Rathbones' funds under management grow 24%

This is a preliminary statement of annual results published in accordance with FCA Listing Rule 9.7A.
It covers the year ended 31 December 2014.

Mark Nicholls, Chairman of Rathbone Brothers Plc, said:

“2014 was a challenging year for most investment markets, which became increasingly volatile in the second half. Despite this, Rathbones had another good year and achieved strong and broad-based growth. Our total funds under management grew by 23.6 % over the year to £27.2 billion and we warmly welcomed more than 5,000 new clients during the year.

“Rathbones looks forward to future growth opportunities in the sector, but remains aware of the possible adverse market effects that current political and economic uncertainty, both in this country and overseas, may have. I look forward to seeing the full benefit of our 2014 acquisitions in 2015, and working with our board in the coming years to develop and grow the business.”

Highlights:

- Total funds under management were £27.2 billion at 31 December 2014, up 23.6% from £22.0 billion at 31 December 2013. The FTSE 100 Index decreased by 2.7% and the FTSE WMA Balanced Index increased by 4.2% over the same period.

- The total net annual growth rate of funds under management for Rathbone Investment Management was 19.6% (2013: 9.0%). This comprised £3.2 billion of acquired inflows (2013: £0.6 billion), including £2.6 billion in relation to the Jupiter Asset Management and Deutsche Asset & Wealth Management transactions, and £0.8 billion of net organic growth (2013: £0.9 billion). The underlying rate of net organic growth was 4.0% in 2014 (2013: 5.4%).

- Rathbone Unit Trust Management saw record gross sales of £1.0 billion in 2014, and saw funds under management increase by 38.9% to £2.5 billion at 31 December 2014 (2013: £1.8 billion).

- Underlying operating income in Rathbone Investment Management of £185.3 million for the year ended 31 December 2014 (2013: £165.3 million) represents an increase of 12.1%. The average FTSE 100 Index was 6657 on our quarterly billing dates (2013: 6419), an increase of 3.7%.

- Underlying operating expenses increased 10.6% to £139.3 million largely reflecting inflation, growth of the business and higher performance-based staff costs.

- Underlying profit before tax (excluding a refund of levies for the Financial Services Compensation Scheme, gain on disposal of financial securities, gain on disposal of our pension administration business, charges in relation to client relationships and goodwill, contribution to legal settlement and transaction costs) increased 21.8% to £61.5 million from £50.5 million. Underlying earnings per share increased by 18.1% to 102.4p (2013: 86.7p).

- Profit before tax was £45.7 million for the year ended 31 December 2014, an increase of 3.4%, compared to £44.2 million in 2013. Basic earnings per share decreased by 0.3% to 75.9p (2013: 76.1p).

- The board recommends a 33p final dividend for 2014 (2013: 31p), making a total of 52p for the year (2013: 49p), an increase of 6.1% on 2013.

Ends
Issued on 19 February 2015

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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.

Rathbones has over 900 staff in 13 UK locations and Jersey, and has its head office at 1 Curzon Street, London.

www.rathbones.com

Chairman's Statement

Overview of 2014

2014 was a challenging year for most investment markets, which became increasingly volatile in the second half. Despite this, Rathbones had another good year and achieved strong and broad-based growth. Our total funds under management grew by 23.6 % over the year to £27.2 billion. We warmly welcomed more than 5,000 new clients during the year.

We made two significant acquisitions in 2014, which added £2.6 billion of funds under management, and throughout the year we continued to attract experienced investment managers. The net organic growth rate in our investment management business was resilient and our unit trust business had a particularly strong year. We also reported an underlying operating margin of 30% for the year.

The board is recommending a final dividend of 33p per share. This brings the total dividend for the year to 52p per share, an increase of 6.1% over last year.

We carried out a very successful share placing in April, which raised £23.6 million. We also continued to invest in the business to ensure that our people and infrastructure can support future growth. Important investments completed in 2014 were the upgrading of our online portal for clients and intermediaries, the development of our finance systems and the completion of our data centre outsourcing project. We continue to strengthen our investment process and have bolstered both our research function and our investment risk management framework.

In accordance with our succession plan, Philip Howell became chief executive on 1 March 2014. The handover from Andy Pomfret went very smoothly and reflects well on them both. Philip has made a strong start as chief executive and has set a clear course for the business both internally and externally. Also in our plans, James Dean succeeded Oliver Corbett as chairman of the audit committee on 3 June 2014 and we are already benefitting from his considerable skill and experience.

Strategy

As I mentioned last year, the development of our strategic thinking and processes was a priority for 2014. Since the appointment of a new chief executive we have spent considerable time developing our strategy for the medium term. We have agreed that we will not change or dilute our core discretionary investment management model but will proactively seek related opportunities for growth. In particular, we will provide more services for high net worth clients and will widen our distribution capability. This evolutionary strategy has been presented to all staff in 'town hall' meetings. It was also the focus of separate presentations to investment analysts and major shareholders. The strategy provides clarity in articulating both what we will do, and what we will not do. Delivery of our strategic objectives is a major task and we are fully committed to achieving our goals.

Governance, the board and senior management

Good culture and ethics are the best guardians of sound corporate governance and of course we continue to respond to ever-changing governance codes and standards. The board is well aware of the importance of setting the right 'tone from the top', and thereby ensuring that not only our clients but all our stakeholders benefit from a longstanding ethical culture. This culture must be nurtured.

During the year, in addition to regulatory matters, the board spent considerable time discussing strategy, risk management, potential acquisitions and the resolution of the Jersey legal proceedings referred to below. The discussions in the board meetings were robust, thorough and constructive. A third party board effectiveness review was carried out towards the end of the year by an independent assessor which confirmed that the board was effective and working well. The review suggested some further refinements, albeit there were no surprises in these suggestions. We will be working on the recommendations made during the current year.

I mentioned in last year's report that we were intending to appoint an additional female non-executive director by 2015. I am delighted to report that on 21 January 2015 Sarah Gentleman was appointed as a non-executive director. Sarah has had a career embracing both technology and financial services and I am sure she will make a significant contribution.

Philip Howell outlines in his report how the growth in our business has necessitated strengthening our senior management team in the areas of risk, strategy and organisation development. We have made some strong appointments and are now well placed for further growth.

Risk and litigation

We have made good progress in developing a risk management framework and we look forward to the arrival of a chief risk officer who we expect to join us in March 2015. We continue to believe that the most significant risks to our business are operational risks that arise from the growth in our business and regulatory risks that may arise from continual changes to rules and standards in our sector.

It is important to maintain and develop good relations with all our regulators and this is a high priority for our senior management. Increasing attention has been paid by the Financial Conduct Authority to ‘conduct risk’ and conflicts of interest in relation to the outcomes for clients. The long-standing culture of Rathbones in putting the interests of our clients first is our best protection here, but we will remain vigilant. A new board conflicts of interest committee has been established, chaired by James Dean.

In July we announced that we had entered into an agreement to settle legal proceedings in Jersey involving a former director and employee of a former subsidiary and in respect of our legal proceedings against certain of our insurers. Although our case was strong (and indeed judgement was given subsequently in our favour by the Court of Appeal in the insurance proceedings), the continuing costs and uncertainty of litigation, together with the management time taken, led the board to conclude that this settlement was in the best interest of shareholders.

Employees

The high calibre of our employees makes Rathbones a very enjoyable place to work, and a quality firm to do business with. Our employees have worked hard in a year of considerable change, to secure the very smooth integration of two significant new businesses.

Shareholders

The successful share placing in April 2014, which was carried out at no discount to the prevailing market price, was evidence of the strong relationship we have developed with our shareholder base. We are fortunate to have several engaged institutional shareholders with a significant investment in the company. We have, and will continue to maintain, a regular and constructive dialogue with them.

Outlook

Rathbones looks forward to future growth opportunities in the sector, but remains aware of the possible adverse market effects that current political and economic uncertainty, both in this country and overseas, may have. I look forward to seeing the full benefit of our 2014 acquisitions in 2015, and working with our board in the coming years to develop and grow the business.

Mark Nicholls
Chairman
18 February 2015

Chief executive's statement

Having taken over as chief executive on 1 March 2014, this is my first report and I am very pleased to start with what has been a particularly busy and successful year for Rathbones.

2014 financial performance

Aside from a degree of volatility in the last quarter of 2014, financial markets were reasonably stable during the year. The FTSE 100 Index ended the year in broadly the same place it started and interest rates did not move from historical lows. Notwithstanding this backdrop, we continued to grow organically, which, together with a number of significant acquisitions and a strong performance in our unit trust business, increased our total funds under management by 23.6% to £27.2 billion at 31 December 2014 from £22.0 billion a year ago.

The purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business was completed in June adding £0.6 billion of funds under management, and the acquisition of Jupiter's private client and charity investment management business added a further £2.0 billion in September. We continue to be successful in attracting investment managers to Rathbones, with both individuals and their clients settling in well. Total new acquired business in Rathbone Investment Management for 2014 was up substantially to £3.2 billion from £0.6 billion in 2013.

In addition, Rathbone Investment Management posted a net organic growth rate of 4.0% (2013: 5.4%) which is a resilient performance albeit below our 5% target. Our unit trust business continues to gain momentum, with £2.5 billion of funds under management at 31 December 2014 (2013: £1.8 billion). It attracted some £554 million of net funds in 2014, an increase of 69.4% on the £327 million reported last year.

