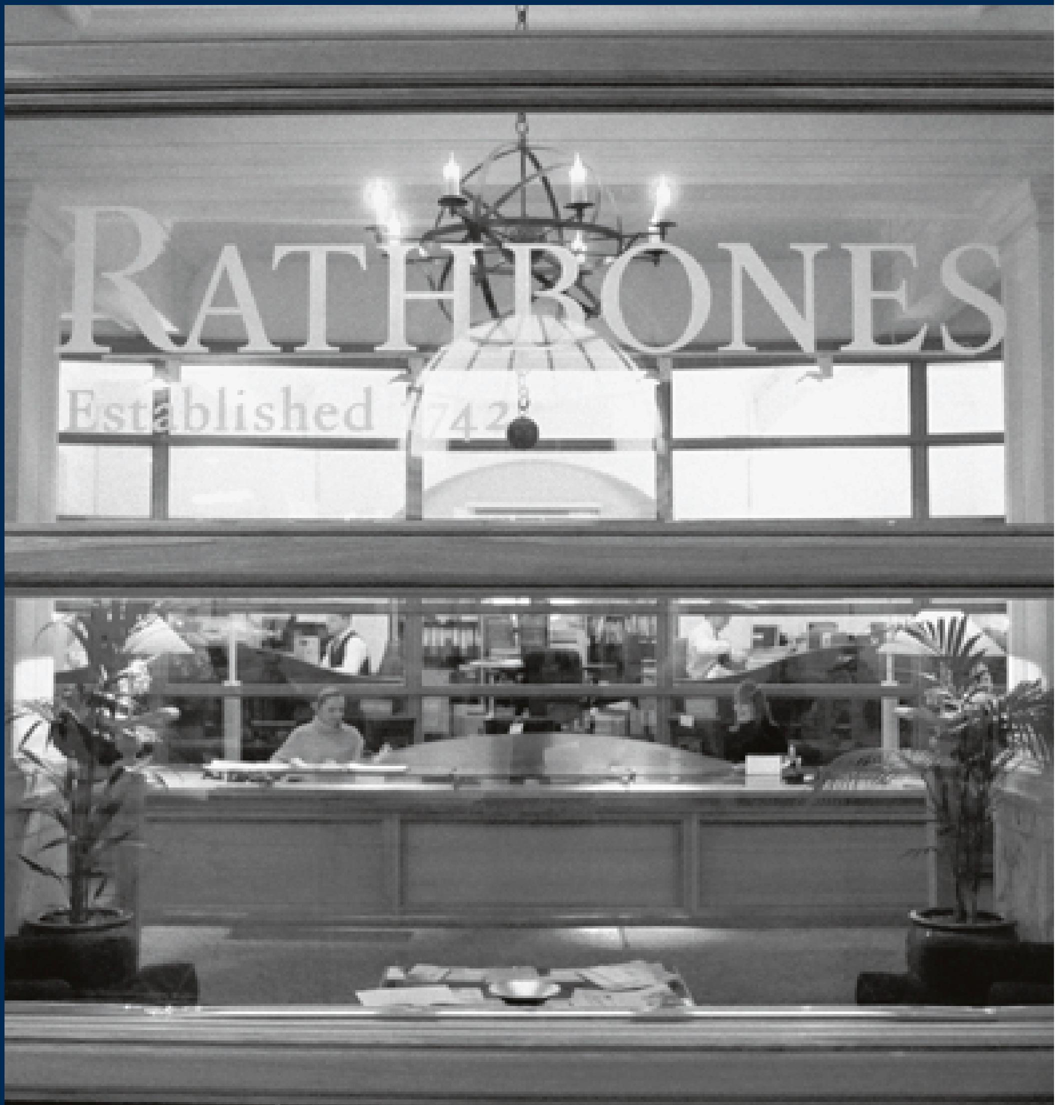
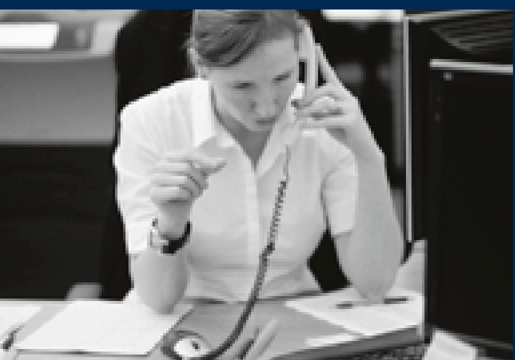


Rathbone Brothers Plc Report and accounts 2006



RATHBONES
Established 1742

Contents

Financial calendar

2 May 2007
Annual General Meeting

10 May 2007
Payment of 2006 final dividend

26 July 2007
Announcement of 2007 interim results

12 October 2007
Payment of 2007 interim dividend

Rathbone Brothers Plc is a leading, independent provider of investment and wealth management services for private investors and trustees. This includes discretionary fund management, unit trusts, tax planning, trust and company management, pension advice and banking services.

As at 31 December 2006, it managed £12.2 billion of client funds, including £1.9 billion managed by Rathbone Unit Trust Management.

2006 Highlights

2 March

Funds under management exceed £10 billion for the first time.

5 April

Completion of the acquisition of the investment management and private banking business of Dexia Banque Internationale à Luxembourg SA, London Branch, bringing 11 investment managers and £600 million in funds.

6 April

Launch of the Rathbone SIPP to reflect A-Day pension legislation.

15 May

Rathbone High Income Fund launched.

27 July

Announced record interim profits.

1 August

Rathbone Pension & Advisory Services launched to provide independent financial advice.

18 September

Rathbone Trust Company Jersey Limited and Rathbone Investment Management (C.I.) Limited move to a new headquarters building in St Helier.

Offshore tax and trust services are brought under a new umbrella brand – Rathbone Trust International.

Offshore investment management services are re-branded Rathbone Investment Management International.

11 October

Rathbone Unit Trust Management appointed to Skandia Global Best Ideas Fund manager panel.

21 November

Rathbone Income Fund reaches £1 billion.

28 December

Agreement signed to sell the private banking part of the business acquired from Dexia to Butterfield Bank (UK) Limited.

Financial highlights

	2006	2005	% change
Funds under management	**£12.2bn**	£9.5bn	**+28.4%**
Operating income	**£133.7m**	£113.2m	**+18.1%**
Profit before tax	**£44.7m**	£35.3m	**+26.6%**
Basic earnings per share	**76.62p**	60.13p	**+27.4%**
Dividends per share	**35.0p**	30.0p	**+16.7%**

I am very pleased to present our results for the year ended 31 December 2006. Record profits have been achieved in a year which has seen helpful stock market conditions in the UK and overseas, an important acquisition and some valuable recruitments. The year has also seen continuing improvements in the infrastructure of Rathbones and an increase in the underlying rate of net organic growth of funds under management.

Results and dividend

Profits before tax for the year to 31 December 2006 were £44.7m, compared with £35.3m in 2005 – an increase of 26.6%. Adjusting for profits from part disposals of the Company's investment in London Stock Exchange Group plc of £3.2m in 2006 and £2.3m in 2005, and aborted acquisition costs of £1.4m in 2005, underlying profits have increased by 20.6%.

Reported earnings per share have risen by 27.4% to 76.62p, compared with 60.13p in 2005. Underlying earnings per share have risen from 59.50p to 71.28p, an increase of 19.8%.

It is recommended that the final dividend be increased to 21.5p (2005: 18.5p), making a total of 35.0p (2005: 30.0p) for the year, an increase of 16.7%.

The record results achieved in 2006 are in large part attributable to the energy and commitment of our staff to whom a great debt of gratitude is due.

Rathbones in 2006

During the year the FTSE 100 Index rose by 10.7% and the FTSE/APCIMS Balanced Index, which most closely reflects the spread of investments held by our clients, rose by 6.8%. As we announced on 8 January 2007, funds under management as a whole have risen by 28.4% to £12.2bn (2005: £9.5bn). The value of investment portfolios under management within Rathbone Investment Management rose by 24.1% to £10.3bn (2005: £8.3bn) and the value of funds under management in Rathbone Unit Trust Management rose by 58.3% to £1.9bn (2005: £1.2bn).

A key performance indicator for Rathbones is the underlying rate of net organic growth of funds under management which in Rathbone Investment Management during the year was 7.2%, compared with 5.8% in 2005, and in Rathbone Unit Trust Management was 41.7% compared with 37.5% in 2005. These statistics reflect the impact of our increased emphasis on marketing generally and especially marketing to financial intermediaries and, within Rathbone Unit Trust Management, the excellent performance record of the Rathbone Income Fund in particular.

This year has also seen continuing growth in the range and variety of investment opportunities that are available to private investors and to the managers of their investment portfolios. We have seen further growth in the proportion of our clients' assets which is committed to collective investments, as well as increased use of funds of alternative assets and the use of structured products. These developments result from increased emphasis on asset allocation decisions and the understanding of the risk profiles that each of our clients is happy to accept.

Each year your Board takes time outside routine meetings to examine its stated strategic objectives and consider any developments, changes or enhancements that are necessary. The revised statement of our strategic ambitions is reproduced on pages 8 to 13 of this report. Our focus remains the provision of investment management services to private investors and trustees, the management of a range of unit trusts and the provision of trust and tax services in the UK and offshore, as well as pension services in the UK.

During 2006 profits from Rathbone Investment Management, through which we provide segregated investment management services to private individuals and other investors, and which is a bank authorised and regulated under the Financial Services and Markets Act 2000, have grown by 24.5% and in Rathbone Unit Trust Management they have grown by 34.2%.

The results from our trust and tax activities have been less satisfactory, despite some important reorganisation and management changes. A combination of the inevitable disruption suffered during the relocation of our three offices in Jersey into one building, competition from other providers of trust and tax services, and the uncertainty connected with some proposed unfavourable changes in trust law announced in the 2006 Budget, have put pressure on this division and profits fell by 28.1%. It should be noted, however, that the major part of this reduction is directly attributable to one-off property costs in Jersey.

