						1,989	1,989
– cost of own shares acquired	49				(2,955)		(2,955)
– cost of own shares vesting	49				1,125	(1,125)	–
– tax on share-based payments	45					239	239
At 1 January 2012		**2,178**	**34,216**	**2,179**	**(4,729)**	**22,518**	**56,362**
Profit for the year						**30,921**	**30,921**
Net actuarial gain on retirement benefit obligations	48					**660**	**660**
Revaluation of available for sale investment securities	16			**923**			**923**
Deferred tax relating to components of other comprehensive income	45			**(154)**		**(399)**	**(553)**
Other comprehensive income net of tax		**–**	**–**	**769**	**–**	**261**	**1,030**
Dividends paid	11					**(20,074)**	**(20,074)**
Issue of share capital	49	**120**	**27,944**				**28,064**
Share-based payments:							
– value of employee services						**2,129**	**2,129**
– cost of own shares acquired	49				**(1,630)**		**(1,630)**
– cost of own shares vesting	49				**515**	**(515)**	**–**
– tax on share-based payments	45					**105**	**105**
At 31 December 2012		**2,298**	**62,160**	**2,948**	**(5,844)**	**35,345**	**96,907**

The accompanying notes form an integral part of the Company financial statements.

Company balance sheet

as at 31 December 2012

	Note	2012 £'000	2011 £'000 (restated – note 37)
Non-current assets			
Investment in subsidiaries	41	**62,608**	37,975
Investment in associates	42	**1,216**	–
Other investments	43	**4,198**	2,953
Trade and other receivables	44	**3,605**	3,268
Deferred tax	45	**1,129**	2,488
		72,756	46,684
Current assets			
Trade and other receivables	44	**70,088**	50,718
Current tax asset		**308**	991
Cash and cash equivalents		**1,430**	1,158
		71,826	52,867
Total assets		**144,582**	99,551
Current liabilities			
Trade and other payables	46	**(36,533)**	(28,175)
Provisions for liabilities and charges	47	**(9,012)**	(7,674)
		(45,545)	(35,849)
Net current assets		**26,281**	17,018
Non-current liabilities			
Employee benefits	48	**(2,130)**	(7,340)
Total liabilities		**(47,675)**	(43,189)
Net assets		**96,907**	56,362
Equity			
Share capital	49	**2,298**	2,178
Share premium	49	**62,160**	34,216
Available for sale reserve		**2,948**	2,179
Own shares	49	**(5,844)**	(4,729)
Retained earnings		**35,345**	22,518
Equity shareholders' funds		**96,907**	56,362

The financial statements were approved by the Board of directors and authorised for issue on 19 February 2013 and were signed on its behalf by:

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number: 01000403

The accompanying notes form an integral part of the Company financial statements.

Company statement of cash flows

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000 (restated – note 37)
Cash flows from operating activities			
Profit before tax		**31,264**	14,430
Interest and dividends received		**(30,595)**	(16,770)
Finance costs		**–**	10
Impairment charges	44	**760**	–
Net charge for provisions	47	**473**	1,196
Defined benefit pension scheme charges	48	**2,859**	1,484
Defined benefit pension scheme contributions paid	48	**(7,409)**	(7,170)
Share-based payment charges	49	**3,232**	2,604
Interest paid		**–**	(20)
		584	(4,236)
Changes in operating assets and liabilities:			
– net decrease in trade debtors		**93**	158
– net increase in prepayments, accrued income and other assets		**(21,341)**	(2,377)
– net increase in accruals, deferred income, provisions and other liabilities		**8,119**	12,429
Cash (used in)/generated from operations		**(12,545)**	5,974
Tax received		**1,258**	1,802
Net cash (outflow)/inflow from operating activities		**(11,287)**	7,776
Cash flows from investing activities			
Interest received		**485**	672
Intercompany dividends received		**30,000**	16,000
Other dividends received		**110**	98
Purchase of equity-accounted associate	42	**(1,216)**	–
Liquidation of subsidiary, net of cash transferred	41	**917**	–
Investment in subsidiaries	41	**(25,550)**	–
Purchase of other investment	16	**(91)**	–
Net cash generated from investing activities		**4,655**	16,770
Cash flows from financing activities			
Purchase of shares for share-based payments		**–**	(2,259)
Issue of ordinary shares	35	**26,434**	1,041
Repayments of borrowings		**–**	(3,089)
Dividends paid	11	**(20,074)**	(19,491)
Net cash generated from/(used in) financing activities		**6,360**	(23,798)
Net (decrease)/increase in cash and cash equivalents		**(272)**	748
Cash and cash equivalents at the beginning of the year		**1,158**	410
Cash and cash equivalents at the end of the year	54	**886**	1,158

The accompanying notes form an integral part of the Company financial statements.