This growth is only partially reflected in the 13.8% increase in our underlying operating income to £200.8 million from £176.4 million in 2013, due to the timing of acquisitions. Net interest income of £9.2 million increased by 7.0% on the £8.6 million in 2013, largely reflecting higher cash balances in the year. Our client loan book grew 9.2% to £97.4 million from £89.2 million at the end of 2013. Underlying operating expenses of £139.3 million grew very much in line with the growth in the business.

Underlying profit before tax was £61.5 million, up 21.8% on the £50.5 million earned last year, representing an underlying operating margin of 30.6% which is consistent with our intent to deliver an underlying operating margin of circa 30% throughout the economic cycle (2013: 28.6%). Underlying earnings per share of 102.4p were up 18.1% on the 86.7p earned in 2013 and also reflect the impact of the successful placing of 1,343,000 shares at no discount on 1 April 2014.

Profit before tax of £45.7 million was marginally up on the £44.2 million reported last year and reflects a number of one-off items, the most significant being the cost of the settlement of legal proceedings involving a former director and employee of a former subsidiary Rathbone Trust Company Jersey Limited and the realisation of gains from sales of equity securities. We welcome the £1.0 million Financial Services Compensation Scheme levy refund for costs of Keydata claims received in December.

Our consolidated Common Equity Tier 1 ratio at 31 December 2014 (including verified profits for the year) stood at 17.7%, as compared to 21.0% at 31 December 2013. This reflects the cost of the Jupiter Asset Management and Deutsche Asset & Wealth Management transactions which completed during the year, offset by the impact of the placing in April 2014.

Our consolidated leverage ratio (including verified profits for the year) at 31 December 2014 was 7.5% compared to 11.5% at 31 December 2013; this fall was due to growth in the balance sheet and the increase in intangible assets which have reduced Common Equity Tier 1 capital.

Key events in 2014

A lot of hard work went into making our 2014 acquisitions a success, proving that we have the capability not only to attract new teams and clients, but also to make their journey to Rathbones as smooth and efficient as possible. Once again, staff from across the business worked tirelessly to ensure that the transfer of client accounts was seamless.

We remain committed to ensuring that clients receive a quality experience at Rathbones, and this has been clearly demonstrated by the positive client survey feedback we received this year. We also made improvements to our online client and advisor portal and other client communications that were well received, as were the key client events we held at the Royal Academy, Imperial War Museum and our annual charity symposium at the Saatchi Gallery. We gratefully received a number of investment awards in 2014, including a Gold Standard award for discretionary portfolio management by Incisive Media, CityWealth Magic Circle's award for charity investment manager of the year, six separate awards in Rathbone Unit Trust Management Limited and the Citywealth International Financial Centre Award for the Investment Management Company of the Year, Channel Islands, awarded to Rathbone Investment Management International.

In 2014, we combined the intermediary distribution teams in our investment management and unit trust businesses. This will allow us to provide the relationship and service structure that larger intermediaries and IFA networks demand. We continue to hold a 19.9% interest in Vision Independent Financial Planning Limited. Our relationship with Vision continues to bear fruit and we will consider whether to exercise our option to acquire the remaining 80.1% of the company in 2015.

As we grow, we continue to invest in our infrastructure, spending some £4.6 million in capital expenditure in 2014 compared to £4.5 million in 2013. In addition to upgrading our front office workflow, online portal and finance systems, in May 2014 we successfully completed our planned data centre move in the North West which was the last stage of a programme to materially upgrade the resilience and flexibility of our IT systems.

Full time equivalent headcount in Rathbones has grown from 833 at the start of the year to 880 at the end. This increase is a result of adding a mix of investment management teams and support roles, but also a select number of senior roles that we believe are necessary to manage future growth. In the second half of 2014 for example, we added a head of strategy and organisational development, and strengthened our research and investment risk teams. We expect a chief risk officer to join us in March 2015.

As I reported in July, we were pleased to have closed off the long-running legal proceedings which avoided the prospect of several more years of very substantial legal expenses and allowed our senior management team to apply its full focus to executing our strategic plan.

Key initiatives for 2015

We launched our strategy in November through a series of 'town hall' presentations to all Rathbones staff, an analyst dinner and an investor day. All these events were well attended and we were encouraged by the positive feedback.

Our strategy recognises that we are building on a successful track record and sets out a package of incremental initiatives that will drive growth in the medium term. These initiatives aspire to a net organic growth rate of 5% on average across the cycle in our core private client and charity businesses. This will be supplemented by the establishment of a Rathbones Private Office serving clients at the higher end of the wealth spectrum towards the end of 2015. We will also continue to enhance our distribution capability to position us more favourably with the professional intermediary market and plan to continue to grow our unit trust business.

We have a strong culture within Rathbones that we will continue to nurture. Our management approach reaffirms our commitment to retaining our individualism and independence whilst making sure that our people are well informed and focused on delivering quality service. We also intend to launch a new Rathbones brand in 2015 that reflects the progressive company that Rathbones has become.

Outlook

We will continue to invest in both people and infrastructure, working within the financial disciplines required to deliver a 30% underlying operating margin throughout the economic cycle.

In 2015, the heightened geo-political and economic risks we face will almost certainly result in greater market volatility.

Notwithstanding this challenging environment, we will continue to focus on delivering organic growth whilst remaining alert to sensible acquisition opportunities. There is strong momentum in the business to maintain our position as one of the leading providers of investment management services in the UK wealth market.

Philip Howell
Chief Executive
18 February 2015

Rathbones' performance

2014 was a year of growth for Rathbones despite some uncertainty and volatility in financial markets in the latter part of the year. Overall, the FTSE 100 Index and the FTSE WMA Balanced Index ended the year little changed from their opening levels.

Table 1. Extracts from the consolidated statement of comprehensive income

	2014 £m	2013 £m
Underlying operating income	**200.8**	176.4
Underlying operating expenses	**(139.3)**	(125.9)
Underlying profit before tax[1]	**61.5**	50.5
Underlying operating margin[2]	**30.6%**	28.6%
Profit before tax	**45.7**	44.2
Effective tax rate	**22.1%**	21.3%
Taxation	**(10.1)**	(9.4)
Profit after tax	**35.6**	34.8
Underlying earnings per share	**102.4p**	86.7p
Earnings per share	**75.9p**	76.1p
Dividend per share[3]	**52p**	49p

1 Profit before tax excluding refund of levies for the Financial Services Compensation Scheme, gain on disposal of financial securities, gain on disposal of pension administration business, charges in relation to client relationships and goodwill, contribution to legal settlement and transaction costs
2 Underlying profit before tax as a % of underlying operating income
3 The total interim and final dividend proposed for the financial year

Group underlying operating income

Underlying operating income increased 13.8% to £200.8 million in 2014 reflecting fees and commissions earned on higher levels of funds under management. A detailed analysis of each component of income is set out in the segmental analysis in note 3 below.

Group underlying operating expenses

Underlying operating expenses have increased 10.6% to £139.3 million, which largely reflects a combination of business growth and investment.

Total fixed staff costs, including support staff, increased by 9.0% to £61.9 million in 2014, including inflation of 4% and growth of 5.6% in average full time equivalent headcount to 880 (2013: 833). This growth reflects the acquisitions in the year and the addition of new revenue generating teams in London and Chichester. We have also taken on more staff in operational roles and support departments in line with our strategic plan.

Total variable staff costs, including variable awards for business support staff, increased by 26.2% to £35.2 million. This reflects the higher cost of cash-settled awards, in line with share price growth and higher profitability. Variable staff costs in 2014 represented 17.5% of underlying operating income (2013: 15.8%) and 36.4% of underlying profit before tax and variable staff costs (2013: 35.6%).

As planned, infrastructure costs increased by £1.1 million, largely as a result of expenditure to improve automation and help drive process efficiencies.

Underlying operating expenses also included £1.5 million of legal fees (2013: £2.7 million) in relation to the legal proceedings outlined below and £2.8 million (2013: £0.5 million) for awards payable to new investment managers for the introduction of new clients where those managers have been in situ for more than 12 months (see note 2).

Underlying profit before tax/operating margin

Underlying profit before tax and earnings per share are considered by the board to be a better reflection of true business performance than looking at Rathbones' results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude income and expenditure falling in the six categories explained below. A full reconciliation between underlying profit and profit attributable to shareholders is provided in table 2.

Table 2. Reconciliation of underlying profit before tax to profit before tax

	2014 £m	2013 £m
Underlying profit before tax	**61.5**	50.5
Refund of levies for the Financial Services Compensation Scheme	**1.0**	-
Gain on disposal of financial securities	**6.8**	-
Gain on disposal of pension administration business	**0.7**	-
Charges in relation to client relationships and goodwill	**(8.3)**	(6.3)
Contribution to legal settlement	**(15.0)**	-
Transaction costs	**(1.0)**	-
Profit before tax	**45.7**	44.2

Refund of levies for the Financial Services Compensation Scheme
In 2010, the group incurred exceptional levies of £3.2 million from the Financial Services Compensation Scheme (FSCS) as a result of the failure of Keydata and other intermediaries. In December 2014, the FSCS announced that they had made recoveries of approximately £50 million and consequently reimbursed part of the exceptional costs levied to scheme participants. The share of recoveries returned to the group was £1.0 million.