Corporate activity

During the course of the year we have pursued our policy of seeking attractive acquisition opportunities and appropriate recruitments of established professionals from other organisations. In April we completed the purchase of the UK investment management and private banking activities of Dexia. This business has now been fully integrated into Rathbone Investment Management and, as recently announced, the private banking activity that was acquired has been sold to Butterfield Bank (UK) Limited as it did not fit strategically into our existing banking and investment management activities. The integration was achieved more quickly than had been planned and we now expect this acquisition to be earnings-enhancing during the whole of 2007.

Additionally, we recruited eight new investment managers in Rathbone Investment Management during the year and following the Dexia acquisition and these recruitments, we now have 160 investment professionals in Rathbones as a whole.

We continue to look for suitable acquisition opportunities but only if they meet our strict criteria of involving professionals who share our commitment to discretionary investment management, are earnings-enhancing within a reasonable timeframe and/or that they broaden the range of services available to our clients.

James Lifford

At the end of the year James Lifford, who has been a director since 1996 and responsible for our investment management offices outside London and Liverpool, retired from the Board. During the last ten years he has made a major contribution to the growth and development of our business and his experience and wise counsel will be missed on the Board. We are delighted, however, that he is remaining a director of our offshore investment management company and will continue to focus on the investment affairs of clients from our Winchester office.

Outlook

Mergers and acquisitions activity generally and the role of private equity in particular have clearly had a favourable impact on UK stock markets during the year. Subject to market conditions, it seems reasonable to expect a further year of growth in 2007. We face the future with genuine optimism.

Mark Powell
Chairman

28 February 2007

Rathbones at a glance

Business activity	**Investment Management** The investment management division provides mainly discretionary investment management services to private investors and charities with portfolios held in discretionary accounts, trust structures, PEP or ISA accounts or self-invested personal pensions from offices in the UK and Jersey. The majority of clients have a fee-based service with securities held in a Rathbone nominee company and surplus cash held by Rathbone Investment Management, an authorised banking institution. Rathbone Pension & Advisory Services advises clients on retirement planning options and offers the Rathbone SIPP.
Funds under management[1]	**£10.3bn**
Operating income[2]	**£90.9m**
Profits before tax[2]	**£34.1m**
Principal trading names	**Rathbone Investment Management** **Rathbone Investment Management International** **Rathbone Pension & Advisory Services**
Employees (full time equivalents)[1]	**503**
Offices	**Bristol** **Cambridge** **Chichester** **Edinburgh** **Jersey** **Kendal** **Liverpool** **London** **Winchester**
Business head	**Richard Lanyon** Investment management **Ian Buckley** Pension and advisory services
Website	**www.rathbones.com** **www.rathboneimi.com** Offshore services **www.rathbonegreenbank.com** Ethical investment

1 as at 31 December 2006
2 for the year ended 31 December 2006

Unit Trusts

The unit trust division has a range of unit trusts which are distributed mainly through independent financial advisers in the UK.

These funds are purchased through financial supermarkets, life assurance companies and through direct contact with financial advisers

Funds cover the UK stockmarket, embracing small, medium and large companies to achieve growth and income. In addition we manage an ethical bond fund and one global fund focused on international opportunities.

Trust and Tax

In the UK, the trust business provides taxation services (compliance and planning), probate services, trust services (trust formation, administration, accounting and provision of trustees and protectors), and family office services.

Outside the UK, under the banner of Rathbone Trust International, the trust business specialises in the provision of trustee, corporate and family office services from offices in Jersey, Switzerland (Geneva) and the British Virgin Islands.

Unit Trusts	Trust and Tax
£1.9bn	**–**
£14.0m	**£21.2m**
£5.1m	**£2.3m**
Rathbone Unit Trust Management	**Rathbone Trust Company** **Rathbone Trust International**
32	**201**
London	Jersey **St Helier** UK **London and Liverpool** BVI **Tortola** Switzerland **Geneva**
Peter Pearson Lund	**Ian Buckley**
www.rutm.com	**www.rathbones.com/rat/services/onshore** **www.rathbonetrustinternational.com** Offshore services

It is a great pleasure to be able to report that we have achieved our highest profits ever for the second year running. In this, our 265th year, the overall business has grown solidly and profitably – we have added staff, clients and space, during a time when markets have been positive for us and our clients.

While I will refer to the business in more detail below, it is important to emphasise at the start that what we have achieved this year has been the result of hard work (and in many cases long hours) and dedication on the part of our enormously committed staff.

In our core investment management business 19 investment professionals joined during the course of the year – 11 from the business that was acquired from Dexia and eight by recruitment.

Although recruiting individual investment managers does not attract headlines in the same way as a corporate acquisition, it is a very effective way of growing our business and we are pleased that 2006 saw so many people joining us. Many of them have come from organisations undergoing corporate change and they have enjoyed joining a stable organisation committed to private clients and to providing the highest quality of service. The fact that we are an independent listed company, with about 20% owned by staff, retired staff and their families, helps us attract high quality professionals.

One theme that has attracted considerable press comment over the year has been the developing market for self-invested personal pensions (SIPPs). This is an area of great interest to us and to our clients, and during 2006 we consolidated our pension advisory work into a new regulated company, Rathbone Pension & Advisory Services Limited. This business received authorisation and started trading on 1 August 2006, and enables us to give advice on the establishment of pension arrangements (which may well include a SIPP) for our existing clients, as well as attracting new business to Rathbones.

Many existing clients already have (and many more may well want) a SIPP to run alongside their main portfolio, as it is a tax-efficient way of planning for retirement. The obvious attraction to Rathbones of this business is that we can use our investment management expertise to manage the underlying assets in SIPPs. Indeed SIPPs have sufficient flexibility that we are able to offer an ethical SIPP to those clients who require it. In addition to advising on and running our own SIPP products, we are also active in the management of investments for other SIPP providers.

To this end, we have been successful in building our presence on the panels of a number of life company-run SIPPs (or similar pension products). The GE Life relationship is already resulting in significant fund inflows and we hope the other earlier stage relationships will prove as mutually beneficial.

This activity has also increased our profile in the independent financial adviser market where we already have a good reputation for unit trust management, and we are seeing a growing interest from IFAs in our discretionary fund management service.

Many shareholders will have noticed our increased advertising activity for both our discretionary fund management services and our unit trusts, particularly the new High Income Fund. The feedback we have received suggests this has been beneficial in raising the reputation and profile of Rathbones amongst a range of audiences as well as directly attracting new clients.

The performance of several of our unit trust funds has led to very favourable press comment and awards. During the latter part of 2006, the Rathbone Income Fund went through a significant milestone when it reached £1 billion. This is a major achievement given it was under £50 million five years ago and it is one of the very few funds in the UK to have been ranked in the top quartile for each one of the last seven calendar years.

Other key events included the re-branding of our international trust business as Rathbone Trust International. This was designed to coincide with the move from three legacy locations in Jersey into a splendid new, purpose-built building on The Esplanade. Although this caused some inevitable disruption to the Jersey business, we believe that the move into one building will have significant tangible and intangible benefits. The change in atmosphere has been remarkable and staff no longer have to walk miles simply to meet a colleague! Our offshore investment management business in Jersey has also been re-branded as Rathbone Investment Management International.

It has been an eventful year all in all with progress being made on all fronts across our business areas, both large and small. We look forward with enthusiasm and confidence.

Andy Pomfret
Chief Executive

28 February 2007

Corporate strategy

Overall objectives

To provide investment management and trust, tax and pension services for private individuals, charities and trustees.

To provide shareholders with a growing stream of dividend income, delivered by steady and consistent growth in earnings per share as market conditions allow.

To provide staff with an interesting and stimulating career environment, involving a commitment for all staff to share in the equity and profits of Rathbones.

Rathbones' services

Rathbones' core businesses are investment management and trust, tax and pension services. These are managed in three areas:

- Investment management for private individuals and trustees
- Unit trusts
- Trust and tax

Investment management for private individuals and trustees

Discretionary investment management services for private individuals, charities and trustees, as well as their advisers, are provided by Rathbone Investment Management in the UK and by Rathbone Investment Management International in Jersey. Rathbone Investment Management is authorised as a bank under the Financial Services and Markets Act 2000.

We stress the importance of a fee-based investment management service. Having full discretion, with securities held in our nominee and surplus cash held by us as an authorised bank, allows our investment managers the maximum flexibility and enables us to provide quality services efficiently and at a reasonable cost. Advisory services are also provided. Rathbone Investment Management acts in the market as an independent investment manager and continues to develop its investment process.

Rathbones is actively seeking to expand its investment management activities, organically as well as by appropriate acquisitions. The critical criteria for such acquisitions are that the people joining us should share our commitment to provide investment management services of high quality, that the acquisition should be earnings-enhancing within a reasonable timeframe and/or that the acquisition or recruitment should broaden or improve our range of services in keeping with our overall corporate strategy.

Rathbones' approach to the investment of client funds seeks to manage risk imaginatively. Each client is the responsibility of a named investment professional who makes all investment decisions in the light of his or her clients' stated objectives, risk profile and circumstances, paying regard to the Rathbone Investment Process.

Our Investment Process is constantly evolving and we continue to invest in the people and resources required to ensure it remains robust, flexible and capable of meeting a variety of needs. Traditionally, our business has focused on constructing investment portfolios from cash, bonds and equities. As new asset classes have developed and become available to private clients, we recognise that some clients may need us to construct portfolios incorporating a broader range of investments and the different risks and rewards associated with them.

We believe that our independence allows us to select all investments in a portfolio on the basis of the best available in the marketplace. There is participation in the investment process by all investment professionals across Rathbones which also ensures that the investments selected are suitable for our clients.

Our investment managers are able to make the final asset allocation decisions as well as investment selection but internal performance monitoring and risk control processes ensure that the quality of service and fulfilment of client objectives is achieved. Clients with more limited sums to invest are directed, where appropriate, to collectives on a best-of-breed basis.

The Board believes that it is appropriate that a minimum of 80 per cent of Rathbones' business should be in investment management and unit trusts.