37 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The individual financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

Changes in accounting policies and disclosures

Intercompany balances and provisions
The Group makes payments to new investment managers for the introduction of clients to the Company's operating subsidiaries. The cost of these payments is recharged to the Company's subsidiaries and, historically, the related provisions were recognised in the accounts of the subsidiaries. The underlying obligation to make these payments follows the employment contracts, which are with the Company. Consequently, in these financial statements the presentation of provisions for earn-out payments has been amended to show the legal obligation and the related recoverable amounts from subsidiaries. This has resulted in both an increase in the amounts owed by Group undertakings and an increase in provisions for liabilities and charges at 31 December 2011 of £6,478,000 (2010: £3,305,000).

Developments in reporting standards and interpretations

Developments in reporting standards and interpretations are set out in note 1 to the consolidated financial statements.

Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are as set out below:

Investments in subsidiaries and associates
Investments in subsidiaries and associates are stated at cost less, where appropriate, provision for impairment.

Management charges
Intra-Group management charges arise in relation to staff costs and other administrative expenses that are initially borne by the Company and then recharged to other Group companies, when incurred.

Accounting policies in relation to impairment, interest income, dividend income, operating leases, borrowings, foreign currency, retirement benefit obligations, taxation, cash and cash equivalents and share-based payments are set out in note 1 to the consolidated financial statements.

38 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The critical accounting judgements and key sources of estimation and uncertainty arise from the Company's defined benefit pension schemes and loan notes issued by former subsidiaries. These are described in note 2 to the consolidated financial statements.

39 Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income for the year. Rathbone Brothers Plc reported a profit after tax for the financial year ended 31 December 2012 of £30,921,000 (2011: £15,027,000).

Auditor's remuneration for audit and other services to the Company are set out in note 7 to the consolidated financial statements.

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2012	2011
Investment Management:		
– investment management services	**469**	455
– advisory services	**67**	66
Unit Trusts	**30**	29
Shared services	**209**	184
	775	734

40 Dividends

Details of the Company's dividends paid and proposed for approval at the AGM are set out in note 11 to the consolidated financial statements.

41 Investment in subsidiaries

	Equities £'000	Subordinated loans to Group undertakings £'000	Total £'000
At 1 January and 31 December 2011	**22,725**	**15,250**	**37,975**
Additions	**24,050**	**1,500**	**25,550**
Realised on liquidation	**(917)**	**–**	**(917)**
At 31 December 2012	**45,858**	**16,750**	**62,608**

Equities

During the year, the Company acquired a further 325,000 ordinary shares of Rathbone Investment Management for a cash consideration of £24,050,000.

A resolution was passed on 18 November 2011 to commence a members' voluntary liquidation of Neilson Cobbold Holdings Plc. This process was completed on 17 October 2012.

At 31 December 2012 the principal subsidiary undertakings were as follows:

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management Limited	England & Wales	Investment management and banking services
Rathbone Investment Management International Limited*	Jersey	Investment management
Rathbone Trust Company Limited	England & Wales	Trust and tax services
Rathbone Unit Trust Management Limited*	England & Wales	Unit trust management
Rathbone Pension & Advisory Services Limited	England & Wales	Pension advisory services
R.M. Walkden & Co. Limited*	England & Wales	Investment management

* Held by subsidiary undertaking

The Company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiaries. A full list of the Company's subsidiaries will be included in the Company's annual return to Companies House.

41 **Investment in subsidiaries** continued

Subordinated loans to Group undertakings

The amounts subject to subordinated loan agreements are shown below:

Counterparty	Repayment date	2012 £'000	2011 £'000
Rathbone Investment Management Limited	Not less than 5 years written notice	**15,000**	15,000
Rathbone Pension & Advisory Services Limited	Not less than 2 years written notice	**250**	250
Rathbone Investment Management International Limited	Not less than 2 years written notice but subject to approval by the Jersey Financial Services Commission	**1,500**	–
		16,750	15,250

The fair value of the subordinated loans is not materially different to their carrying amount.

All subordinated loans accrue interest at the Bank of England base rate plus 2.5% to a maximum of 5.0%.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated loans during the period.

42 Investment in associates and related derivatives

On 5 October 2012, the Company purchased 19.9% of the ordinary share capital of Vision Independent Financial Planning Limited and Castle Investment Solutions Limited, as well as certain options over the equity instruments of those companies, for a total consideration of £2,000,000. The total consideration was constituted as follows:

	2012 £'000	2011 £'000
Investment in associates	**1,216**	–
Fair value of associated derivative contracts (note 44)	**784**	–
	2,000	–

As part of the transaction to acquire these holdings, the Company has also entered into certain option contracts over the equity instruments of these companies, as described in note 20. The options are carried at fair value of £784,000 at 31 December 2012 (note 44).