Gain on disposal of financial securities
During 2014, the group disposed of its remaining holdings of shares in the London Stock Exchange Group Plc and Euroclear Plc, raising £6.8 million from the disposals. The group acquired the shares as it was a member of the London Stock Exchange and Crest at the time of their respective listings. As at 31 December 2014, the group had no remaining non-core equity holdings.

Gain on disposal of pension administration business
On 31 December, the group disposed of its Self Invested Personal Pension (SIPP) administration business, which was no longer considered to be a core component of the group's activities. This generated net proceeds of £0.7 million. No assets or liabilities were derecognised as a result of the disposal and all staff were retained within the group and assigned to new roles. This business generated £0.7m of revenue in 2014.

Charges in relation to client relationships and goodwill
As explained in note 2, 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 2014 were £8.3 million (2013: £6.3 million), reflecting recent acquisitions.

Contribution to legal settlement
On 24 July 2014, the group announced that it had reached a conditional agreement to contribute £15.0 million to a settlement of legal proceedings in Jersey involving a former director and employee of a former subsidiary and in respect of legal proceedings against certain of Rathbones' civil liability (professional indemnity) insurers. On 18 August 2014, the group announced that all conditions had been satisfied and Rathbones had paid its share of the settlement. No such costs were incurred in 2013.

Transaction costs
Transaction related costs of £1.0 million were incurred in relation to the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter's private client and charity investment management business (2013: £nil).

Underlying profit before tax grew 21.8% from £50.5 million in 2013 to £61.5 million. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 30.6% for the year ended 31 December 2014 (2013: 28.6%). Profit before tax increased 3.4% to £45.7 million for the year, up from £44.2 million in 2013.

Taxation

The tax charge for 2014 was £10.1 million (2013: £9.4 million), and represents an effective tax rate of 22.1% (2013: 21.3%).

The effective tax rate is slightly higher than the derived UK standard rate of corporation tax of 21.5% due to:

- the impact of disallowable expenses; partially offset by
- an increase in the tax deduction available for share-based awards driven by a higher share price; and
- a lower rate of tax payable on earnings from our Jersey business.

A full reconciliation of the income tax expense is provided in note 4.

The Finance Bill 2013, which included provisions for the UK corporation tax rate to be reduced to 20% in April 2015, was passed by the House of Commons on 2 July 2013 and the reductions are therefore deemed to be substantively enacted. Deferred tax balances have therefore been calculated based on this reduced rate where timing differences are forecast to unwind in future years.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2014 were 75.9p, down 0.3% on 76.1p in 2013, incorporating the impact of the placing of 1,343,000 shares in April 2014. On an underlying basis, earnings per share increased by 18.1% to 102.4p in 2014 (see note 6).

Dividends

In light of the results for the year, the board have proposed a final dividend for 2014 of 33p. This results in a full year dividend of 52p, an increase of 3p on 2013 (6.1%). The proposed dividend is covered 1.5 times by basic earnings and 2 times by underlying earnings.

Legal proceedings

As reported in the 2013 report and accounts, a claim relating to the management of a Jersey trust had been filed against a former employee (and director) of a former subsidiary and others (and that former subsidiary had recently been joined in as a defendant). In addition, the company issued proceedings against certain of its civil liability (professional indemnity) insurers in respect of the former employee's potential liabilities arising out of the Jersey claim.

In November 2013 the company announced that judgment had been handed down following the trial in the Commercial Court in London in respect of the insurance case. In December 2013, the company and the former employee in question decided to appeal subrogation aspects of the judgment and our insurers also decided to appeal coverage aspects of the judgment. On 14 November 2014, judgement was given in our favour on all points by the Court of Appeal in the insurance case.

On 23 July 2014, mindful that litigation is never without risk and that the company could face several more years of substantial legal costs as well as the potential unwarranted negative impact on its reputation, the company joined into a conditional agreement to contribute £15.0 million to a settlement of the legal proceedings in Jersey and the insurance case. On 18 August 2014, the conditions of the agreement were satisfied and the group contributed its share of the settlement.

Segmental review

The group reports its results in its two key operating segments; Investment Management and Unit Trusts.

Investment Management

The financial performance of Investment Management 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, commissions charged for transactions undertaken on behalf of clients and the interest margin earned on cash in client portfolios and loans to clients, as described below. Portfolios are closely managed by investment managers, who maintain relationships with clients 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 3, below:

Table 3. Investment Management – key performance indicators

	2014	2013
Funds under management at 31 December[1]	**£24.7bn**	£20.2bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**4.0%**	5.4%
Underlying rate of total net growth in Investment Management funds under management[1]	**19.6%**	9.0%
Average net operating basis point return[2]	**77.2bps**	80.5bps
Number of Investment Management clients	**46,000**	41,000
Number of investment managers	**249**	209

1 See table 4
2 See table 7

During 2014 we have continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 41,000 to 46,000 during the year, with some 2,800 clients joining us in the year as a result of our transactions with Deutsche Asset & Wealth Management and Jupiter Asset Management. During 2014, the total number of investment managers increased to 249 at 31 December 2014 from 209 at the end of 2013.

Average net operating basis point return on funds under management has fallen in 2014, largely due to an increase in the proportion of execution only accounts (£500m of which transferred to us from Jupiter) which generate lower returns. In addition, the continued trend towards fee only business has reduced the return from commissions.

Fund flows

Investment Management funds under management increased by 22.3% to £24.7 billion at 31 December 2014 from £20.2 billion at the start of the year. This increase is analysed in table 4, below.

Table 4. Investment Management – funds under management

	2014 £bn	2013 £bn
As at 1 January	**20.2**	16.7
Inflows	**5.5**	2.7
– organic[1]	**2.3**	2.1
– acquired[2]	**3.2**	0.6
Outflows[1]	**(1.5)**	(1.2)
Market adjustment[3]	**0.5**	2.0
As at 31 December	**24.7**	20.2
Net organic new business[4]	**0.8**	0.9
Underlying rate of net organic growth[5]	**4.0%**	5.4%
Underlying rate of total net growth[6]	**19.6%**	9.0%

1 Value at the date of transfer in/(out)
2 Value at 31 December
3 Represents the impact of market movements and investment performance
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

Net organic growth in 2014 of 4.0% (2013: 5.4%) was resilient but slightly below our expectation of 5% organic growth across the economic cycle. Organic growth in the fourth quarter was reduced by the loss of two large but low margin clients close to the end of the year.

All areas of the business contributed to growth in 2014, with referrals from existing clients remaining a key source of new business. Charity funds under management continued to grow strongly, supported by good investment performance, and reached £3.3 billion at 31 December 2014, up 22.2% from £2.7 billion at the start of the year. The most recent Charity Finance survey placed Rathbones as the sixth largest charity investment manager in the UK by funds under management as at 30 June 2014.

We retained our marketing focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers (IFAs) and provider panel relationships increased by £1.2 billion during 2014, ending the year at £4.8 billion; an increase of 33.3%. Of this amount, Vision Independent Financial Planning Limited, in which we have a 19.9% stake, represented £496 million.

Acquired inflows of £3.2 billion in the year include £2.6 billion from the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter Asset Management Limited's private client and charity investment management business in June 2014 and September 2014 respectively, and funds introduced by newly joining investment managers who are subject to earn-out arrangements (see note 2).

In total, net organic and acquired growth added £4.0 billion to Investment Management funds under management in 2014 (2013: £1.5 billion), representing an underlying rate of total net growth of 19.6% (2013: 9.0%).

Overall, average investment returns across all Investment Management clients were positive in 2014, but lagged the WMA Balanced Index by 1.8%. This was due, in large part, to the strong rally in Gilts, which are not widely used in private client portfolios as many offer negative real returns after tax. UK equity selection was favourable, benefitting from an underweighting in oil and mining stocks as oil and commodity prices slid in the final quarter. A lower than average overseas exposure acted as a further slight drag on relative performance, however, as sterling fell back against the US dollar in the second half of the year.

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 and on loans to clients.

Table 5. Investment Management – financial performance

	2014 £m	2013 £m
Net investment management fee income[1]	**120.5**	104.2
Net commission income	**43.7**	42.0
Net interest income[2]	**9.2**	8.6
Fees from advisory services[3] and other income	**11.9**	10.5
Underlying operating income	**185.3**	165.3
Underlying operating expenses[4]	**(127.8)**	(116.2)
Underlying profit before tax	**57.5**	49.1
Underlying operating margin[5]	**31.0%**	29.7%

1 Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2 Presented net of interest expense paid on client accounts
3 Fees from advisory services includes income from trust, tax and pensions advisory services
4 See table 8
5 Underlying profit before tax as a % of underlying operating income

Net investment management fee income increased by 15.6% from £104.2 million to £120.5 million in 2014, benefitting from continuing growth in funds under management. Fee income arising from the clients subject to the transactions with Jupiter Asset Management and Deutsche Asset & Wealth Management accrued from the date of acquisition in 2014. The group will see the full effect of these transactions on its income in 2015. For the majority of clients, fees are calculated based on a tiered fee scale applied to the value of funds at our quarterly charging dates. Average funds under management on these billing dates in 2014 were £22.2 billion, up 16.8% from 2013.