The provision of banking services is limited to investment management or trust clients of Rathbones. Short-term loans are made on a secured basis but mortgages, cheque books, credit and debit cards are not offered.

Rathbone Pension & Advisory Services offers clients independent advice on pensions, life assurance arrangements and on the wider aspects of estate planning and savings. It also provides self-invested personal pension (SIPP) administration services for our clients, many of whom have their SIPP investment portfolios managed by Rathbone Investment Management.

Unit trusts
Rathbone Unit Trust Management provides unit trusts and ICVC's (Investment Companies with Variable Capital) to a wide range of investors. Funds under management have grown very significantly, largely by distribution through financial advisers.

Rathbone Unit Trust Management has established a major market share of sales of equity income products, on the back of long-term performance. Continuing success is dependent on delivering consistent long-term performance based on the Rathbone Investment Process. It has recently secured a foothold as a manager of investment mandates from major retailers of investment products and this area represents a growing part of the business.

The plan is to build on this success, mindful of the need to avoid complacency, given the very competitive environment in which Rathbone Unit Trust Management operates. This will involve further strengthening our brand, attracting and retaining key employees and widening distribution both in the UK and overseas. It will also involve growing distribution through intermediaries, life assurance companies and specialist mandates rather than 'in-house' sales to clients of Rathbone Investment Management. We may add funds to our range but only where we believe that we have the skills necessary to produce above average investment returns for unit holders.

Rathbones continues to be ambitious in its plans for Rathbone Unit Trust Management, acknowledging that unit trust sales are always dependent on market conditions, performance statistics, product demand and consumer confidence.

Trust and tax
As with investment management, these services are provided to clients by named professionals, frequently qualified lawyers, accountants and pension specialists. The individual services are intended to stand on their own as profitable units but cross-referrals between investment management and trust, tax and pension activities are greatly encouraged where they are appropriate and consistent with integrity and best advice.

Globally, Rathbone Trust International specialises in the provision of trustee, corporate and family office services, from offices in Jersey, Geneva and the British Virgin Islands, affiliated offices in New Zealand and the Netherlands, and through partners and associates in other jurisdictions. Rathbone Trust International prides itself on the provision of intelligent, pro-active and informed fiduciary and corporate services for private individuals, their families and their family offices wherever they are based. In addition it has specialist corporate trust expertise.

Within the UK, Rathbones is able to provide advice on tax planning, including wills and inheritance tax, family office services and trust and estate administration. Taxation services include the preparation of tax returns for individuals and trusts, income and capital tax planning as well as the ability to assist with tax investigations.

In an increasingly complex area, we are committed to providing the highest possible level of professional expertise to our existing and prospective clients.

Rathbones' infrastructure

The investment management business relies on three closely integrated systems, marketed together by Rhyme Systems as 'RhymeSight', comprising Rhyme's core Quasar processing engine, the internally developed Rathbone Investment Desk and Equipos' STR client reporting package. It is expected these will remain the core systems for the foreseeable future.

Rathbones aim to deploy robust and proven industry standard hardware and IT infrastructure such as Microsoft software for enterprise wide systems.

Marketing

Rathbones is justifiably proud of the growth of its reputation as a very professional provider of investment management and wealth management services. It is recognised, however, that our market places remain extremely competitive and are constantly changing. A variety of takeovers have led to significant levels of change in our competitors and new businesses are constantly seeking to establish themselves. Increased emphasis has been placed on marketing and business development activities generally and through intermediary audiences in particular.

Our marketing will increasingly emphasise the 'rounded' nature of Rathbones' services to individuals, building on the strengths of all parts of Rathbones.

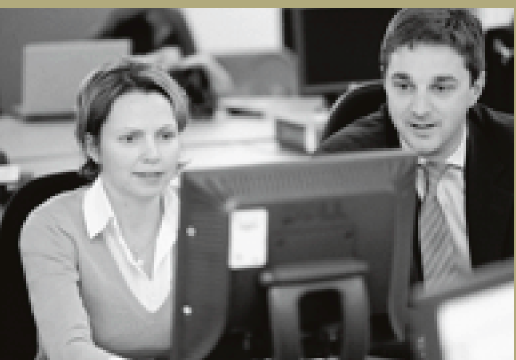
People

As with all professional services businesses, Rathbones' greatest asset is its people. The company is committed to the provision of stimulating career environments for employees in all areas.

Through our acquisitions and the operation of the Share Incentive Plan, we provide equity participation and rewards that reflect the success of the business. Additional profit-related schemes are in place in specific areas for fee-earners. These are designed to provide appropriate incentives and rewards for the profitable operation and development of our businesses.

Rathbones is aware of the need to provide appropriate training for staff throughout the business and is committed to acting as an equal opportunities employer. Increased emphasis is placed on the benefits to individual members of staff in the company by the development of the appraisal process.

Any business providing services to private individuals relies on the integrity, quality and honesty of its staff. Great stress is placed on compliance with all relevant regulation and statutes and Rathbones will preserve and build upon its established culture of seeking the highest possible professional and ethical standards. This encompasses an active awareness of environmental and social concerns as well as a commitment to the wider community.






This Operating and financial review has been prepared in line with guidance provided by the Accounting Standards Board to provide a balanced picture of Rathbones' business and prospects, without prejudicing the confidential nature of commercially sensitive information.

1 External environment

Industry environment

Rathbones provides investment and wealth management services to private individuals and trustees predominantly resident in the UK. Bridgewell Limited, in its report *Private Client Wealth Management* (October 2006), estimates that there are some 125 companies managing an estimated £300bn of advisory and discretionary client money in the UK. This implies that Rathbones has a market share of approximately 4%. The report also suggests the industry is highly fragmented as it estimates the top ten players manage around 51% of private client assets under management, the next 50 manage 47% and the remaining 2% is managed by around 65 private client wealth managers.

Table 1 shows the largest ten private client wealth managers in terms of discretionary assets under management.

Rising values of financial assets over the last three years has combined with an increasing life expectancy and an increasing requirement for provision of funds to generate income in retirement. This causes commentators to regard the private client wealth management sector as providing good medium-term growth potential.

Table 1. Private client wealth managers

£m	Discretionary AUM	Advisory AUM	Total AUM	Minimum discretionary threshold (£)
UBS	11,108	7,405	18,513	100,000
Rathbones	9,416	1,284	10,700	100,000
Lloyds TSB	9,233	–	9,233	250,000
Barclays/Gerrard	8,970	20,930	29,900	50,000
Rensburg Sheppards	8,646	4,454	13,100	None
Brewin Dolphin	8,500	11,200	19,700	None
HSBC	7,643	2,548	10,190	150,000
Morgan Stanley PWM	6,912	3,560	10,472	3,000,000
Merrill Lynch	5,379	8,068	13,447	1,000,000
Goldman Sachs	4,676	8,314	12,990	5,000,000

Source: Bridgewell Limited estimates, *Private Client Wealth Management* report, October 2006

Changes to the trust regime in the UK have been introduced by the Finance Act 2006. It is generally held that these changes have made the creation of trusts less attractive to individuals in the UK and for those who already have trusts in place, their arrangements will need to be reviewed in the light of the new legislation.

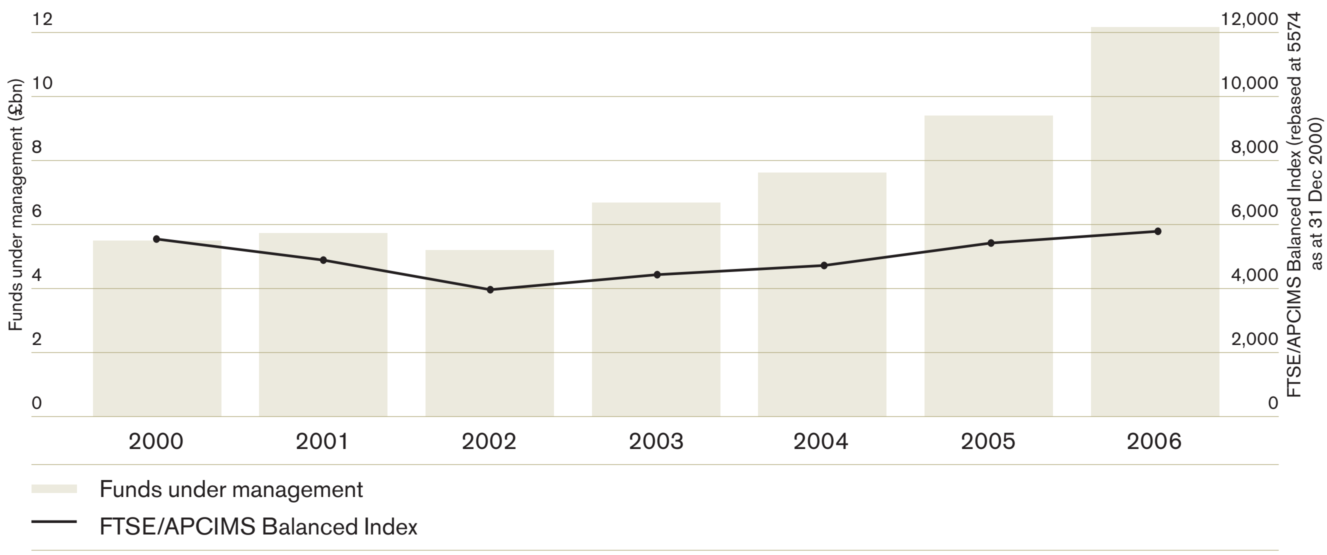
Investment environment

2006 saw growth in most world equity markets and the FTSE/APCIMS Balanced Index, which we regard as the market index that most accurately reflects the portfolio composition of Rathbone clients, rose by 6.8%.

Regulatory environment

Within the UK, the Group's investment management, unit trust and pension and advisory activities are currently regulated by the Financial Services Authority and the UK trust business will be subject to regulation in the near future. Our overseas businesses are also subject to regulation, particularly in Jersey where both the trust and investment management subsidiaries are supervised by the Jersey Financial Services Commission.