43 Other investments

Available for sale securities

	2012 £'000	2011 £'000
Equity securities – at fair value:		
– listed	**3,584**	2,384
– unlisted	**614**	569
	4,198	2,953

44 Trade and other receivables

	2012 £'000	2011 £'000 (restated – note 37)	2010 £'000 (restated – note 37)
Loan notes	**2,821**	3,674	3,832
Derivative financial instruments (note 42)	**784**	–	–
Prepayments and other receivables	**4,563**	2,407	603
Amounts owed by Group undertakings	**65,525**	47,905	47,332
	73,693	53,986	51,767
Current	**70,088**	50,718	48,229
Non-current	**3,605**	3,268	3,538
	73,693	53,986	51,767

Loan notes were issued by the acquirer of the Group's Jersey trust operations in 2008 ('the Notes'). The Notes are unsecured and have no fixed maturity, being repayable on the occurrence of certain events, principally the refinancing of the Jersey trust operations by its existing owner. The Notes are carried at amortised cost, less provision for impairment.

In light of the prevailing economic conditions, at 31 December 2012, the Company revised its estimate of the likely timing of repayment of the Notes, which reduced the estimated present value of future cash flows from the Notes due to the impact of discounting. In accordance with IAS 36, the carrying value of the Notes was written down to £2,821,000 (being the estimated present value of future cash flows), resulting in an impairment loss of £760,000 in the year.

In 2010 and 2011, loans and advances to customers repayable within three months included a Swiss franc denominated loan to the acquirer of the Group's former Switzerland-based trust operations with a nominal value equivalent to £406,000 at 31 December 2011 and £565,000 at 31 December 2010. The loan did not bear interest and the final instalment was received on 10 February 2012.

Allowance for losses on loan notes

	2012 £'000	2011 £'000
At 1 January	**–**	–
Charge to profit or loss	**760**	–
At 31 December	**760**	–

45 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 23.0% (2011: 25.0%).

The UK Government has proposed that the UK corporation tax rate be reduced to 21.0% over the next two years. At 31 December 2012 only an element of this reduction, taking the UK tax rate to 23.0% in 2013, had been substantively enacted. Consequently deferred tax assets and liabilities are calculated at 23.0%.

The movement on the deferred tax account is as follows:

	Pensions £'000	Share-based payments £'000	Available for sale securities £'000	Total £'000
As at 1 January 2011	2,306	919	(820)	2,405
Recognised in profit or loss in respect of:				
– current year	(1,758)	29	–	(1,729)
– prior year	–	13	–	13
– change in rate	47	(58)	–	(11)
Total	(1,711)	(16)	–	(1,727)
Recognised in other comprehensive income in respect of:				
– current year	1,691	–	35	1,726
– prior year	–	–	–	–
– change in rate	(214)	–	59	(155)
Total	1,477	–	94	1,571
Recognised in equity in respect of:				
– current year	–	377	–	377
– prior year	–	(106)	–	(106)
– change in rate	–	(32)	–	(32)
Total	–	239	–	239
As at 31 December 2011	2,072	1,142	(726)	2,488

	Pensions £'000	Share-based payments £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	2,072	1,142	–	3,214
Deferred tax liabilities	–	–	(726)	(726)
As at 31 December 2011	2,072	1,142	(726)	2,488

45 **Deferred tax** continued

	Pensions £'000	Share-based payments £'000	Available for sale securities £'000	Total £'000
As at 1 January 2012	**2,072**	**1,142**	**(726)**	**2,488**
Recognised in profit or loss in respect of:				
– current year	**(1,347)**	**372**	**–**	**(975)**
– prior year	**–**	**–**	**–**	**–**
– change in rate	**163**	**(99)**	**–**	**64**
Total	**(1,184)**	**273**	**–**	**(911)**
Recognised in other comprehensive income in respect of:				
– current year	**(162)**	**–**	**(226)**	**(388)**
– prior year	**–**	**–**	**–**	**–**
– change in rate	**(237)**	**–**	**72**	**(165)**
Total	**(399)**	**–**	**(154)**	**(553)**
Recognised in equity in respect of:				
– current year	**–**	**157**	**–**	**157**
– prior year	**–**	**(20)**	**–**	**(20)**
– change in rate	**–**	**(32)**	**–**	**(32)**
Total	**–**	**105**	**–**	**105**
As at 31 December 2012	**489**	**1,520**	**(880)**	**1,129**

	Pensions £'000	Share-based payments £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	**489**	**1,520**	**–**	**2,009**
Deferred tax liabilities	**–**	**–**	**(880)**	**(880)**
As at 31 December 2012	**489**	**1,520**	**(880)**	**1,129**

The impact of calculating deferred tax at 21.0% would be to reduce the net deferred tax asset to £1,031,000 at 31 December 2012.

46 Trade and other payables

	2012 £'000	2011 £'000
Accruals, deferred income and other creditors	**31,931**	25,611
Amounts owed to Group undertakings	**1,189**	58
Other taxes and social security costs	**3,413**	2,506
	36,533	28,175

The fair value of trade and other payables is not materially different to their carrying amount.

All amounts owed to Group undertakings are repayable on demand and non-interest-bearing.