Table 6. Investment Management – average funds under management

	2014 £bn	2013 £bn
Valuation dates for billing		
– 5 April	**20.7**	18.2
– 30 June	**21.6**	18.4
– 30 September	**22.0**	19.1
– 31 December	**24.7**	20.2
Average	**22.2**	19.0
Average FTSE 100 level	**6657**	6419

In 2014, net commission income of £43.7 million was up 4.0% on £42.0 million in 2013. Commission levels remained relatively strong across the year, despite the usual seasonal factors weighing on commission income in the second half.

Net interest income of £9.2 million in 2014 was 7.0% above £8.6 million in 2013 as we increased the amount of cash held at the Bank of England from £211.0 million to £727.2 million over the course of the year. The Investment Management loan book contributed £2.7 million to net interest income in 2014 (2013: £2.2 million).

As our fee rates are tiered, rising markets reduce the average net return earned on fees. This contributed to a decrease in the return earned on average funds under management to 77.2 basis points from 80.5 basis points in 2013, as shown in table 7 below.

Table 7. Investment Management – revenue margin

	2014 bps	2013 bps
Basis point return[1] from		
- fee income	**54.2**	54.9
- commission	**19.7**	22.1
- interest	**3.3**	3.5
Basis point return on funds under management	**77.2**	80.5

1 Underlying operating income (see table 5) 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 6)

On 1 January 2015, we launched a revised tariff for new clients. The new rates are intended to provide increased transparency to clients on the overall level of charges, and are in line with the trend in the industry away from commissions. It is not expected that the new rates will substantially increase our overall revenue margin.

Fees from advisory services and other income of £11.9 million were 13.3% higher than 2013 reflecting the impact of business growth and the acquisition of the legal services trade and assets of Rooper & Whately on 1 May 2014 (see note 7).

Underlying operating expenses in Investment Management for 2014 were £127.8 million, compared to £116.2 million in 2013, an increase of 10.0%. This is highlighted in table 8 below.

Table 8. Investment Management – underlying operating expenses

	2014 £m	2013 £m
Staff costs[1]		
– fixed	**43.9**	39.8
– variable	**25.8**	20.6
Total staff costs	**69.7**	60.4
Other operating expenses	**58.1**	55.8
Underlying operating expenses	**127.8**	116.2
Underlying cost/income ratio[2]	**69.0%**	70.3%

1 Represents the costs of investment managers and teams directly involved in client facing activities
2 Underlying operating expenses as a % of underlying operating income (see table 5)

Fixed staff costs of £43.9 million increased by 10.3% year on year principally reflecting teams joining the front office, in particular in London and Chichester, increased pension costs and salary inflation. Variable staff costs are also higher, reflecting higher underlying profitability and growth in funds under management.

Other operating expenses of £58.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £2.3 million (4.1%) reflects increased investment in the business, recruitment and higher variable awards in support functions in line with growth in business profitability.

Unit Trusts

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year on year changes in the key performance indicators for Unit Trusts are shown in table 9, below.

Table 9. Unit Trusts – key performance indicators

	2014	2013
Funds under management at 31 December[1]	**£2.5bn**	£1.8bn
Underlying rate of net growth in Unit Trusts funds under management[1]	**33.3%**	23.1%
Underlying profit before tax[2]	**£4.0m**	£1.4m

1 See table 10
2 See table 13

Fund flows

The retail asset management industry saw a continuation of the improving trend in net retail sales, with 2014 representing the highest overall total since 2010 at £20.8 billion, up by 1.5% on 2013 as reported by the Investment Association (IA). Despite this growth, sales across the industry remained concentrated in a small number of funds.

Equity remained the best-selling asset class, by net sales, in 2014 at £8.6 billion, although this was down 25.2% from £11.5 billion in 2013. UK Equity Income, where we have expertise and two strong product offerings, was the best selling IA sector for the last eight months of the year and 2014 overall.

Against the backdrop of improving industry sales, Unit Trusts' positive momentum continued through 2014, which was a record year with gross sales of £1.0 billion. As a result, net inflows accelerated to £0.6 billion, doubling from £0.3 billion in 2013. Net inflows in 2014 were spread across the range of funds, although the Income, Global Opportunities and Ethical Bond funds saw particularly strong sales in the year.

Unit Trusts' funds under management increased by 38.9% year on year (the industry was up 8.2%, according to data reported by the IA) to £2.5 billion from £1.8 billion at the end of 2013, as shown in table 10 below.

Table 10. Unit Trusts – funds under management

	2014 £bn	2013 £bn
As at 1 January	**1.8**	1.3
Net inflows	**0.6**	0.3
– inflows[1]	**1.0**	0.6
– outflows[1]	**(0.4)**	(0.3)
Market adjustments[2]	**0.1**	0.2
As at 31 December	**2.5**	1.8
Underlying rate of net growth[3]	**33.3%**	23.1%

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

At 31 December 2014, the value of assets managed in each fund was as follows.

Table 11. Unit Trusts – fund assets

	2014 £m	2013 £m
Rathbone Income Fund	**995**	656
Rathbone Global Opportunities Fund	**504**	330
Rathbone Ethical Bond Fund	**255**	148
Rathbone Global Alpha Fund	**110**	100
Rathbone Recovery Fund	**74**	76
Rathbone Blue Chip Income and Growth Fund	**67**	56
Rathbone Strategic Bond Fund	**65**	55
Rathbone Active Income Fund for Charities	**52**	39
Rathbone Multi Asset Portfolios	**164**	138
Other funds	**234**	251
	2,520	1,849

During 2014, the range of funds maintained their strong long term performance track record, which is critical to maintaining sales momentum.

Table 12. Unit Trusts – fund performance

2014/(2013) Quartile ranking[1] over:	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	2 (3)	2 (2)	2 (2)
Rathbone Ethical Bond Fund	2 (1)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	2 (1)	1 (1)	1 (1)
Rathbone Income Fund	1 (2)	1 (1)	1 (1)
Rathbone Recovery Fund	4 (1)	2 (1)	1 (n/a)
Rathbone Strategic Bond Fund[2]	2 (3)	3 (n/a)	n/a (n/a)

1 Ranking of institutional share classes at 31 December 2014 and 2013
2 Performance data for the Rathbone Strategic Bond Fund is not yet available beyond three years as the fund was launched on 3 October 2011

Investors continued to switch from retail to institutional units across all of our funds during the year, as expected post-RDR. 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. By 31 December 2014 some 60% of holdings in our retail funds were in institutional units (31 December 2013: 36%).

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 13. Unit Trusts – financial performance

	2014 £m	2013 £m
Net annual management charges	**13.3**	9.5
Net dealing profits	**1.9**	1.4
Interest and other income	**0.3**	0.2
Underlying operating income	**15.5**	11.1
Underlying operating expenses[1]	**(11.5)**	(9.7)
Underlying profit before tax	**4.0**	1.4
Underlying operating margin[2]	**25.8%**	12.6%

1 See table 14
2 Underlying profit before tax divided by underlying operating income

Net annual management charges increased 40.0% to £13.3 million in 2014, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 60 basis points (2013: 62 basis points) as a result of the launch of super-institutional class for certain funds, to secure greater certainty over distribution, and the continued switch from retail to institutional units by the platforms during the year.

Net dealing profits of £1.9 million increased by 35.7% on £1.4 million in 2013 as the level of gross sales grew significantly in 2014. Underlying operating income as a percentage of average funds under management fell to 70 basis points in 2014 from 72 basis points in 2013.

Table 14. Unit Trusts – underlying operating expenses

	2014 £m	2013 £m
Staff costs		
– fixed	**3.3**	3.1
– variable	**2.8**	1.8
Total staff costs	**6.1**	4.9
Other operating expenses	**5.4**	4.8
Underlying operating expenses	**11.5**	9.7
Underlying cost/income ratio[1]	**74.2%**	87.4%

1 Underlying operating expenses as a % of underlying operating income (see table 13)

Fixed staff costs of £3.3 million for the year ended 31 December 2014 were 6.5% higher than in 2013 due to the recruitment of a new fund manager and additional sales resource during the year.

Variable staff costs of £2.8 million were 55.6% higher than £1.8 million in 2013 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 12.5% to £5.4 million, principally as a result of higher third party administration costs, reflecting both the launch of super-institutional class shares and the increased level of sales of units.