Chart 1. Total funds under management (including acquisitions)



Two European Directives have a particularly significant impact on some or all of our UK regulated subsidiaries – namely the Capital Requirements Directive (CRD), which came into force on 1 January 2007, and the Markets in Financial Instruments Directive (MiFID), which comes into force on 1 November 2007.

The CRD, which applies to both banks and investment firms, introduces a more refined, risk-based approach to the assessment of the capital that a regulated entity is required to hold and also imposes disclosure obligations. It is likely that the CRD will result in an increase in the minimum amount of regulatory capital we are required to hold, but our current view is that we will continue to have sufficient capital.

The new rules for MiFID are due to come into force in November 2007 and we have a project underway assessing the impact and addressing the issues. However, from the consultation papers and process the Financial Services Authority is currently going through, this will lead, amongst other things, to the largest rewrite of its Conduct of Business rules since they came into force in 2001. We will no doubt have to provide many of our clients with a major revision to their terms of business, but it is not yet known what information we will have to seek from them in return.

2 Rathbone Brothers Plc

Corporate strategy

Rathbones' corporate strategy is set out in detail on pages 8 to 13. To provide a meaningful context for this Operating and Financial Review, the Group's objectives are repeated here:

- To provide investment management and trust, tax and pension services for private individuals, charities and trustees.
- To provide shareholders with a growing stream of dividend income, delivered by steady and consistent growth in earnings per share as market conditions allow.
- To provide staff with an interesting and stimulating career environment, involving a commitment for all staff to share in the equity and profits of Rathbones.

Organisation

The Group's business activities are summarised in 'Rathbones at a glance' on pages 4 and 5 and set out in more detail in the Group's corporate strategy.

The results of the business are reported segmentally under the following headings:

- Investment management
- Unit trusts
- Trust and tax

Investment management includes the results of the pension and advisory services business.

For each segment, the results comprise revenue, direct costs and allocations of various support and central costs and revenues. Significant revenue or cost items that are not considered to be relevant in assessing the ongoing performance of the business are not allocated to business segments.

Key performance indicators

Key drivers for Rathbones to deliver growth in earnings are:

- growth in funds under management organically and by selective acquisition; and
- maintaining an efficient operation and controlling the cost base.

Table 2. Key performance indicators for Rathbones

	2006	2005	**% change**
Total funds under management	**£12.2bn**	£9.5bn	**+28.4%**
FTSE/APCIMS Balanced Index	**2950**	2762	**+6.8%**
Underlying rate of net organic growth in funds under management	**11%**	8%	**+37.5%**
Underlying % operating margin	**31.8%**	31.0%	**+2.6%**
Underlying basic earnings per share	**71.28p**	59.50p	**+19.8%**

3 Segmental performance

Investment Management

Key drivers for growth of revenues and profits are:

- growth in funds under management;
- maintaining gross revenue returns; and
- operational efficiency.

Table 3. Key performance indicators for Investment Management

	2006	2005	% change
Funds under management at 31 December[1]	**£10.3bn**	£8.3bn	**+24.1%**
Underlying rate of net organic growth in funds under management[1]	**7.2%**	5.8%	**+24.1%**
Average net operating income basis point return[2]	**95bps**	99bps	**-4.0%**
Operating % margin[3]	**37.6%**	36.5%	**+3.0%**

1 See Table 5
2 Net operating income (see Table 4) divided by the average of funds under management on the quarterly billing dates (see Table 6)
3 Investment Management profit before tax divided by net operating income (see Table 4)

Review of 2006

Growth in funds under management in the year has been achieved through acquisition and organically. In April, the acquisition of the investment management business from Dexia brought in over £600 million of funds under management. In addition by the end of the year, funds under management of £200 million had been attracted in by eight investment directors recruited from Brown Shipley, Kleinwort Benson, HSBC and Gerrard.

The rate of net organic growth has been the highest for some years and reflects investment in promoting to intermediaries and some national advertising, as well as a more buoyant market environment. Investment is also being made in third-party distribution channels such as life company self-invested personal pension (SIPP) products, but this is unlikely to generate returns until the end of 2007. The non-core private banking business acquired with the investment management business from Dexia was sold to Butterfield Bank (UK) Limited at the beginning of January 2007 and a modest premium was received.

Rathbone Pension & Advisory Services, a new company authorised and regulated by the Financial Services Authority, was launched on 1 August 2006 and in the run-up to that date a number of financial planning professionals were recruited. Progress to date is encouraging.

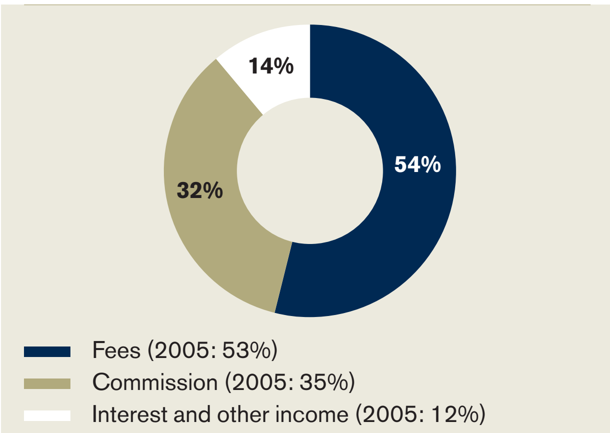
In the prior year's accounts, reference was made to a legal dispute concerning the transfer of a non-core business in 1999 and to a review of past sales of self-invested personal pensions. The legal dispute was settled in August 2006 and the review of past SIPP sales was substantially completed by the end of the year.

Net operating income

Net operating income for 2006 increased by 21.0% to £90.9 million (2005: £75.1 million). The business acquired from Dexia accounted for £4.1 million of net operating income in 2006 of which £0.4 million related to the private banking division.

The income generated from most client relationships will be a combination of fees, commission and interest margin with the mix being fairly consistent year-on-year. Fee income increased by 24.7% from £39.6 million to £49.4 million and compares with an increase in the average of funds under management on our four quarterly fee billing dates of 26.3% (2006: £9.6 billion, 2005: £7.6 billion). In 2006, higher than average levels of liquidity in client portfolios resulted in higher interest and lower commission proportions than in 2005 – see Chart 2.

Chart 2. Investment Management – net operating income



We believe this is due to a combination of factors:

- more fee-only clients;
- some evidence of larger transaction sizes; and
- reduced dealing activity during a period of increased liquidity in clients' portfolios.

Operating expenses

Operating expenses for 2006 were £56.8 million compared to £47.7 million in 2005 – an increase of 19.1%. Expenses for 2006 include £3.4 million in relation to the acquired Dexia business (of which £2.0 million is non-recurring) and costs in connection with the legal dispute and SIPP review referred to on page 17 amounted to £1.3 million.

The recruitment of investment managers will result in a decrease in operating margins until they have attracted in sufficient funds to cover their employment costs. The impact for 2006, however, has not been significant given the rate at which funds have been attracted in.

Investment managers are incentivised through a number of different schemes to maintain and grow the value of funds they manage profitably.

Outlook

For 2007, we should see a full year's contribution from the former Dexia team yielding an operating margin that is significantly closer to that achieved by the rest of the division and positive contributions from the investment managers recruited in 2006. Investment in developing our links with various intermediaries, self-invested personal pension providers and some national advertising will continue. We expect the pension and advisory services business to build upon the investment made in 2006.

The extent of the impact of MiFID is still uncertain (see Regulatory environment on page 15) and we expect an increase in property costs in London (see Resources on page 20).

Table 4. Investment Management – profit before tax

	2006 £m	2005 £m
Fees	**49.4**	39.6
Commission	**29.2**	26.4
Interest and other income	**12.3**	9.1
Net operating income	**90.9**	75.1
Operating expenses	**(56.8)**	(47.7)
Profit before tax	**34.1**	27.4

Table 5. Investment Management – funds under management

	2006 £bn	2005 £bn
As at 1 January	**8.3**	6.9
Market movement[1]	**0.5**	1.0
Inflows[2]	**2.0**	0.9
– organic	**1.1**	0.9
– acquired	**0.9**	–
Outflows[2]	**(0.5)**	(0.5)
Effect of performance	**–**	–
As at 31 December	**10.3**	8.3
Net organic new business[3]	**0.6**	0.4
Underlying rate of net organic growth[4]	**7.2%**	5.8%

1 Increase over 2006 in the FTSE/APCIMS Balanced Index applied to opening funds under management
2 Valued at the date of transfer in/out
3 Organic inflows less outflows
4 Net organic inflows as a % of opening funds under management

Table 6. Investment Management – average funds under management

	2006 £bn	2005 £bn
Valuation dates for billing:		
5 April	**8.9**	7.1
30 June	**9.3**	7.3
30 September	**9.7**	7.8
31 December	**10.3**	8.3
Average	**9.6**	7.6

Unit Trusts

Key drivers for growth of revenues and profits are:
- maintaining superior fund performance;
- growth in funds under management; and
- operational efficiency.

Table 7. Key performance indicators for Unit Trusts

	2006	2005	**% change**
Funds under management[1]	**£1.9bn**	£1.2bn	**+58.3%**
Underlying rate of net organic growth in funds under management[1]	**41.7%**	37.5%	**+11.2%**
Operating % margin[2]	**36.4%**	36.2%	**+0.6%**

1 See Table 9
2 Unit Trust profit before tax divided by net operating income (see Table 8)

Review of 2006

Growth in funds under management has been generated principally by the Rathbone Income Fund which was valued at £1.1 billion at the end of 2006 compared to £0.7 billion at the beginning of the year. This fund has an excellent long-term performance record and is the only fund in the S&P Unit Trust UK Equity Income sector (approximately 75 funds) to be first quartile in each of the last seven calendar years.

Fund supermarkets continue to be a key sales distribution channel for this business accounting for 40% of the gross retail fund sales in 2006 and, given their growing influence in this marketplace, dealing terms are likely to move in their favour.

Other sources of growth include the new Rathbone High Income Fund, launched in May, which was valued at £17 million at the end of the year, and additional funds in multi-manager mandates of over £100 million.