47 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Property-related and other £'000	Total £'000
As at 1 January 2011 (restated – note 37)	3,305	–	3,305
Charged to profit or loss	–	1,576	1,576
Unused amount credited to profit or loss	–	(380)	(380)
Net charge to profit or loss	–	1,196	1,196
Other movements	6,315	–	6,315
Utilised/paid during the period	(3,142)	–	(3,142)
As at 31 December 2011 (restated – note 37)	**6,478**	**1,196**	**7,674**
Charged to profit or loss	**–**	**774**	**774**
Unused amount credited to profit or loss	**–**	**(301)**	**(301)**
Net charge to profit or loss	**–**	**473**	**473**
Other movements	**6,877**	**–**	**6,877**
Utilised/paid during the period	**(5,117)**	**(895)**	**(6,012)**
As at 31 December 2012	**8,238**	**774**	**9,012**
Payable within 1 year	**3,923**	**–**	**3,923**
Payable after 1 year	**4,315**	**774**	**5,089**
	8,238	**774**	**9,012**

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised.

Property-related and other provisions include £774,000 in relation to dilapidations provisions expected to arise on leasehold premises held by the Company (2011: £920,000). Dilapidation provisions are calculated using a discounted cash flow model; during the year, the impact of discounting has increased the provisions by £50,000.

Provisions payable after 1 year are expected to be settled within 2 years of the balance sheet date, except for property-related provisions of £774,000. These are expected to be settled within 24 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held.

48 Employee benefits

Details of the defined benefit pension schemes operated by the Company are provided in note 26 to the consolidated financial statements.

49 Share capital, own shares and share-based payments

Details of the share capital of the Company and ordinary shares held by the Company together with changes thereto are provided in notes 27 and 28 to the consolidated financial statements. Details of options on the Company's shares and share-based payments are set out in note 29 to the consolidated financial statements.

50 Financial instruments

The Company's risk management policies and procedures are integrated with the wider Rathbone Group's risk management process. The Rathbone Group has identified the risks arising from all of its activities, including those of the Company, and has established policies and procedures to manage these items in accordance with its risk appetite. The Company categorises its financial risks into the following primary areas:

(i) credit risk;

(ii) liquidity risk;

(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk); and

(iv) pension risk.

The Company's exposures to pension risk are set out in note 48.

The sections below outline the Group risk appetite, as applicable to the Company, and explain how the Company defines and manages each category of financial risk.

The Company's financial risk management policies are designed to identify and analyse the financial risks that the Company faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its financial risk management policies and systems to reflect changes in the business and the wider industry.

The Company's overall strategy and policies for monitoring and management of financial risk are set by the Board of directors ('the Board'). The Board has embedded risk management within the business through the executive committee and senior management.

(i) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its trading activities. The principal sources of credit risk arise from depositing funds with banks and through providing long term and working capital financing for subsidiaries. The Company also took on credit exposure through the provision of loans as part of the disposal of its subsidiaries in Jersey in 2008.

The Company places surplus funds with its banking subsidiary, which operates under the Group's credit risk management policies. Group policy requires that funds are placed with a range of high-quality financial institutions. Investments are spread to avoid excessive exposure to any individual counterparty.

For the purposes of financial reporting the Company categorises its exposures based on the long term ratings awarded to counterparties by Fitch Ratings Ltd. ('Fitch') or Moody's Corporation ('Moody's').

The Company's financial assets are categorised as follows:

Trade and other receivables

Trade and other receivables relate to amounts placed with subsidiaries and loans provided to subsidiaries and former subsidiaries. The collection and ageing of trade and other receivables are reviewed on a periodic basis by management. Impairment provisions are made for any debts which are considered to be doubtful for collection.

Trade and other receivables includes derivative financial instruments which relate to option contracts over shares in the Company's associates (note 42). These options expose the Company to credit risk from the potential for non-delivery by the associate companies' founders, who are private individuals.

Cash and cash equivalents (balances at banks)

The Company has exposure to financial institutions through its bank deposits (reported within cash equivalents).

50 Financial instruments continued
(i) **Credit risk** continued

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis.

Impairment provisions for credit risk, which relate solely to loan notes, are set out in note 44. No other impairment losses arose during the year (2011: none).

Maximum exposure to credit risk

	2012 £'000	2011 £'000 (restated – note 37)
Trade and other receivables:		
– loan notes	**5,000**	5,413
– amounts owed by Group undertakings	**82,275**	63,155
– derivative financial instruments	**784**	–
– other financial assets	**972**	82
Balances at banks	**1,430**	1,158
	90,461	69,808

The above table represents the gross credit risk exposure of the Company at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements attached.

Loan notes and derivative financial instruments are not subject to standard lending criteria. All other trade and other receivables are within normal terms and conditions of lending at the balance sheet date (2011: all within normal terms and conditions of lending).

The terms attached to loan notes are set out in note 44. Amounts owed to Group undertakings do not have specific repayment dates and are paid down periodically as trading requires.