Financial position

Table 15. Extracts from the consolidated balance sheet and components of regulatory capital

	2014 £m (unless stated)	2013 £m (unless stated)
Capital resources		
- Common Equity Tier 1 ratio[1]	**17.7%**	21.0%
- Total equity	**270.7**	251.0
- Return on assets[2]	**2.5%**	2.9%
- Consolidated leverage ratio[3]	**7.5%**	11.5%
Other resources		
- Total assets	**1,668.2**	1,229.8
- Treasury assets[4]	**1,316.6**	940.8
- Investment management loan book	**97.4**	89.2
- Intangible assets from acquired growth[5]	**153.6**	99.7
- Tangible assets and software[6]	**16.3**	16.8
- Net defined benefit asset	**-**	1.6
Liabilities		
- Due to customers[7]	**1,282.4**	891.9
- Net defined benefit liability	**13.7**	-

1 Common Equity Tier 1 capital as a proportion of total risk exposure amount
2 Profit after tax divided by average total assets
3 Common Equity Tier 1 capital as a percentage of total assets, excluding intangible assets and investment in associates, plus a proportion of off balance sheet exposures
4 Balances with central banks, loans and advances to banks and investment securities (excluding available for sale equity investments)
5 Net book value of acquired client relationships and goodwill
6 Net book value of property, plant and equipment and computer software
7 Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank

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 Prudential Regulation Authority (PRA). At 31 December 2014, the group had regulatory capital resources of £112.2 million (2013: £142.3 million calculated on a Basel III equivalent basis) as follows:

Table 16. Regulatory capital resources

	2014 £m	2013 £m
Share capital and share premium	**95.4**	67.8
Reserves	**180.9**	188.9
Less:		
- Own shares	**(5.5)**	(5.7)
- Intangible assets[1]	**(159.7)**	(105.0)
- Other regulatory adjustments[2]	**1.1**	(3.7)
Total regulatory capital resources (all of which are Tier 1)	**112.2**	142.3

1 Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources
2 Adjustments to exclude balances related to the group's pension schemes and own shares held in the Employee Benefits Trust

The group's Pillar 3 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.

Our consolidated Common Equity Tier 1 ratio is much higher than the banking industry norm. This reflects the low risk nature of our banking activity and our lack of debt financing. The Common Equity Tier 1 ratio has fallen to 17.7% from 21.0% at the previous year end mainly due to an increase in intangible assets following the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and acquisition of Jupiter Asset Management's private client and charity investment management business, partially offset by the proceeds from the placing of 1.3 million shares in April.

The consolidated leverage ratio was 7.5% at 31 December 2014, down from 11.5% at 31 December 2013; this fall was due to the growth in the balance sheet and the increase in intangible assets, which have reduced Common Equity Tier 1 capital. The leverage ratio represents the group's Common Equity Tier 1 capital as a percentage of its total assets, excluding intangible assets and investment in associates, plus a proportion of off balance sheet exposures.

As required under PRA rules we perform an Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) annually, which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity 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. Surplus 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.

Table 17. Group Pillar I own funds requirement

	2014 £'m	2013 £'m
Credit risk requirement	**26.7**	32.6
Market risk requirement	**0.2**	0.2
Operational risk requirement	**23.7**	21.3
Pillar I own funds requirement	**50.6**	54.1

In addition to the above, the group is also required to hold capital to cover a company-specific Pillar II requirement, which is agreed confidentially with the Prudential Regulation Authority and which we are prohibited from disclosing.

On 19 January 2015, the FCA issued a consultation paper setting out proposed changes to the Pillar 2 framework, which include provisions to allow banks to publish details of their aggregate Pillar 2A capital requirements in addition to Pillar 1 components. We welcome this proposed increase in transparency.

Capital resources

The consolidated balance sheet remains healthy with total equity of £270.7 million at 31 December 2014, up 7.8% from £251.0 million at the end of 2013, reflecting the impact of the placing of 1.3 million shares in April 2014. The group does not rely on wholesale markets to fund its operations and is wholly funded by equity.

Total assets

Total assets at 31 December 2014 were £1,668.2 million (2013: £1,229.8 million), of which £1,282.4 million (2013: £891.9 million) represents the cash held in banking client portfolios.

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 £1,288.8 million (2013: £896.8 million), including £6.4 million (2013: £4.9 million) held in client money accounts, represented 5.2% of total investment management funds at 31 December 2014 compared to 4.4% at the end of 2013.

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. 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. During the year, we increased the share of treasury assets held with the Bank of England to £727.2 million from £211.0 million at 31 December 2013.

Loans to clients

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, requiring 2x cover, and are usually advanced for up to one year. In addition, equitable charges may be taken on property held by the client to meet security cover requirements. 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.

We have continued to increase the size of the investment management loan book during 2014, to take advantage of the higher demand for client loans. Outstanding loans totalled £97.4 million at the end of 2014 (2013: £89.2 million).

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2014, the total carrying value of intangible assets arising from acquired growth was £153.6 million (2013: £99.7 million). During the year, client relationship intangible assets of £51.2 million were capitalised (2013: £13.2 million), including £42.6 million relating to the transactions with Deutsche Asset & Wealth Management and Jupiter Asset Management. Goodwill totalling £11.0 million was acquired during 2014 (2013: £nil).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of ten to fifteen years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2014, including the impact of lost relationships, was £7.9 million (2013: £6.3 million).

Goodwill which arises from business combinations is not amortised, but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.4 million was recognised in relation to this element of goodwill (2013: £nil).

Capital expenditure

During 2014, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £4.6 million (2013: £4.5 million). Investment in new systems continues at a steady pace as we continue to improve the efficiency of our systems and our back office. 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.

New investment accounted for approximately 70% of capital expenditure in 2014, with the balance being maintenance and replacement of existing software and equipment. This split is broadly consistent with the spending pattern in the recent past, although there was only very limited expenditure on property during the year.

In 2015, we expect capital expenditure to remain at 2014 levels as we continue to invest in our internet portal for clients and advisers as part of our ongoing endeavours to improve and develop the business.

Defined benefit pension schemes

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

The fall in corporate bond yields during the second half of 2014 has been the primary factor responsible for reducing the valuation of the schemes in the group's balance sheet at 31 December 2014 to a combined deficit of £13.7 million compared to a combined surplus of £1.6 million at 31 December 2013.

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. Triennial funding valuations of the schemes as at 31 December 2013 were carried out during 2014. Following the completion of the valuations, the deficit funding contributions for the Rathbone 1987 Scheme were maintained at their current level of £2.75 million per year in 2015 and 2016, whilst the contributions to the Laurence Keen scheme were ceased as the valuation showed the scheme to be in surplus on a funding basis. Regular annual contributions to the Rathbone 1987 Scheme were increased from 14.8% of pensionable salaries to 20.3%. An additional £1 million was also paid into the Rathbone 1987 Scheme in January 2015, reflecting the backdating of the uplift in regular annual contributions to 1 January 2014.

Liquidity and cash flow

Table 18. Extracts from the consolidated statement of cash flows

	2014 £m	2013 £m
Cash and cash equivalents at the end of the year	**835.8**	319.8
Net cash inflows from operating activities	**417.7**	145.3
Net increase in cash and cash equivalents	**516.0**	89.7

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 PRA's ILAA regime, which requires us to hold a suitable Liquid Assets 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 £727.2 million at 31 December 2014 (2013: £211.0 million).

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.

Net cash flows from operating activities include the effect of a £390.5 million increase in banking client deposits (2013: £62.9 million increase) and a £11.1 million increase in the component of treasury assets placed in term deposits for more than three months (2013: £37.9 million decrease).

In addition, cash flows included a net inflow of £152.7 million from the maturity of certificates of deposit and the liquidation of holdings in money market funds (2013: £16.9 million net outflow), shown within investing activities in the consolidated statement of cash flows.

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

- outflow of £15.0 million relating to Rathbones' contribution to legal settlement;
- outflows of £40.1 million in relation to the transactions with Jupiter Asset Management and Rooper & Whately;
- inflow of £25.9 million from the issue of ordinary shares, which includes £23.6 million raised in the placing in April 2014 (after associated costs);
- outflows relating to the payment of dividends of £23.8 million (2013: £22.1 million);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £14.3 million (2013: £17.0 million); and
- £1.7 million of capital expenditure on property, plant and equipment (2013: £2.4 million).

Risk management

Rathbones continues to enhance its risk management framework which provides a structured and consistent approach across the group. During the year, we have further established our operating model for risk management and improved our risk governance and lines of defence model to ensure that all identified risks are owned by management, business units and, in some cases, specific committees. A dedicated chief risk officer is expected to join us in March 2015.

Three lines of defence

Rathbones operates a 3 lines of defence model to support the risk management framework. Responsibility and accountability for risk management are effectively broken down into three lines as follows:

1st line: Rathbones senior management and operational business units own and are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

2nd line: Rathbones risk function and compliance function maintain a level of independence from, and are responsible for oversight and challenge of 1st line's day to day management, monitoring and reporting of risks.

3rd line: Rathbones internal audit function is responsible for providing an independent assessment and assurance as to the effectiveness of governance, risk management and internal controls operating within the group.

Risk assessment

Rathbones reviews and monitors risk exposures closely, considering the potential impact and any management actions required to mitigate the impact of emerging issues and future events. The group risk register is the principal tool for monitoring risks which are classified in a strict hierarchy. The highest level (Level 1) identifies risks as financial, business or operational. The next level (Level 2) contains fifteen 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 separate business unit risk registers. The risk function regularly reviews risks with risk owners and also conducts ad hoc reviews or risk workshops. A watch list is maintained to record any emerging issues and future events which will or could have the potential to impact Rathbones' risk profile and may therefore require active management, process changes or systems development. The group risk register and watch list are regularly reviewed by the executive, senior management, board and governance committees.

Risk appetite

Rathbones' risk appetite is defined as both the amount and type of risk the company is prepared to take or retain in the pursuit of its strategy. Our appetite articulates some overarching parameters, and specific measures for each Level 2 risk category. During 2014 Rathbones operated within its stated risk appetite and the board remains committed to mitigating risk to within levels that are consistent with a relatively low overall appetite for risk. The board continues to recognise that the business is susceptible to market fluctuations and will bear losses from financial and operational risks from time to time either as reductions in income or increases in operating costs.