The Rathbone Special Situations Fund experienced net redemptions in 2006 with performance of the fund affected by the poor performance of AIM stocks.

Net operating income

Net operating income was £14.0 million (2005: £10.5 million). Rebates and trail commission payable as a percentage of annual management charge income was 42.5% compared to 40.9% in 2005, and the managers' box dealing profits, as a percentage of net operating income fell from 13.3% to 9.3%.

Operating expenses

Operating expenses were £8.9 million compared to £6.7 million in 2005 – an increase of 32.8%. This increase is largely due to the increase in the costs of the profit share schemes for this business.

Outlook

The focus for 2007 will be to continue to promote our top performing funds through existing and new distributors. We are also planning the merger of the Rathbone Capital Growth Fund, valued at just under £5 million, with the Rathbone Income and Growth Fund, subject to unitholder approval.

Table 8. Unit Trusts – profit before tax

	2006 £m	2005 £m
Initial charges net of discounts	**0.9**	1.1
Annual management charge	**19.5**	13.7
Net dealing profits	**1.3**	1.4
Interest and other income	**1.0**	0.5
	22.7	16.7
Initial commission payable	**(0.4)**	(0.6)
Rebates and trail commission payable	**(8.3)**	(5.6)
Net operating income	**14.0**	10.5
Operating expenses	**(8.9)**	(6.7)
Profit before tax	**5.1**	3.8

Table 9. Unit Trusts – funds under management

	2006 £bn	2005 £bn
As at 1 January	**1.2**	0.8
Market movement[1]	**0.1**	0.1
Net inflows	**0.5**	0.3
– Inflows[2]	**0.6**	0.4
– Outflows[2]	**(0.1)**	(0.1)
Effect of performance	**0.1**	–
As at 31 December	**1.9**	1.2
Underlying rate of organic growth[3]	**41.7%**	37.5%

1 Increase over 2006 in the FTSE 100 Index applied to opening funds under management
2 Valued at the date of transfer in/out
3 Net inflows as a % of opening funds under management

Trust and Tax

Key drivers for growth of revenues and profits are:

- increasing chargeable hours;
- improving chargeable hour recovery rates; and
- operational efficiency.

Table 10. Key performance indicators for Trust and Tax

	2006 %	2005 %
Chargeable time recovery rate[1]	**91**	90
Operating margin[2]	**10.8**	14.9

1 Amounts billed as a % of the value of chargable hours
2 Trust and Tax profit before tax divided by net operating income (see Table 11)

Table 11. Trust and Tax – profit before tax

	2006 £m	2005 £m
Net operating income – fees	**21.2**	21.5
Operating expenses	**(18.9)**	(18.3)
Profit before tax	**2.3**	3.2

Review of 2006

The Trust and Tax division has had to face a number of challenges during 2006 which have adversely affected its results.

In Jersey, we made a significant investment in relocating from three offices to one new building and incurred one-off costs as a result, in particular dilapidation and onerous lease costs. Planning and executing the move also had some impact on the number of chargeable hours that professional staff were able to work.

For Geneva, 2006 was a year of improved performance. A major exercise to recruit higher calibre staff, which began in 2004 with a new managing director, was largely completed during the year. Flows of new business began to increase in the second half of the year and remain encouraging. There continued to be, however, legacy issues to deal with which resulted in legal costs and some loss of chargeable time.

In the UK, we have had to deal with the impact of changes to the tax treatment of trusts introduced in the Finance Act 2006 which, it is generally held, will make them less attractive to individuals in the UK. While a change can also present new opportunities, there has been a period of uncertainty which has delayed the work associated with reviewing existing trust arrangements. There has also been a review of the level of minimum fees which for one part of the business will be increased from January 2007.

Net operating income

Operating income reduced by 1.4% from £21.5 million in 2005 to £21.2 million in 2006.

Operating expenses

Operating expenses increased by 3.3% from £18.3 million in 2005 to £18.9 million. One-off costs incurred in connection with the Jersey move amounted to £0.7 million.

Outlook

In Jersey, the consolidation into one location will enable efficiencies to be achieved by reducing costs and levels of non-chargeable time. Historically, a significant proportion of Jersey's business has been referred from the UK but there is now an increased emphasis on developing other sources of business. The creation of the Rathbone Trust International brand for use by all the division's overseas offices will assist in that process and other markets, in the Far East in particular, are being actively investigated.

In the UK, advising clients on how best to deal with the change in tax treatment of trusts should create opportunities.

4 Resources

IT

No modern business can survive without robust, but increasingly complex, IT systems. We continue to evolve our systems while limiting the impact of change on our staff and clients. It is pleasing to report high systems 'up-time' across all businesses as well as successful business continuity tests in all sites hosting core IT equipment.

Behind the scenes we have started to work on the migration from a Novell infrastructure to Microsoft. The biggest change in this programme, from Novell's GroupWise e-mail system to Microsoft's Exchange, is planned for 2007. In 2006 we also started an ongoing programme to upgrade the speed of connectivity between our systems and sites.

In Jersey we completed the full roll-out of a document management system to all staff in time for the move to our new building. In the UK, following the earlier introduction of a document management system for anti-money laundering documentation we are now half-way through rolling out an electronic workflow system for opening new client accounts.

Our core investment management systems remain our proprietary front office system, Rathbone Investment Desk (developed by Lastic Ltd), Rhyme Systems' Rhymesight Back Office and Equipos' STR client reporting package. We work very closely with our suppliers and developers to ensure these systems, which share one common database, are properly integrated. Early in 2006 we completed a five year strategy to deliver full internal 'straight through processing' across these systems, from the investment decision to full settlement and client reporting, improving speed and efficiency of processing, and reducing error rates (a key, but commercially sensitive, performance indicator which we monitor closely).

The STR client reporting package went 'live' at the end of December 2005 and all our client reports, statements and valuations are now compiled by STR. In 2007 we will be looking to enhance our electronic and web-based delivery through STR.

Operations

We continue to run our investment operations on a predominantly in-house rather than outsourced basis in order to provide the highest possible level of client service and for the flexibility and scalability this allows. A key event for our operations department was the migration of the acquired Dexia business from Sungard's PAL system onto our infrastructure, which was completed extremely successfully just four months after the acquisition (and ahead of our original schedule). Though we worked closely with our overseas (and Dexia's) custodian, Bank of New York, we would not have been able to act as swiftly and gain as many efficiencies with an outsourced solution.

While healthy new business flows in 2006 have allowed us to derive efficiencies in core processing areas it should be noted that the business is becoming more complex (and resource intensive) in other areas. This includes new tax and regulatory regimes (such as the EU Savings Directive introduced in 2006 and the major changes expected with MiFID in 2007), greater demands for performance measurement and portfolio information, particularly for larger clients and intermediaries, which include trust companies, IFAs and, particularly after 'A-Day', pension providers.

Our unit trust business has for many years used Capita as a third party administrator (TPA), outsourcing administration as do virtually all in the industry. Although Capita was fined by the Financial Services Authority in March 2006 for poor anti-fraud controls, we are satisfied with the measures it has taken to strengthen management and improve controls. However, given the very significant growth of our unit trust business in recent years, we are reviewing our use of front office systems internally and will also keep under review the services of our TPA to ensure it continues to have the capacity and skills we require.

Property

The quality of space and facilities available to our staff to work in and to meet clients is very important.

After nearly two years of planning, our Jersey businesses moved on schedule in September from three separate locations into one prestigious purpose-built building on The Esplanade in St Helier – this will foster closer working across the teams in Jersey.

In London, the fourth floor of our 159 New Bond Street offices fortuitously became available around the time we announced the acquisition from Dexia and, after a significant effort by our IT and facilities departments, was fitted out in just ten weeks to welcome our new colleagues. Since then we have started, and will continue in 2007, a major programme to refurbish the other three floors to an equivalent standard (we now benefit from being the only commercial tenant). A rent review for these floors is due in March 2007 and there will be an inevitable increase in rental costs.

We have also been reaching capacity constraints in the iconic Port of Liverpool Building. We are investigating our options to increase space for our operations and support teams in this building, while mindful that other premises may be available in Liverpool when we have a lease break in February 2008.

In December, our Bowness office moved to new and better premises at Levens Hall just south of Kendal and is now referred to as the Kendal office.

Investment process

The Rathbone Investment Process seeks to draw together the combined expertise of our investment managers across both our discretionary fund management operations and our award-winning unit trust operation.

While the use of alternative investments (such as fund of hedge funds and structured products) remains a modest proportion of portfolios overall for reasons that include the fact that many clients are seeking income (which many alternative products do not deliver), investor interest is increasing. This is perhaps particularly so amongst investors with self-invested personal pension portfolios where risk related to age is an important criterion in establishing the investment parameters for such funds.

Accordingly, we enhanced our Investment Process in 2006 with the formation of a Strategic Asset Allocation Committee which meets quarterly and provides guidance for mandates which incorporate a broader view of assets.

Our bespoke approach to portfolio management and avoidance of slavish index tracking has borne fruit overall in 2006 where tactical opportunities to take advantage of high levels of corporate activity in the UK have arisen.

Lipper Fund Awards 2006

Rathbone Income Fund wins Best Fund over 10 years (UK Equity Income) and the Rathbone Income and Growth Fund wins Best Fund over 10 years (UK Equity)

Lipper Citywire All Stars Awards 2006

Rathbone Unit Trust Management wins Best Fund Group over 3 years – Equity Group (small) and UK Equity Group (small)

Standard & Poor's Investment Funds Performance Awards 2006

Rathbone Income Fund wins 1st place in 5 year and 10 year UK Marketed Funds (UK Equity Income Sector)

Moneywise Fund Awards 2006

Rathbone Income Fund is the UK Equity Income sector winner

Brand and reputation

Investment in our brand profile in 2006 continued with an extension of our business development and promotional activity. We continue to build our profile in the key media, including that directed at IFAs, an important audience not only for our unit trust division but also increasingly for our discretionary investment management services. Advertising campaigns in support of discretionary investment management (the 'welcomes' campaign in The Times and Daily Telegraph) and the High Income Fund launch were run in 2006.