Trade and other receivables

Trade and other receivables are summarised as follows:

	2012 £'000	2011 £'000
Neither past due nor impaired	**83,993**	66,911
Impaired	**3,581**	–
Gross carrying value	**87,574**	66,911
Less: allowance for impairment (note 44)	**(760)**	–
Net carrying value	**86,814**	66,911

Balances at banks

All balances at banks were neither past due nor impaired. The credit quality of these balances is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the balance sheet date.

	2012 £'000	2011 £'000
A+ to A	**1,028**	1,158
Other*	**402**	–
	1,430	1,158

* Cash held within the Employee Benefit Trust

50 **Financial instruments** continued
(i) **Credit risk** continued

Concentration of credit risk

The Company has counterparty credit risk within its balances at banks in that the principal exposure is to its banking subsidiary. The Board sets and monitors the Group policy for the management of Group funds, which include the placement of funds with a range of high-quality financial institutions.

(a) Geographical sectors

The following table analyses the Company's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2012	United Kingdom £'000	Rest of the World £'000	Total £'000
Trade and other receivables:			
– loan notes	–	2,821	2,821
– amounts owed by Group undertakings	82,275	–	82,275
– derivative financial instruments	784	–	784
– other financial assets	564	370	934
Balances at banks	1,430	–	1,430
	85,053	3,191	88,244

At 31 December 2011 (restated – note 37)	United Kingdom £'000	Rest of the World £'000	Total £'000
Trade and other receivables:			
– loan notes	–	3,674	3,674
– amounts owed by Group undertakings	63,027	128	63,155
– other financial assets	16	66	82
Balances at banks	1,158	–	1,158
	64,201	3,868	68,069

(b) Industry sectors

The Company's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2012	Financial institutions £'000	Other corporates £'000	Total £'000
Trade and other receivables:			
– loan notes	–	2,821	2,821
– amounts owed by Group undertakings	62,291	19,984	82,275
– derivative financial instruments	–	784	784
– other financial assets	–	934	934
Balances at banks	1,430	–	1,430
	63,721	24,523	88,244

At 31 December 2011 (restated – note 37)	Financial institutions £'000	Other corporates £'000	Total £'000
Trade and other receivables:			
– loan notes	–	3,674	3,674
– amounts owed by Group undertakings	48,168	14,987	63,155
– other financial assets	–	82	82
Balances at banks	1,158	–	1,158
	49,326	18,743	68,069

50 **Financial instruments** continued

(ii) Liquidity risk

Liquidity risk is 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. The Company places its funds in short term or demand facilities with financial institutions to ensure liquidity. The Company has no bank loans (2011: £nil) and does not rely on external funding for its activities.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Company on its non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date.

At 31 December 2012	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets							
Trade and other receivables:							
– loan notes	–	–	–	–	–	5,255	5,255
– amounts owed by Group undertakings	65,525	123	377	17,595	–	–	83,620
– other financial assets	–	428	300	237	7	–	972
Balances at banks	887	182	143	219	–	–	1,431
Cash flows arising from financial assets	66,412	733	820	18,051	7	5,255	91,278
Cash flows arising from financial liabilities							
Trade and other payables:							
– amounts owed to Group undertakings	1,189	–	–	–	–	–	1,189
– other financial liabilities	143	16,827	3,769	14,382	1,870	–	36,991
Cash flows arising from financial liabilities	1,332	16,827	3,769	14,382	1,870	–	38,180
Net liquidity gap	65,080	(16,094)	(2,949)	3,669	(1,863)	5,255	53,098
Cumulative net liquidity gap	65,080	48,986	46,037	49,706	47,843	53,098	

At 31 December 2011 (restated – note 37)	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets							
Trade and other receivables:							
– loan notes	–	413	–	–	–	5,203	5,616
– amounts owed by Group undertakings	45,855	129	2,441	17,081	–	–	65,506
– other financial assets	–	35	1	46	–	–	82
Balances at banks	1,158	–	–	–	–	–	1,158
Cash flows arising from financial assets	47,013	577	2,442	17,127	–	5,203	72,362
Cash flows arising from financial liabilities							
Trade and other payables:							
– amounts owed to Group undertakings	58	–	–	–	–	–	58
– other financial liabilities	134	13,997	167	14,784	–	–	29,082
Cash flows arising from financial liabilities	192	13,997	167	14,784	–	–	29,140
Net liquidity gap	46,821	(13,420)	2,275	2,343	–	5,203	43,222
Cumulative net liquidity gap	46,821	33,401	35,676	38,019	38,019	43,222	

Included within trade and other payables disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

The Company holds £4,198,000 of equity investments (2011: £2,953,000), which are subject to liquidity risk but are not included in the table above. These assets are held as available for sale securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

50 Financial instruments continued

(ii) Liquidity risk continued

Derivative cash flows

The Company's exposure to derivative financial instruments is limited to option contracts over the equity instruments of its associates. These contracts do not create an obligation for the Company to deliver cash or a financial asset and therefore they are not included in the liquidity tables.