Risk scoring

Rathbones assesses risks using a 1 – 4 scoring system with each Level 3 risk rated by assessing the likelihood of its occurrence in a five year period and the associated impact. A residual risk score is then derived by taking into account an assessment of the internal control environment or insurance mitigation.

Risk Profile

Thirty-nine Level 3 risks continue to form the basis of the group's risk register, each of which is classified under one of the fifteen Level 2 risk categories.

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

During the year there have been minor changes to the fifteen Level 2 risk categories, however the underlying risk profile and ratings for the majority of Level 2 risks have remained consistent during 2014. The following table summarises the changes.

Ref	Risk	Risk change in 2014	Description of change
A	Credit	Down	Cash held with central banks has increased by 245%.
D	Pension	Up	Impact of significantly lower long term gilt rates has increased IFRS and funding deficit.
H	Business change	Up	The operational integration of two acquisitions increased our business change risk.
J	Data integrity & security	Up	Increased threat of fraud or cyber attack.
K	Legal	Down	Settlement of Jersey trust legal proceedings has reduced our overall risk exposure.
O	Regulatory	Up	Volume of regulation remains high and a continued focus on conduct across the financial services industry.

During the year, the executive have also recognised a number of emerging risks. The 3 main risks are listed below:

Emerging risk	Description
Cyber risk	Higher risk of an unwelcomed attack on core systems and data.
Political risk	Increased market volatility from the possibility of EU uncertainties and other geopolitical factors.
Business model risk	Need for banks to strengthen capital buffers in line with CRD IV framework.

The board believes that the principal risks and uncertainties facing the group have been identified within the information below, and has recognised the impact of strategic change in the year. The board continues to believe that the most significant risks to the business are operational risks that arise from the growth in our business, and regulatory risks that may arise from continual changes to rules and standards in our sector. Our overall risk profile and ways in which we mitigate risks are analysed below. The risk mitigation listed is not exhaustive and exclude the oversight provided by board committees.

Financial risks

Ref	Level 2 Risk	Definition	Key Mitigators
A	Credit	The risk that one or more counterparties fail to fulfil 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. ▪ Client loan policy.
B	Liquidity	The risk of having insufficient financial resources to meet obligations as they fall due, or that to secure access to such resources would be at an 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	The 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	The risk that the cost of our defined benefit pension schemes increases, or its valuation affects dividends, 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.

Business risks

Ref	Level 2 Risk	Definition	Key Mitigators
E	Business model	The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected.	▪ Board and executive oversight. ▪ A 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. ▪ Regular competitor benchmarking and analysis.
F	Performance & advice	The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios resulting in a failure to meet 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.
G	Reputational	The risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations.	▪ Executive oversight with a strong compliance culture. ▪ Conflicts of interest committee. ▪ Investment in staff training and development. ▪ Proactive communications with shareholders/investor relations. ▪ Investment process, management and performance monitoring. ▪ Conduct risk framework. ▪ Strong values and approach to governance. ▪ Monitoring of media coverage.

Operational risks

Ref	Level 2 Risk	Definition	Key Mitigators
H	Business change	The 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.
I	Business continuity	The 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.
J	Data integrity & security	The risk of a lack of integrity of, inappropriate access to, or disclosure of, client or company-sensitive information.	▪ Data security committee oversight. ▪ Data protection policy and procedures. ▪ System access controls and encryption. ▪ Penetration testing & multi layer network security. ▪ Training and employee awareness programmes. ▪ Physical security at all locations.
K	Legal	The risk of legal action being taken against the group (and / or a subsidiary) or failure to comply with legislative requirements resulting in financial loss and reputational damage.	▪ Executive oversight. ▪ Retained specialist legal advisers. ▪ Data protection policy and compliance monitoring. ▪ Documented policies and procedures. ▪ Training and employee awareness programmes.
L	Outsourcing	The 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. ▪ Supplier due diligence and regular financial reviews. ▪ Active relationship management, including regular service review meetings. ▪ Service level agreements and monitoring of key performance indicators. ▪ Compliance monitoring.
M	People	The risk of loss of key staff, lack of skilled resources and inappropriate 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.
N	Processing	The 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/4-eyes processes. ▪ Segregation of duties. ▪ Documented procedures. ▪ Annual controls assessment (ISAE3402 report).
O	Regulatory	The risk of failure by the group (and / or a subsidiary) to fulfil its regulatory requirements and comply with the introduction of new or changes to the existing regulation.	▪ Active involvement with representative industry bodies. ▪ Compliance monitoring and oversight of industry and regulatory developments. ▪ Close contact with the regulators. ▪ Documented policy and procedures.

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 this announcement.

Group companies are regulated by the PRA and FCA and perform 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 2014, the group has had no external borrowings and is wholly funded by equity.

In 2014, the group has continued to generate organic growth in client funds under management 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.

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000 (re-presented - note 1)
Interest and similar income		**10,024**	9,212
Interest expense and similar charges		**(865)**	(604)
Net interest income		**9,159**	8,608
Fee and commission income		**196,637**	173,251
Fee and commission expense		**(9,126)**	(8,864)
Net fee and commission income		**187,511**	164,387
Dividend income		**74**	127
Net trading income		**1,878**	1,226
Other operating income		**2,012**	1,972
Share of profit of associates		**169**	89
Refund of levies for the Financial Services Compensation Scheme		**982**	-
Gain on disposal of financial securities		**6,833**	-
Gain on disposal of pension administration business		**683**	-
Operating income		**209,301**	176,409
Charges in relation to client relationships and goodwill		**(8,287)**	(6,306)
Contribution to legal settlement		**(15,000)**	-
Transaction costs		**(1,057)**	-
Other operating expenses		**(139,299)**	(125,899)
Operating expenses		**(163,643)**	(132,205)
Profit before tax		**45,658**	44,204
Taxation	4	**(10,021)**	(9,453)
Profit after tax		**35,637**	34,751
Profit for the year attributable to equity holders of the company		**35,637**	34,751
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability/asset		**(17,466)**	2,188
Deferred tax relating to net remeasurement of defined benefit liability/asset		**3,493**	(788)
Items that may be reclassified to profit or loss			
Revaluation of available for sale investment securities:			
- net gain from changes in fair value		**959**	2,072
- net profit on disposal transferred to profit or loss during the year		**(6,820)**	(5)
		(5,861)	2,067
Deferred tax relating to revaluation of available for sale investment securities		**1,172**	(298)
Other comprehensive income net of tax		**(18,662)**	3,169
Total comprehensive income for the year net of tax attributable to equity holders of the company		**16,975**	37,920
Dividends paid and proposed for the year per ordinary share	5	**52.0p**	49.0p
Dividends paid and proposed for the year		**24,863**	22,645
Earnings per share for the year attributable to equity holders of the company:	6		
- basic		**75.9p**	76.1p
- diluted		**75.3p**	75.6p

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	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 2013	2,298	62,160	31,835	2,948	(5,844)	136,096	229,493
Profit for the year						34,751	34,751
Net remeasurement of defined benefit asset						2,188	2,188
Revaluation of available for sale investment securities:							
- net gain from changes in fair value				2,072			2,072
- net profit on disposal transferred to profit or loss during the year				(5)			(5)
Deferred tax relating to components of other comprehensive income				(298)		(788)	(1,086)
Other comprehensive income net of tax	-	-	-	1,769	-	1,400	3,169
Dividends paid						(22,096)	(22,096)
Issue of share capital	17	3,324					3,341
Share-based payments:							
- value of employee services						2,918	2,918
- cost of own shares acquired					(609)		(609)
- cost of own shares vesting					731	(731)	-
- tax on share-based payments						33	33
At 1 January 2014	**2,315**	**65,484**	**31,835**	**4,717**	**(5,722)**	**152,371**	**251,000**
Profit for the year						**35,637**	**35,637**
Net remeasurement of defined benefit liability						**(17,466)**	**(17,466)**
Revaluation of available for sale investment securities:							
- net gain from changes in fair value				**959**			**959**
- net profit on disposal transferred to profit or loss during the year				**(6,820)**			**(6,820)**
Deferred tax relating to components of other comprehensive income				**1,172**		**3,493**	**4,665**
Other comprehensive income net of tax	**-**	**-**	**-**	**(4,689)**	**-**	**(13,973)**	**(18,662)**
Dividends paid						**(23,793)**	**(23,793)**
Issue of share capital	**80**	**27,503**					**27,583**
Share-based payments:							
- value of employee services						**374**	**374**
- cost of own shares acquired					**(1,655)**		**(1,655)**
- cost of own shares vesting					**1,846**	**(1,846)**	**-**
- tax on share-based payments						**248**	**248**
At 31 December 2014	**2,395**	**92,987**	**31,835**	**28**	**(5,531)**	**149,018**	**270,732**