Our marketing department has continued to develop allowing us to support a larger investment management team, new business areas such as Rathbones Pension & Advisory Services, new initiatives like the Rathbone SIPP, and upgraded sales support materials and events.

People

Rathbones insists on high standards throughout all areas of the business and particular care is taken to ensure that we employ the right people in the right jobs, not just in terms of their capabilities but also their attitude.

Our current standards of qualification in the UK exceed the guidelines set out by the Financial Services Authority and, in spite of the imminent implementation of MiFID and the temptation to adopt the simplification of requirements that this will bring, we intend to retain current practices to ensure that excellent standards of service are maintained.

We recognise the commitment and loyalty of our employees, and in turn are keen to assist in the development of our staff. All employees are encouraged to increase their depth of knowledge, often through the attainment of professional qualifications or through various work-related training courses.

Enhanced contribution to the business combined with staff development and the provision of a stimulating working environment, is key to the culture of Rathbones and, where possible, we progress and promote from within. In addition, we recognise the ideal that younger members of the business will play a part in its future; thus 2006 saw the implementation of a formal management development programme, which will continue into 2007. Furthermore a graduate recruitment exercise will be carried out to fill ten newly-created trainee positions across the UK.

5 Risks and uncertainties

The principal risks and uncertainties that face Rathbones are:

Market risk

The income of the investment management and unit trust businesses is very dependent on market levels and conditions.

A decrease in income would be accompanied by some reduction in the costs of profit sharing schemes.

Competition risk

Rathbones operates in a competitive market and therefore there is a risk of loss of existing clients or failure to gain new clients due to:
- poor performance or service;
- failure to respond to changes in the marketplace;
- inadequate investment in marketing or distribution; and
- loss of investment professionals.

To mitigate this risk, we:
- continue to invest in the people and resources required to ensure the Rathbone Investment Process remains robust, flexible and capable of meeting a variety of needs;
- continuously monitor developments in the marketplace in which we operate and invest in enhancing or broadening the services offered where we believe it will contribute to growth in earnings;
- invest in the marketing and operational resource to continue to develop distribution channels for all parts of the business;
- invest in recruiting high quality staff and ensure that remuneration packages remain appropriate, and support their training and development needs; and
- regularly review, and update if necessary, contracts of employment for fee earning staff.

Reputational risk

Rathbones has a reputation as a high quality provider of investment management and wealth management services. There is a risk that significant damage to reputation could lead to loss of existing clients and failure to gain new clients which would lead to financial loss.

Reputational risk could arise for a wide variety of reasons including:
- poor performance or service; and
- regulatory censure leading to negative publicity.

This risk is mitigated by our continuing emphasis on compliance with all relevant regulation and statutes, in particular the Training and Competence regime of the Financial Services Authority, and preserving and building on our established culture of seeking the highest possible professional and ethical standards.

Regulatory risk

The financial services sector in which we operate is heavily regulated. Failure to comply with regulatory requirements could lead to fines or other disciplinary action. There is also a risk that changes in, or additional, regulation could adversely affect profitability.

We monitor changes in regulation, assess the impact any changes may have on our business and plan to ensure we have sufficient resource to implement those changes.

Technology risk

The continuing delivery of high quality services to clients is to a large extent dependent on a robust and flexible IT infrastructure. Failure of IT strategy or implementation would have an adverse impact on the business.

IT infrastructure is given a high priority. There are a number of business-led IT steering committees in place but overall responsibility for strategy rests with the Group IT Steering Committee, chaired by a main board director. IT projects are reviewed by the Group committee on a monthly basis and formal documented procedures exist for approving IT changes or developments.

In the UK, we have duplicate core systems in our London and Liverpool offices that can be accessed from disaster recovery sites in Crawley and Warrington.

6 Financial position

Group financial performance

Reported profit before tax for the period rose by 26.6% from £35.3 million in 2005 to £44.7 million in 2006 and reported basic earnings per share increased by 27.4% from 60.13p in 2005 to 76.62p in 2006.

Underlying profits before tax rose by 20.6% from £34.4 million in 2005 to £41.5 million in 2006. Underlying basic earnings per share rose by 19.8% from 59.50p in 2005 to 71.28p in 2006.

Operating income

Reported operating income has increased by 18.1% from £113.2 million in 2005 to £133.7 million in 2006. Excluding the London Stock Exchange-related income, operating income increased by 18.1%. Operating income for each business area is referred to under 'Segmental performance' (from pages 17 – 20).

Table 12. Profit before tax (£m) and earnings per share

	IM	**Unit Trusts**	**Trust and Tax**	**Re-allocation[1]**	**Underlying totals**	**Non-segmental items[2]**	**As reported**
2006							
Operating income	90.9	14.0	21.2	4.4	130.5	3.2	133.7
Operating expenses	(56.8)	(8.9)	(18.9)	(4.4)	(89.0)	–	(89.0)
Profit before tax	**34.1**	**5.1**	**2.3**	**–**	**41.5**	**3.2**	**44.7**
Earnings per share					**71.28p**		**76.62p**

	IM	Unit Trusts	Trust and Tax	Re-allocation[1]	Underlying totals	Non-segmental items[2]	As reported
2005							
Operating income	75.1	10.5	21.5	3.8	110.9	2.3	113.2
Operating expenses	(47.7)	(6.7)	(18.3)	(3.8)	(76.5)	(1.4)	(77.9)
Profit before tax	27.4	3.8	3.2	–	34.4	0.9	35.3
Earnings per share					59.50p		60.13p

1 Central revenue (mainly interest) included in net central costs which is allocated to the business areas
2 Operating income – profit on sale of shares in London Stock Exchange Group plc; operating expenses – aborted acquisition costs

Operating expenses

Reported operating expenses increased by 14.2% from £77.9 million in 2005 to £89.0 million in 2006. Excluding the aborted acquisition costs in 2005, underlying operating expenses increased by 16.3%. The acquisition from Dexia increased costs in the year by £3.6 million of which 56% is non-recurring.

Table 13. Operating expenses

	2006 £m	2005 £m
Staff costs		
– fixed	**42.3**	36.9
– profit related/variable	**17.0**	13.3
Total staff costs	**59.3**	50.2
Other underlying operating expenses	**29.7**	26.3
Underlying operating expenses	**89.0**	76.5
Aborted acquisition costs	**–**	1.4
Reported operating expenses	**89.0**	77.9
Underlying cost/income ratio	**68.2%**	69.0%

Staff costs have increased by 18.1% but excluding the impact of the acquisition from Dexia, the increase is 12.7%. The increase of 14.6% in fixed staff costs from £36.9 million to £42.3 million reflects salary inflation and the increase in headcount (the average fulltime equivalent headcount increased by 4.0% from 721 to 750, in large part due to the acquisition from Dexia). Variable staff costs have increased by 27.8% from £13.3 million to £17.0 million due to the increase in the cost of profit sharing and new business incentive schemes which reflects increased profits and net organic growth.

Other operating expenses have increased by 12.9% from £26.3 million in 2005 (this amount excludes the aborted acquisition costs) to £29.7 million in 2006. Excluding the impact of the acquisition from Dexia, the increase is 9.5% and is largely attributable to increased property and office costs relating to the extra floor taken in 159 New Bond Street and to the property changes that took place in Jersey. Further increases are expected next year due to a rent review in London and additional space being leased in the Liverpool office.

Operating expenses include an amortisation charge of £475,000 (2005: £19,000) in relation to intangible assets arising as part of the investment management business acquired.

Tax

The effective tax rate for the year is 28.1% (2005: 30.1%) calculated as the total tax charge of £12.6 million (2005: £10.6 million) divided by the profit before tax of £44.7 million (2005: £35.3 million). A full tax charge reconciliation is set out in note 11 to the accounts.

The effective rate of tax is lower than the UK standard rate of 30% due to corporation tax deductions in respect of share options for which there is no related charge in the profit and loss account, and profits arising in lower tax jurisdictions, principally Jersey.

Dividend

An interim dividend of 13.5p per share was paid to shareholders on 13 October 2006 and the Board is recommending a final dividend of 21.5p, resulting in a total payment of 35.0p, an increase of 16.7% on 2005. This dividend is covered 2.2 times by reported earnings per share and 2.0 times by underlying earnings per share.

Capital

We continue to run a capital position that is in excess of our regulatory capital requirement although the headroom has been reduced as a result of the acquisition from Dexia. We are currently assessing our capital requirements in the light of the Capital Requirements Directive. We believe that the minimum we will be required to hold with effect from 1 January 2008 will increase but our current view is that we will continue to have sufficient capital.

Table 14. Total shareholders' funds and return on capital employed

	2006 £m	2005 £m
Shareholders' funds at 1 January	**130.4**	117.4
Shareholders' funds at 31 December	**159.1**	130.4
Average shareholders' funds	**144.8**	123.9
Profits before tax	**44.7**	35.3
Profits after tax	**32.1**	24.7
Return on capital employed (pre-tax)	**30.9%**	28.5%
Return on capital employed (post-tax)	**22.2%**	19.9%

Treasury policy and objectives

The primary objective of the Group's treasury policy is to manage short-term liquidity requirements in such a way as to minimise financial risk.

Rathbone Investment Management Limited holds most of the Group's surplus liquidity on its balance sheet and this includes clients' cash that it holds in its capacity as a deposit taker which is authorised and regulated by the Financial Services Authority. The treasury department of Rathbone Investment Management, reporting through the Banking Committee to the Board, operates in accordance with procedures set out in an approved treasury manual and monitors exposure to market, credit and liquidity risk.

Cash flow

Excluding the cash flows that arise from Rathbone Investment Management acting in its capacity as a bank, the most significant non-operating cash flows during the year were as follows:

- Cash outflows from the payments made in relation to the acquisition from Dexia (£14.9 million).
- Cash outflows relating to the payment of dividends (£13.4 million).