Off-balance sheet items

Cash flows arising from the Company's off-balance sheet financial liabilities arise solely from operating leases (note 52) and are summarised in the table below. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates.

Operating lease commitments	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2012	**1,352**	**4,136**	**21,362**	**28,853**	**55,703**
At 31 December 2011	1,140	1,772	20,871	34,448	58,231

Total liquidity requirement

At 31 December 2012	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	**1,332**	**16,827**	**3,769**	**14,382**	**1,870**	**38,180**
Total off-balance sheet items	**–**	**1,352**	**4,136**	**21,362**	**28,853**	**55,703**
	1,332	**18,179**	**7,905**	**35,744**	**30,723**	**93,883**

At 31 December 2011 (restated – note 37)	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	192	13,997	167	14,784	–	29,140
Total off-balance sheet items	–	1,140	1,772	20,871	34,448	58,231
	192	15,137	1,939	35,655	34,448	87,371

50 Financial instruments continued

(iii) Market risk

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities.

The table below shows the repricing profile of the Company's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2012	Not more than 3 months £'000	Non-interest-bearing £'000	Total £'000
Assets			
Other investments	–	4,198	4,198
Trade and other receivables:			
– loan notes	2,821	–	2,821
– amounts owed by Group undertakings	16,750	65,525	82,275
– derivative financial instruments	–	784	784
– other financial assets	–	934	934
Balances at banks	1,282	148	1,430
Total financial assets	20,853	71,589	92,442
Liabilities			
Trade and other payables:			
– amounts owed to Group undertakings	–	1,189	1,189
– other financial liabilities	–	30,164	30,164
Total financial liabilities	–	31,353	31,353
Interest rate repricing gap	20,853	40,236	61,089

At 31 December 2011 (restated – note 37)	Not more than 3 months £'000	Non-interest-bearing £'000	Total £'000
Assets			
Other investments	–	2,953	2,953
Trade and other receivables:			
– loan notes	3,268	406	3,674
– amounts owed by Group undertakings	17,300	45,855	63,155
– other financial assets	–	82	82
Balances at banks	1,018	140	1,158
Total financial assets	21,586	49,436	71,022
Liabilities			
Trade and other payables:			
– amounts owed to Group undertakings	–	58	58
– other financial liabilities	134	24,132	24,266
Total financial liabilities	134	24,190	24,324
Interest rate repricing gap	21,452	25,246	46,698

A 1% parallel increase/decrease in the sterling yield curve would result in an increase/decrease in profit after tax and equity of £86,000 (2011: £73,000).

50 Financial instruments continued
(iii) Market risk continued

Foreign exchange risk

The Company does not have any material exposure to transactional foreign exchange risk. The table below summarises the Company's exposure to foreign currency translational risk at 31 December 2012. Included in the table are the Company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2012	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Other investments	**3,589**	**–**	**609**	**–**	**4,198**
Trade and other receivables:					
– loan notes	**2,821**	**–**	**–**	**–**	**2,821**
– amounts owed by Group undertakings	**82,275**	**–**	**–**	**–**	**82,275**
– derivative financial instruments	**784**	**–**	**–**	**–**	**784**
– other financial assets	**741**	**193**	**–**	**–**	**934**
Balances at banks	**1,430**	**–**	**–**	**–**	**1,430**
Total financial assets	**91,640**	**193**	**609**	**–**	**92,442**
Liabilities					
Trade and other payables:					
– amounts owed to Group undertakings	**1,189**	**–**	**–**	**–**	**1,189**
– other financial liabilities	**30,164**	**–**	**–**	**–**	**30,164**
Total financial liabilities	**31,353**	**–**	**–**	**–**	**31,353**
Net on-balance sheet position	**60,287**	**193**	**609**	**–**	**61,089**

At 31 December 2011 (restated – note 37)	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Other investments	2,389	–	564	–	2,953
Trade and other receivables:					
– loan notes	3,268	–	–	406	3,674
– amounts owed by Group undertakings	63,155	–	–	–	63,155
– other financial assets	16	66	–	–	82
Balances at banks	1,158	–	–	–	1,158
Total financial assets	69,986	66	564	406	71,022
Liabilities					
Trade and other payables:					
– amounts owed to Group undertakings	58	–	–	–	58
– other financial liabilities	24,266	–	–	–	24,266
Total financial liabilities	24,324	–	–	–	24,324
Net on-balance sheet position	45,662	66	564	406	46,698

A 10% weakening of the US dollar or euro against sterling, occurring on 31 December 2012, would have reduced equity and profit after tax by £15,000 or £46,000 respectively (2011: £5,000 or £41,000 respectively). A 10% strengthening of the US dollar or euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

50 Financial instruments continued
(iii) Market risk continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Company is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 43).

At 31 December 2012, the fair value of equity securities recognised on the balance sheet was £4,198,000 (2011: £2,953,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £420,000 (2011: £295,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries which are carried at historical cost (note 41).