CONSOLIDATED BALANCE SHEET

as at 31 December 2014

	2014 £'000	2013 £'000
Assets		
Cash and balances with central banks	**727,178**	211,005
Settlement balances	**15,890**	19,611
Loans and advances to banks	**144,399**	106,327
Loans and advances to customers	**101,640**	95,543
Investment securities:		
- available for sale	**15,514**	53,985
- held to maturity	**429,974**	575,838
Prepayments, accrued income and other assets	**55,272**	46,368
Property, plant and equipment	**10,242**	11,522
Net deferred tax asset	**7,042**	1,699
Investment in associates	**1,434**	1,296
Intangible assets	**159,654**	104,969
Surplus on retirement benefit schemes	**-**	1,614
Total assets	**1,668,239**	1,229,777
Liabilities		
Settlement balances	**22,584**	27,626
Due to customers	**1,282,426**	891,897
Accruals, deferred income, provisions and other liabilities	**74,574**	55,282
Current tax liabilities	**4,213**	3,972
Retirement benefit obligations	**13,710**	-
Total liabilities	**1,397,507**	978,777
Equity		
Share capital	**2,395**	2,315
Share premium	**92,987**	65,484
Merger reserve	**31,835**	31,835
Available for sale reserve	**28**	4,717
Own shares	**(5,531)**	(5,722)
Retained earnings	**149,018**	152,371
Total equity	**270,732**	251,000
Total liabilities and equity	**1,668,239**	1,229,777

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Note	**2014 £'000**	2013 £'000
Cash flows from operating activities			
Profit before tax		**45,658**	44,204
Share of profit of associates		**(169)**	(89)
Net profit on disposal of available for sale investment securities		**(6,820)**	(5)
Net interest income		**(9,159)**	(8,608)
Net (recoveries)/impairment charges on impaired loans and advances		**(589)**	290
Net charge for provisions		**380**	500
Loss/(profit) on disposal of property, plant and equipment		**517**	(1)
Depreciation, amortisation and impairment		**13,367**	10,580
Defined benefit pension scheme charges		**3,332**	3,188
Defined benefit pension contributions paid		**(5,474)**	(4,744)
Share-based payment charges		**5,477**	4,833
Interest paid		**(852)**	(615)
Interest received		**10,284**	9,802
		55,952	59,335
Changes in operating assets and liabilities:			
- net (increase)/decrease in loans and advances to banks and customers		**(11,074)**	37,904
- net decrease/(increase) in settlement balance debtors		**3,721**	(7,005)
- net increase in prepayments, accrued income and other assets		**(8,982)**	(6,678)
- net increase in amounts due to customers and deposits by banks		**390,529**	62,936
- net (decrease)/increase in settlement balance creditors		**(5,042)**	9,034
- net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**2,842**	(409)
Cash generated from operations		**427,946**	155,117
Tax paid		**(10,215)**	(9,830)
Net cash inflow from operating activities		**417,731**	145,287
Cash flows from investing activities			
Dividends received from associates		**31**	30
Acquisition of business combinations, net of cash acquired		**(40,129)**	-
Purchase of property, plant, equipment and intangible assets		**(15,953)**	(19,415)
Proceeds from sale of property, plant and equipment		**(517)**	1
Purchase of investment securities		**(641,858)**	(839,938)
Proceeds from sale and redemption of investment securities		**794,548**	823,062
Net cash generated from/(used in) investing activities		**96,122**	(36,260)
Cash flows from financing activities			
Issue of ordinary shares		**25,928**	2,732
Dividends paid	5	**(23,793)**	(22,096)
Net cash generated from/(used in) financing activities		**2,135**	(19,364)
Net increase in cash and cash equivalents		**515,988**	89,663
Cash and cash equivalents at the beginning of the year		**319,828**	230,165
Cash and cash equivalents at the end of the year	9	**835,816**	319,828

Notes to the preliminary announcement

1. Accounting policies
In preparing the financial information included in this statement the group has applied accounting policies which are in accordance with International Financial Reporting Standards as adopted by the EU at 31 December 2014. The accounting policies have been applied consistently to all periods presented in this statement.

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.

Changes in accounting disclosure

Segmental information has been re-presented to show the constitution of centrally incurred indirect expenses in the segmental table (note 3).

Net fee and commission income previously included a fund management fee in Investment Management receivable from Unit Trusts. The group has concluded that this should be classified as intersegment sales and it has been re-presented accordingly. This re-presentation has decreased fee and commission income by £1,404,000 (2013: £1,074,000) and decreased fee and commission expense by the same amount. The re-presentation has had no impact on operating income, profit or equity in either year.

2. Critical accounting judgements and key sources of estimation and uncertainty
Client relationship intangibles

Client relationship intangibles purchased through corporate transactions
When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction, whether ownership of a corporate entity has been acquired and to whom any amounts payable under the transaction are payable, among other factors.

During the year, the group entered into transactions to purchase part of Deutsche Asset & Wealth Management's London-based private client investment business and to acquire Jupiter's private client and charity investment management business (note 7). The group treated the transaction with Deutsche Asset & Wealth Management as a separate purchase of intangible assets as the main element of the consideration was payable to the investment managers. The transaction with Jupiter was treated as a business combination, principally due to the scale of operations acquired and the fact that consideration was payable to Jupiter (the previous corporate owner of the business).

Payments to newly recruited investment managers
The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. Payments made for the acquisition of client relationship intangibles are capitalised whereas those that are judged to be in relation to the provision of ongoing services are expensed in the period in which they are incurred.

The group determines a suitable period during which awards accruing to new investment managers are capitalised. Typically, this will be for 12 months after the cessation of any non-compete period. After the defined period has elapsed, any payments made are charged to profit or loss.

During the year the group capitalised £22,073,000 of payments made to investment managers and expensed £2,824,000 (2013: £13,245,000 capitalised and £487,000 expensed). A reduction in the capitalisation period by 1 month would decrease client relationship intangibles by £257,000 and decrease profit before tax by £257,000 (2013: £56,000 and £56,000 respectively).

Amortisation of client relationship intangibles
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 ten to fifteen year period. Amortisation of £8,287,000 (2013: £6,306,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £700,000 (2013: £600,000). At 31 December 2014, the carrying value of client relationship intangibles was £95,720,000 (2013: £52,487,000).

Retirement benefit obligations

The group makes estimates about a range of long term trends and market conditions to determine the value of the surplus or 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.

3. Segmental information

For management purposes the group is currently organised into two operating segments: Investment Management and Unit Trusts. The cost of staff providing support services is included in indirect expenses. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the executive committee.

31 December 2014	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	120,561	13,281	-	133,842
Net commission income	43,723	-	-	43,723
Net interest income	9,159	-	-	9,159
Fees from advisory services and other income	11,908	2,171	-	14,079
Underlying operating income	185,351	15,452	-	200,803
Staff costs - fixed	(43,885)	(3,304)	(14,760)	(61,949)
Staff costs - variable	(25,790)	(2,751)	(6,664)	(35,205)
Total staff costs	(69,675)	(6,055)	(21,424)	(97,154)
Other direct expenses	(17,065)	(2,788)	(22,292)	(42,145)
Allocation of indirect expenses	(41,085)	(2,631)	43,716	-
Underlying operating expenses	(127,825)	(11,474)	-	(139,299)
Underlying profit before tax	57,526	3,978	-	61,504
Refund of levies for the Financial Services Compensation Scheme	907	75	-	982
Gain on disposal of pension administration business	683	-	-	683
Charges in relation to client relationships and goodwill	(8,287)	-	-	(8,287)
Transaction costs	(1,057)	-	-	(1,057)
Segment profit before tax	49,772	4,053	-	53,825
Gain on disposal of financial securities				6,833
Contribution to legal settlement				(15,000)
Profit before tax attributable to equity holders of the company				45,658
Taxation (note 4)				(10,021)
Profit for the year attributable to equity holders of the company				35,637

	Investment Management £'000	Unit Trusts £'000	Indirect Expenses £'000	Total £'000
Segment total assets	1,630,464	32,878	-	1,663,342
Unallocated assets				4,897
Total assets				1,668,239

31 December 2013 (re-presented - note 1)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	104,222	9,651	-	113,873
Net commission income	42,051	-	-	42,051
Net interest income	8,608	-	-	8,608
Fees from advisory services and other income	10,456	1,421	-	11,877
Underlying operating income	165,337	11,072	-	176,409
Staff costs - fixed	(39,848)	(3,059)	(13,939)	(56,846)
Staff costs - variable	(20,588)	(1,799)	(5,546)	(27,933)
Total staff costs	(60,436)	(4,858)	(19,485)	(84,779)
Other direct expenses	(19,456)	(2,400)	(19,264)	(41,120)
Allocation of indirect expenses	(36,348)	(2,401)	38,749	-
Underlying operating expenses	(116,240)	(9,659)	-	(125,899)
Underlying profit before tax	49,097	1,413	-	50,510
Charges in relation to client relationships and goodwill	(6,306)	-	-	(6,306)
Profit before tax attributable to equity holders of the company	42,791	1,413	-	44,204
Taxation (note 4)				(9,453)
Profit for the year attributable to equity holders of the company				34,751

	Investment Management £'000	Unit Trusts £'000	Indirect Expenses £'000	Total £'000
Segment total assets	1,195,571	23,556	-	1,219,127
Unallocated assets				10,650
Total assets				1,229,777

The following table reconciles underlying operating income to operating income:

	2014 £'000	2013 £'000
Underlying operating income	**200,803**	176,409
Refund of levies for the Financial Services Compensation Scheme	**982**	-
Gain on disposal of financial securities	**6,833**	-
Gain on disposal of pension administration business	**683**	-
Operating income	**209,301**	176,409

The following table reconciles underlying operating expenses to operating expenses:

	2014 £'000	2013 £'000
Underlying operating expenses	**139,299**	125,899
Charges in relation to client relationships and goodwill	**8,287**	6,306
Transaction costs	**1,057**	-
Contribution to legal settlement	**15,000**	-
Operating expenses	**163,643**	132,205

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 represents operating income by the geographical location of the group entity providing the service:

	2014 £'000	2013 £'000
United Kingdom	**202,634**	170,786
Jersey	**6,667**	5,623
Operating income	**209,301**	176,409

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

	2014 £'000	2013 £'000
United Kingdom	**162,901**	114,015
Jersey	**6,995**	2,476
Non-current assets	**169,896**	116,491

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

4. Taxation

	2014 £'000	2013 £'000
Current tax:		
- charge for the year	**10,587**	11,096
- adjustments in respect of prior years	**(136)**	(821)
Deferred tax:		
- charge for the year	**(521)**	(687)
- adjustments in respect of prior years	**91**	(135)
	10,021	9,453

The tax charge is calculated based on our best estimate of the amount payable as at the balance sheet date. Any subsequent difference between these estimates and the actual amount paid are recorded as adjustments in respect of prior years.

The tax charge on profit for the year is higher (2013: lower) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.2%). The differences are explained below:

	2014 £'000	2013 £'000
Tax on profit from ordinary activities at the standard rate of 21.5% (2013: 23.2%)	**9,813**	10,276
Effects of:		
- disallowable expenses	**587**	348
- share-based payments	**(339)**	(232)
- tax on overseas earnings	**(143)**	(44)
- overprovision for tax in previous years	**(45)**	(956)
- other	**112**	(31)
Effect of change in corporation tax rate on deferred tax	**36**	92
	10,021	9,453

5. Dividends

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the year:		
- final dividend for the year ended 31 December 2013 of 31.0p (2012: 30.0p) per share	**14,734**	13,800
- interim dividend for the year ended 31 December 2014 of 19.0p (2013: 18.0p) per share	**9,059**	8,296
Dividends paid in the year of 50.0p (2013: 48.0p) per share	**23,793**	22,096
Proposed final dividend for the year ended 31 December 2014 of 33.0p (2013: 31.0p) per share	**15,804**	14,349

An interim dividend of 19.0p per share was paid on 8 October 2014 to shareholders on the register at the close of business on 12 September 2014 (2013: 18.0p).

A final dividend declared of 33.0p per share (2013: 31.0p per share) is payable on 19 May 2015 to shareholders on the register at the close of business on 24 April 2015. The final dividend is subject to approval by shareholders at the Annual General Meeting on 14 May 2015 and has not been included as a liability in these financial statements.

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

	2014 Pre-tax £'000	2014 Taxation £'000	2014 Post-tax £'000	2013 Pre-tax £'000	2013 Taxation £'000	2013 Post-tax £'000
Underlying profit attributable to shareholders	**61,504**	**(13,426)**	**48,078**	50,510	(10,919)	39,591
Refund of levies for the Financial Services Compensation Scheme	**982**	**(211)**	**771**	-	-	-
Gain on disposal of financial securities	**6,833**	**(1,469)**	**5,364**	-	-	-
Gain on disposal of pension administration business	**683**	**(147)**	**536**	-	-	-
Charges in relation to client relationships and goodwill	**(8,287)**	**1,781**	**(6,506)**	(6,306)	1,466	(4,840)
Contribution to legal settlement	**(15,000)**	**3,224**	**(11,776)**	-	-	-
Transaction costs	**(1,057)**	**227**	**(830)**	-	-	-
Profit attributable to shareholders	**45,658**	**(10,021)**	**35,637**	44,204	(9,453)	34,751

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 46,971,196 (2013: 45,667,571).

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

	2014	2013
Weighted average number of ordinary shares in issue during the year – basic	**46,971,196**	45,667,571
Effect of ordinary share options/Save As You Earn	**21,684**	45,814
Effect of dilutive shares issuable under the Share Incentive Plan	**63,866**	60,078
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**247,202**	222,122
Diluted ordinary shares	**47,303,948**	45,995,585

	2014	2013
Underlying earnings per share for the year attributable to equity holders of the company:		
- basic	**102.4p**	86.7p
- diluted	**101.6p**	86.1p

7. Business combinations

Jupiter Asset Management Limited's private client and charity investment management business

On 1 April 2014, the group announced that it had agreed to purchase Jupiter Asset Management Limited's private client and charity investment management business. The acquisition completed on 26 September 2014 and cash consideration totalling £39.6 million was paid, no deferred consideration is payable. At 31 December 2014, the acquisition had added £2.0 billion to the group's funds under management.

The acquired business' net assets at the acquisition date were as follows:

31 December 2014	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Intangible assets	**-**	**28,794**	**28,794**
Goodwill	**-**	**10,766**	**10,766**
Total net assets acquired	**-**	**39,560**	**39,560**
Cash			**39,560**
Total consideration			**39,560**

Included within the consolidated statement of comprehensive income for the year ended 31 December 2014 is operating income of £2,578,000 and a profit before tax of £1,782,000 relating to the acquired business.

Goodwill of £10,766,000 arises as a result of expected synergies once the business is fully integrated into the group and future growth of the group's business as a result of this acquisition. Any impairment of goodwill in future periods is expected to be deductible for tax purposes.

Acquisition related costs totalling £670,000 for legal and professional advice have been recognised in transaction costs in the period in relation to this transaction (2013: £nil).

Rooper & Whately

On 1 May 2014, the group acquired the trade and assets of Rooper & Whately, a partnership that provides legal services, to add depth to the range of its advisory services. Total cash consideration of £569,000 was paid in 2 tranches in May 2014. Deferred, contingent consideration of £30,000 is also payable in February 2015.

The acquired business' net assets at the acquisition date were as follows:

31 December 2014	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Loans and advances to customers	**41**	**-**	**41**
Prepayments, accrued income and other assets	**223**	**-**	**223**
Intangible assets	**-**	**303**	**303**
Goodwill	**-**	**227**	**227**
Accruals, deferred income and other liabilities	**(195)**	**-**	**(195)**
Total net assets acquired	**69**	**530**	**599**
Cash			**569**
Deferred contingent consideration			**30**
Total consideration			**599**

Included within the consolidated statement of comprehensive income for the year ended 31 December 2014 is operating income of £407,000 and a loss before tax of £42,000 relating to the acquired business.

The fair value of acquired loans and advances to customers and prepayments, accrued income and other assets is equal to the contractual amounts receivable, all of which are expected to be collected.

Goodwill of £227,000 arises as a result of expected synergies once the business is fully integrated into the group and future growth of the group's business as a result of this acquisition. Any impairment of goodwill in future periods is expected to be deductible for tax purposes.

Acquisition related costs totalling £20,000 for legal and professional advice have been recognised in transaction costs in the period in relation to this transaction (2013: £nil).

If the group had made both acquisitions on 1 January 2014, the group operating income and profit before tax would have been £217,254,000 and £51,016,000 respectively.

8. Related parties

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.

	2014 **£'000**	2013 £'000
Short term employee benefits	**8,089**	6,063
Post employment benefits	**132**	640
Other long term benefits	**948**	546
Share-based payments	**1,582**	2,867
	10,751	10,116

Dividends totalling £93,000 were paid in the year (2013: £84,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2014, the group had no outstanding interest-free season ticket loans (2013: none) issued to key management personnel.

At 31 December 2014, key management personnel and their close family members had gross outstanding deposits of £838,000 (2013: £436,000) and gross outstanding banking loans of £3,859,000 (2013: £6,488,000), all of which (2013: 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.

At 31 December 2014, £55,000 was payable to the Laurence Keen Scheme (2013: £nil) and £55,000 was due from the Rathbone 1987 Scheme (2013: £nil).

The group managed 21 unit trusts and OEICs during 2014 (2013: 22 unit trusts and OEICs). Total management charges of £23,061,000 (2013: £19,169,000) were earned during the year, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group. Management fees owed to the group as at 31 December 2014 totalled £2,076,000 (2013: £1,785,000).

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.

9. 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:

	2014 **£'000**	2013 £'000
Cash and balances at central banks	**727,178**	211,005
Loans and advances to banks	**93,638**	61,171
Available for sale investment securities	**15,000**	47,652
	835,816	319,828

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:

	2014	2013

	£'000	£'000
Share capital issued	**80**	17
Share premium on shares issued	**27,503**	3,324
Shares issued in relation to share-based schemes for which no cash consideration was received	**(1,655)**	(609)
	25,928	2,732

10. Financial information
The financial information set out in this preliminary announcement has been extracted from the group's financial statements, which have been approved by the board of directors and agreed with the company's auditor.

The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 December 2014 or 2013. Statutory financial statements for 2013 have been delivered to the Registrar of Companies. Statutory financial statements for 2014 will be delivered to the Registrar of Companies following the company's Annual General Meeting. The auditor has reported on both the 2013 and 2014 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

11. Forward-looking statements
This announcement 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 the 2014 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.