During the year, we obtained a borrowing facility of £24 million from Barclays Bank PLC for use in managing the regulatory impact of payments in relation to the acquisition from Dexia and funding of the Rathbone 1987 Scheme pension deficit. A total of £12 million had been drawn down by 31 December 2006 and it is expected that a further £3 million will be drawn down before 30 April 2007, the date on which the facility expires. The loan is repayable over five years.

Investment in London Stock Exchange Group plc

As at 31 December 2006, the Group held 400,000 shares in London Stock Exchange Group plc (31 December 2005: 700,000). These shares were acquired for a total cost of £2 but are carried at market value on the balance sheet (under the heading 'Investment securities – available for sale') with changes in value taken to a revaluation reserve. On the sale of shares, the difference between the sale proceeds and the original cost is recognised in the profit and loss account.

In 2006, a total of 300,000 shares were sold and the gain on sale of £3.2 million is included in the profit and loss account under the heading 'Net income from sale of available for sale securities'.

Pensions

We have two defined benefit schemes (both of which are closed to new members) and as at 31 December 2006, there was a combined gross accounting deficit of £10.8 million (2005: £18.7 million). The reduction in the combined deficit over the year has been due to higher discount rates reducing the pension scheme liabilities and improved market levels and increased contributions increasing the pension scheme assets.

In relation to the Rathbone 1987 Scheme, the Board has committed to reducing significantly the deficit by making payments of up to £10 million by the end of 2007 – £3 million was paid in 2006, £3.5 million will be paid by 31 March 2007 and up to £3.5 million will be paid by 31 December 2007, depending on the size of the deficit at that time.

In relation to the Laurence Keen Scheme (which has no active members), the current level of funding the deficit of £562,000 per annum will be reviewed as part of the process to conclude on the triennial valuation as at 31 December 2005.

A consultation process with active members of the Rathbone 1987 Scheme was completed during the year and 88% by number opted to increase their contributions to the scheme in order to maintain their benefit accrual rate for future service. The Company has also increased its rate of contribution from 11.5% to 13.9% for future service.

Sue Desborough
Finance Director

Paul Chavasse
Chief Operating Officer

28 February 2007

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

Executive directors who served during the year

Mark Powell*
Mark Powell, aged 61, is the executive chairman with principal responsibility for the strategy of the Group. He has been involved in investment management for private clients throughout his career. From 1968 to 1989 he worked in what became Credit Lyonnais Securities and was chief executive of CL-Alexanders Laing & Cruickshank Holdings. In 1989 he joined Laurence Keen as chief executive and was appointed to the Rathbones' Board as managing director of the Group following its acquisition in March 1995. He was appointed as chairman in May 2003. He is also non-executive chairman of SVM Active Fund Plc. He is a director of the Association of Private Client Investment Managers & Stockbrokers (APCIMS) and a member of the Takeover Panel.

Andy Pomfret*
Andy Pomfret, aged 46, is the chief executive. He is chairman of the Executive Committee which manages the day-to-day affairs of the Group and of the Group's Social and Environmental Committee. He qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG). Prior to joining Rathbones in July 1999, he spent over 13 years with Kleinwort Benson (now Dresdner Kleinwort) as a corporate financier, venture capitalist and latterly finance director of the investment management and private banking division. He was appointed to the Board in August 1999 and became chief executive in October 2004. He is also the senior independent director of Beazley Group plc.

Sue Desborough*
Sue Desborough, aged 46, is finance director. She joined Rathbones as group financial controller in 2000 and became finance director in October 2004. Between 1987 and 2000 she worked for Kleinwort Benson Private Bank where she was latterly head of financial and regulatory reporting, a role which included a diverse range of projects including M&A and new product development. She qualified as a chartered accountant in 1984 with Deloitte Haskins & Sells. She is chairman of the Group's Business Continuity Committee.

Ian Buckley*
Ian Buckley, aged 56, is chief executive of the Group's trust division and chairman of the Group's IT Steering Committee. He qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG) in 1975. He was chief executive of Smith & Williamson for ten years from 1985 to 1995, and subsequently chief executive of EFG Private Bank Limited and Tenon Group Plc. He was appointed to the Board in December 2001. He is the senior independent director of NXT Plc.

Mark Powell Andy Pomfret Sue Desborough Ian Buckley

Paul Chavasse*
Paul Chavasse, aged 42, is the chief operating officer responsible for the Group's investment operations, IT infrastructure and facilities. He started his career working for the institutional fund management arm of NatWest, which was later merged with Gartmore. After a period in the private client businesses of NatWest and Coutts, his final role before joining the Group in 2001 was as head of NatWest Portfolio Management in Bristol. He was appointed to the Board in September 2001.

Richard Lanyon*
Richard Lanyon, aged 55, is the director responsible for Rathbones' investment management business. Initially with Laurence Prust, he moved to Framlington Group Plc in 1986 where he was the Board member responsible for pension funds. Richard joined the Group in 1992 to concentrate on private client discretionary investment management and was appointed to the Board in March 1996.

James Lifford*
James Lifford, aged 58, was the director in charge of the regional investment management offices and chairman of the Group's Social and Environmental Committee until his retirement from the Board on 31 December 2006. He manages the investments of a significant portfolio of clients from the Winchester office and has worked for Rathbones and predecessor companies for nearly 30 years, during which period he was responsible for developing the regional office network. He was appointed to the Board in September 1996.

Andrew Morris
Andrew Morris, aged 42, is the director responsible for Rathbones' investment management business in Liverpool, Edinburgh and Kendal. He also manages a large number of client portfolios. He has spent his entire working career at Rathbones in private client investment management and was appointed to the Board in November 2000. He is chairman of the Group's Training and Competence Committee and is the director responsible for marketing.

Peter Pearson Lund
Peter Pearson Lund, aged 59, is the director responsible for Rathbones' unit trust business and is chief executive of Rathbone Unit Trust Management Limited. He was appointed to the Board in January 2005. Before joining Rathbones, Peter worked for Gartmore for 14 years where he was a group director and managing director of Gartmore Fund Managers, the unit trust division. Peter joined Rathbones in 1999 when the company decided to develop its unit trust activities and promote them externally.

Richard Smeeton
Richard Smeeton, aged 42, has, as his principal responsibility, the management of the Group's investment management business in London and Jersey. He also manages a large number of client portfolios. He joined Laurence Keen in 1988 having been a graduate trainee with County Bank. He was appointed to the Board in November 2000.

* Members of the Executive Committee.

Paul Chavasse | Richard Lanyon | James Lifford | Andrew Morris | Peter Pearson Lund | Richard Smeeton

Non-executive directors

Giles Coode-Adams
Giles Coode-Adams, aged 68, has over 40 years' experience in the City. In 1966 he became a partner in L. Messel & Co. which from 1986 was part of Lehman Brothers. He became a managing director of Lehman Brothers in 1987 and has advised a number of leading UK and US companies. Additionally, from 1991 to 1997 he was chief executive of the Royal Botanic Gardens, Kew Foundation. He is also a director of Guardian Media Group plc. He joined the Board in June 1999 and is the senior independent director and chairman of the Audit Committee.

James Barclay
James Barclay, aged 61, has many years' experience in the financial services and banking sector. As chairman and chief executive of Cater Allen Holdings Plc, he was responsible for creating a market leader that was ultimately sold to Abbey National in 1998. Currently, he is non-executive chairman of M&G Equity Investment Trust PLC and a director of Thos. Agnew's and Sons Limited, a leading West End international art dealer. In 2000 he was appointed as an adviser to the UK Debt Management Office and was chairman of its audit committee for four years. He was appointed to the Board in November 2003 and is considered to be independent.

Caroline Burton
Caroline Burton, aged 57, is a highly experienced figure within the asset management industry. She spent 26 years with Guardian Royal Exchange Plc where she was executive director in charge of investments from 1990 until 1999. She was also a director of The Scottish Metropolitan Property Plc until June 2000 and was a member of the service authority for the National Crime Squad and National Criminal Intelligence Service until March 2006. She is a non-executive director of TR Property Investment Trust Plc. She was appointed to the Board in November 2003 and is considered to be independent. She is chairman of the Remuneration Committee.

Jamie Cayzer-Colvin
Jamie Cayzer-Colvin, aged 41, is a director of Caledonia Investments plc, Polar Capital Holdings Plc and India Capital Growth Fund Ltd. After leaving the Army, he worked for Whitbread and GEC before joining Caledonia in 1995. He initially worked at Ambersil, an international speciality chemicals subsidiary, before transferring to Caledonia's head office in 1999. He was appointed to the Board in May 2002.

Jamie is a director of a major shareholder, Caledonia Investments plc, and it is recognised that he is not considered to be independent for the purposes of the Combined Code.

Oliver Corbett
Oliver Corbett, aged 42, is group finance director of Novae Group plc (formerly SVB Holdings PLC). He is a chartered accountant and worked for SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein (now Dresdner Kleinwort), where he was managing director, emerging companies, before joining SVB in October 2003. He was appointed to the Board on 7 March 2006 and is considered to be independent.

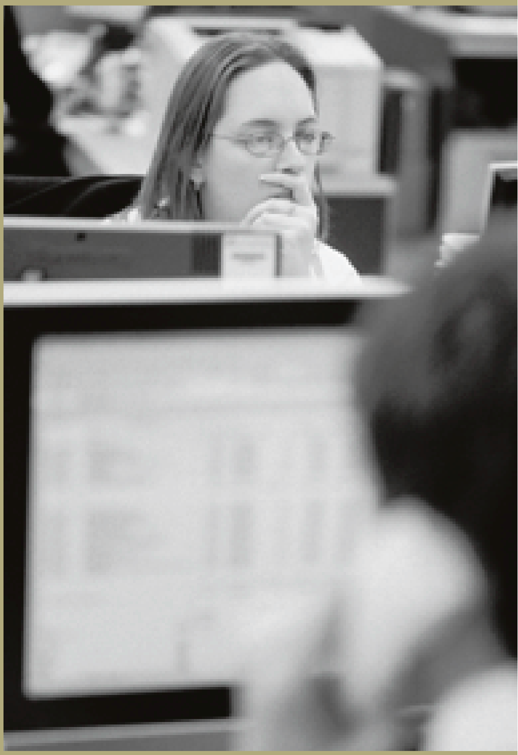
Roy Morris
Roy Morris, aged 65, was chief executive from 1997 until his retirement from this role in October 2004. He remains a non-executive director but is not considered to be independent and does not sit on Board Committees. He is a Deputy Lieutenant of Merseyside and is chairman of the Mersey Partnership. He is also a non-executive director of Albany Investment Trust Plc and of the Liverpool Culture Company Ltd.