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- 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 or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Available for sale equity securities	3,584	–	614	4,198
Derivative financial instruments	–	–	784	784
Total financial assets	**3,584**	**–**	**1,398**	**4,982**
At 31 December 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Available for sale equity securities	2,384	–	569	2,953
Total financial assets	2,384	–	569	2,953

There have been no transfers between levels during the year (2011: none).

Details of the methods and assumptions used to determine the fair values of the financial assets in the above table, along with how reasonably possible changes to the assumptions affect these fair values, are provided in note 30 to the consolidated financial statements.

Level 3 financial instruments

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2012 Available for sale equity securities £'000	2012 Derivative financial instruments £'000	2012 Total £'000	2011 Available for sale equity securities £'000	2011 Derivative financial instruments £'000	2011 Total £'000
At 1 January	569	–	569	574	–	574
Total gains and losses recognised in other comprehensive income	45	–	45	(5)	–	(5)
Acquired during the year (note 42)	–	784	784	–	–	–
At 31 December	**614**	**784**	**1,398**	569	–	569

51 Capital management

The Company's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

For monitoring purposes, the Company defines capital as equity shareholders' funds. The Company monitors the level of distributable reserves on a monthly basis and compares this to forecast dividends. Capital is distributed to the Company from operating subsidiaries on a timely basis to ensure sufficient capital is maintained. The Board of directors considers the level of capital held in relation to forecast performance, dividend payments and wider plans for the business, although formal quantitative targets are not set. The Company's total capital at 31 December 2012, together with movements during the year then ended, is set out in the Company statement of changes in equity.

On 6 November 2012, the Company issued two million ordinary shares by way of a placing for cash consideration which raised £23,956,000, net of £744,000 transaction costs (note 27).

There were no changes in the Company's approach to capital management during the year.

52 Contingent liabilities and commitments

(a) Indemnities are provided in the normal course of business to a number of directors and employees who provide tax and trust advisory services in connection with them acting as trustees/directors of client companies and providing other services.

A claim relating to the management of a Jersey trust has been filed against a former employee (and director) of Rathbone Trust Company Jersey Limited. Rathbone Trust Company Jersey Limited was a subsidiary of the Company from March 2000 until October 2008. Although the Board believe this claim will be unsuccessful, a possible obligation may exist which is contingent on whether the claim (or any parts of it) is upheld.

The Group has sought to confirm the position of the Company's civil liability (professional indemnity) insurers in relation to the claim. Based on information currently available, the Company's primary layer insurer has confirmed cover (including its share of the excess layer) subject to policy terms and conditions and unless the proceedings referred to below rule there is no liability. The remaining excess insurers have to date refused to confirm cover. On 25 July 2012, the Company issued proceedings to confirm insurance cover against the excess insurers.

Due to the complexity of the claim, the number of parties involved and the impact of insurance cover available to the trustees, it is not practicable to estimate reliably the value of any possible obligation for the Company.

The Board considers that it is unlikely that a material liability to Rathbones will arise from this claim, and accordingly no provision has been made.

(b) The Company leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Company's agreement to lease space at 1 Curzon Street, London, under which total payments over the lease term at 31 December 2012 were £34,616,000, provides for an upward only reset to market rents in 2018.

Payments under non-cancellable operating leases	2012 £'000	2011 £'000
No later than 1 year	**5,488**	2,912
Later than 1 year and no later than 5 years	**21,362**	20,871
Later than 5 years	**28,853**	34,448
	55,703	58,231

53 Related party transactions

(i) Transactions with key management personnel

The remuneration of the key management personnel of the Company, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Company, is set out below.

	2012 £'000	2011 £'000
Short term employee benefits	**1,626**	1,566
Post-employment benefits	**114**	85
Other long term benefits	**17**	22
Share-based payments	**859**	730
	2,616	2,403

Dividends totalling £418,000 were paid in the year (2011: £399,000) in respect of ordinary shares held by key management personnel and their close family members.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

(ii) Other related party transactions

During the year, the Company entered into the following transactions with fellow subsidiaries:

	2012 Receivable £'000	2012 Payable £'000	2011 Receivable £'000	2011 Payable £'000
Interest	**460**	**–**	527	–
Charges for management services	**78,332**	**230**	73,826	–
	78,792	**230**	74,353	–

The Company's balances with fellow Group companies at 31 December 2012 are set out in notes 41, 44 and 46.

The Company's transactions with the pension schemes are described in note 48. At 31 December 2012, no amounts were due from the schemes (2011: £10,000).

All transactions and outstanding balances with fellow Group companies are priced on an arm's length basis and are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts for any amounts due from fellow Group companies.

54 Cash and cash equivalents

For the purposes of the Company statement of cash flows, cash and cash equivalents comprise the following balances with less than three months until maturity from the date of acquisition:

	2012 £'000	2011 £'000
Cash at bank	**886**	1,158

55 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

Further information

143 Five year record
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Five year record and corporate information

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Operating income	**155,581**	144,452	127,184	116,757	131,166
Underlying profit before tax	**45,137**	46,219	38,503	32,446	45,020
Profit before tax	**38,812**	39,152	30,083	29,468	42,306
Tax	**(9,596)**	(10,446)	(8,531)	(9,271)	(13,421)
Profit after tax	**29,216**	28,706	21,552	20,197	28,885
Equity dividends paid and proposed	**21,220**	20,001	19,067	18,159	17,984
Basic earnings per share	**67.00p**	66.72p	49.76p	46.87p	67.57p
Diluted earnings per share	**66.41p**	65.90p	49.35p	46.85p	67.02p
Dividends per ordinary share	**47.0p**	46.0p	44.0p	42.0p	42.0p
Equity shareholders' funds	**229,493**	190,653	185,374	182,489	184,631
Total funds under management	**£17.98bn**	£15.85bn	£15.63bn	£13.10bn	£10.46bn

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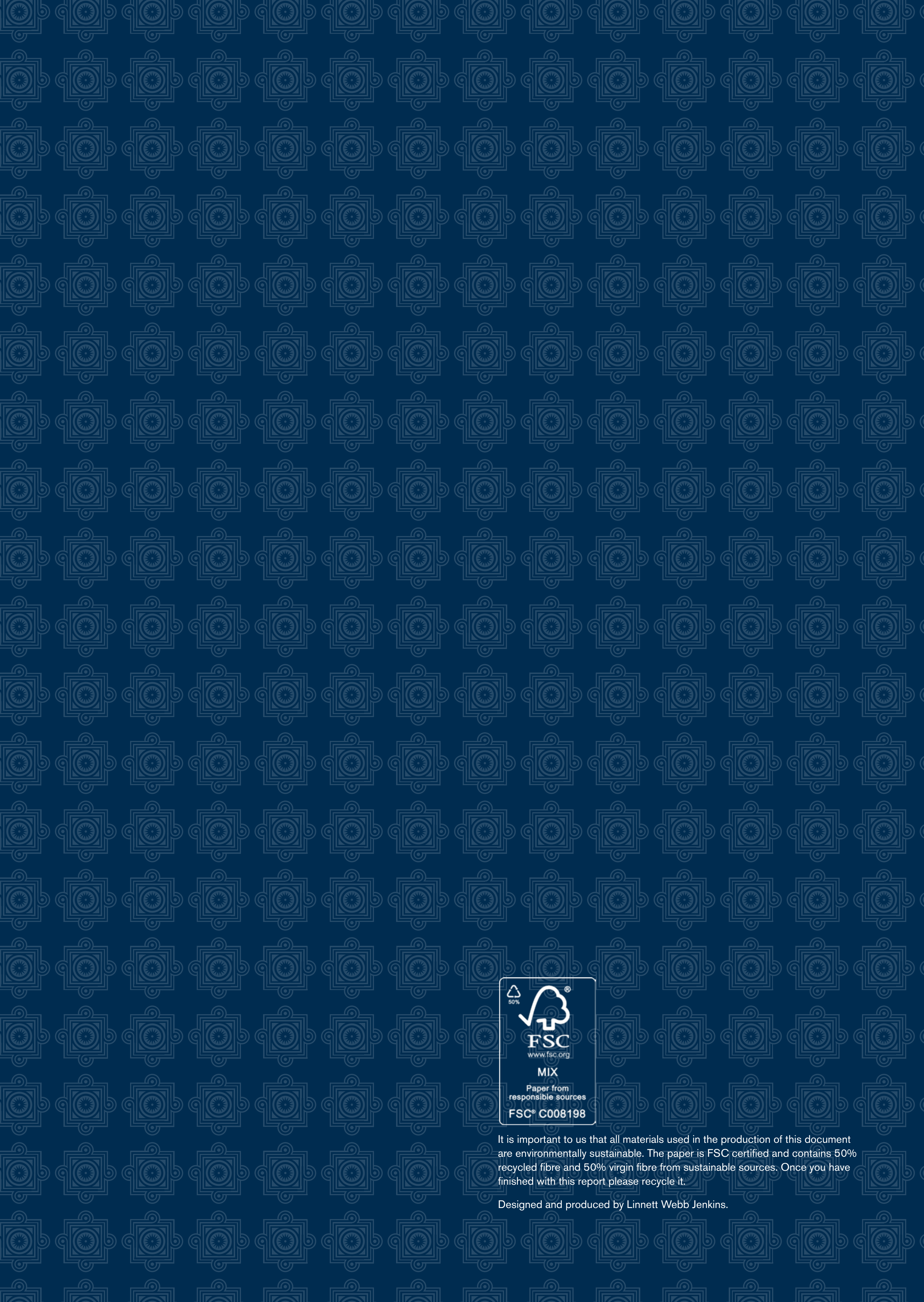

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