Mark Robertshaw
Mark Robertshaw, aged 38, is chief executive officer of The Morgan Crucible Company plc. Prior to joining Morgan Crucible in 2004 he was chief financial officer of Gartmore Investment Management Plc for four years. He previously worked for the NatWest Group and also spent nine years as a management consultant with Marakon Associates. He was appointed to the Board on 7 March 2006 and is considered to be independent.

Giles Coode-Adams James Barclay Caroline Burton Jamie Cayzer-Colvin Oliver Corbett Roy Morris Mark Robertshaw

Governance

Contents



Directors' report

Group activities

Rathbone Brothers Plc is the parent company of a group of companies which offers a range of investment management services and related professional advice to private individuals, trustees, charities, pension funds and the professional advisers of these clients. The Group also provides financial planning, private banking, offshore fund management and trust administration services.

The Group's principal activity is discretionary investment management for private clients carried out by Rathbone Investment Management Limited from eight offices in the UK and by Rathbone Investment Management (C.I.) Limited (which trades as Rathbone Investment Management International) in Jersey.

Rathbone Investment Management Limited is authorised and regulated by the Financial Services Authority and also provides private banking services. The company also offers an ethical investment service (Rathbone Greenbank Investments) and is the investment adviser to seven venture capital trusts. In addition, the Rathbone Group continues to provide some advisory stockbroking services.

Rathbones manages 11 authorised unit trusts through Rathbone Unit Trust Management Limited and is the Authorised Corporate Director of four Open Ended Investment Companies (OEICs).

Rathbone Trust Company Limited provides a wide range of trust, company management and taxation services. Activities of other overseas subsidiary companies, which trade as Rathbone Trust International, comprise trust and company formation and administration services undertaken from offices in Jersey, Geneva and the British Virgin Islands.

Rathbone Pension & Advisory Services Limited offers a pension advice service, SIPP administration and other financial planning services.

Business review

A full review of the Group's business activities are set out in the operating and financial review on pages 14 to 25.

Post balance sheet events

Details of events after the balance sheet date are set out in note 34 to the accounts on page 92.

Group results and Company dividends

The Group profit after taxation for the year ended 31 December 2006 was £32,138,000 (2005: £24,681,000). The directors recommend a final dividend of 21.5p (2005: 18.5p) payable on 10 May 2007 to shareholders on the register on 13 April 2007 and this, together with the interim dividend of 13.5p (2005: 11.5p), results in total dividends of 35.0p (2005: 30.0p) per ordinary share for the year. These dividends amount to £14,786,000 (2005: £12,351,000) – see note 12 on page 73.

Substantial shareholdings

At 28 February 2007, the directors had been notified of disclosable interests of 3 per cent or more in the issued share capital of the Company as set out in Table 1 below.

Table 1. Substantial shareholdings

	Date of notification	Ordinary shares of 5p each	Percentage holding at date of notification
Caledonia Investments plc	February 2007	4,562,000	10.79
Fidelity International	November 2006	2,108,156	4.99
Prudential plc	May 2005	1,246,000	3.04
Legal & General Group Plc	February 2007	1,436,187	3.39
AEGON UK Group plc	August 2006	1,264,791	3.00

Directors and their interests

The directors at the year end and who served during the year, and their interests in the share capital of the Company are shown in Table 2. There were no changes between 31 December 2006 and 28 February 2007. Details of directors' share options are shown in Table 6 on page 42. The disclosures here and in the Remuneration report include amounts relating to James Lifford, who retired from the Board on 31 December 2006.

Table 2. Directors' shareholdings

	Number of 5p ordinary shares at 1 January 2006*		Number of 5p ordinary shares at 31 December 2006	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Executive				
I M Buckley	18,524	–	19,034	–
P D G Chavasse	6,898	–	10,671	–
S M Desborough	3,736	–	8,291	–
R P Lanyon	207,313	–	217,868	–
Viscount Lifford	90,306	20,000	90,861	20,000
A T Morris	14,822	–	29,577	–
P G Pearson Lund	3,236	–	7,475	–
A D Pomfret	23,466	–	43,854	–
G M Powell	300,658	7,500	312,635	10,000
R I Smeeton	130,661	–	117,791	–
Non-executive				
J C Barclay	1,134	–	1,647	–
C M Burton	1,134	–	1,647	–
J M B Cayzer-Colvin	3,000	–	3,000	–
J G S Coode-Adams	8,873	–	9,426	–
O R P Corbett	–	–	126	–
R A Morris	248,576	51,190	229,131	50,210
M Robertshaw	–	–	1,000	–

* or date of appointment if later

Executive directors

The directors with executive responsibilities are Mark Powell, Andy Pomfret, Sue Desborough, Ian Buckley, Paul Chavasse, Richard Lanyon, Andrew Morris, Peter Pearson Lund and Richard Smeeton. James Lifford retired from the Board on 31 December 2006. Their biographies are on pages 26 and 27.

Non-executive directors

The directors with non-executive responsibilities are Giles Coode-Adams, James Barclay, Caroline Burton, Jamie Cayzer-Colvin, Oliver Corbett, Roy Morris and Mark Robertshaw. Oliver Corbett and Mark Robertshaw were appointed to the Board on 7 March 2006. Their biographies are on page 28.

Giles Coode-Adams is the senior independent director and any comment or enquiry regarding the affairs of the Company may be addressed to him. The Board considers that, with the exception of Roy Morris and Jamie Cayzer-Colvin, all non-executive directors are independent.

Retirement and re-appointment of directors

James Barclay, Caroline Burton, Richard Lanyon, Andrew Morris, Andy Pomfret and Richard Smeeton retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Political donations

No contributions were made for political purposes during the year (2005: nil).

Employees

Details of the Company's employment practices and its policy regarding the employment of disabled persons can be found in the Corporate responsibility report on page 51.

Policy on the payment of creditors

Rathbones does not follow a published code or standard on payment practice. Its policy is to fix terms of payment with each supplier in accordance with its requirements and financial procedures. Rathbones ensures that suppliers are aware of those terms and abides by them subject to the resolution of any disagreement regarding the supply. In the majority of cases, the terms agreed with suppliers are for payment within 30 days of their invoice date. Trade creditors of the Group at 31 December 2006 represented 14 days of annual purchases (2005: 17 days). The Company itself has no trade creditors.

Financial instruments and risk management

The risk management objectives and policies of the Group are set out in note 30 to the accounts on pages 90 to 91.

Share price

The mid market price of the Company's shares at 31 December 2006 was £11.98 (2005: £9.92) and the range during the year was £9.91 to £12.40 (2005: £7.25 to £10.15).

Annual General Meeting

The 2007 Annual General Meeting will be held on Wednesday 2 May 2007 at 12.00 noon at 159 New Bond Street, London, W1S 2UD. The notice of the meeting is on pages 106 to 110 with details of the resolutions proposed and explanatory notes.

KPMG Audit Plc stood down as auditors during 2006 and PricewaterhouseCoopers LLP was appointed by the directors to fill the casual vacancy. Special notice is given (as required by the Companies Act 1985) of the ordinary resolution appointing the new auditors.

It is anticipated that all directors, including the chairmen of the Audit, Remuneration and Nomination Committees, will be at the AGM and available to answer questions.

By Order of the Board

Richard Loader
Secretary

Registered Office
159 New Bond Street
London W1S 2UD
28 February 2007

Corporate governance report

In relation to compliance with the Combined Code this report together with the Directors' report states the position at 28 February 2007.

The Combined Code compliance statement

The Combined Code on Corporate Governance ('the Code') was issued in July 2003 by the Financial Reporting Council ('FRC') and applies for reporting periods beginning on or after 1 November 2003. The directors believe the Company was in compliance with Section 1 of the Code throughout the year with the following three exceptions:

Composition of the Board

Following the retirement from the Board of James Lifford on 31 December 2006, the Board has 16 directors of which five (31%) are independent non-executive directors. This continues the re-balancing of the Board towards the Code requirement for FTSE 350 companies that at least half the Board, excluding the chairman, should comprise independent non-executive directors. It is the policy of the Company to promote to the Board senior practitioners from within the operating subsidiaries. This does result in a sizeable number of executive directors, making the achievement of the Code target difficult.

Independence of Jamie Cayzer-Colvin

The Code requires that audit and remuneration committee members should be independent non-executive directors and that they should be in the majority on the nomination committee. Jamie Cayzer-Colvin was considered to be independent throughout 2006 but it is recognised that his position as a director of a significant shareholder calls his independence into question. Accordingly, he stood down from the Audit, Remuneration and Nomination Committees at the year end.

Independence of the chairman on appointment

The chairman did not, on appointment, meet the independence criteria set out in the Code since he had been an employee and executive director of the Company since 1995.

Board meetings

The Board meets a minimum of seven times per annum with one meeting devoted entirely to strategic issues.
In months where no formal board meeting is scheduled, an informal meeting of the non-executive directors and the chairman and chief executive is held. The non-executive directors have regular, informal meetings without the chairman or chief executive present.

Board membership

The Board currently consists of an executive chairman, eight other executive directors and seven non-executive directors. The roles of chairman, Mark Powell, and chief executive, Andy Pomfret, are separated and are clearly defined in writing and agreed by the Board. The chairman is primarily responsible for the working of the Board and the chief executive for the running of the business and implementation of Board strategy and policy.

The Board considers that five of the seven non-executive directors are independent, the exceptions being Roy Morris who became non-executive on his retirement as chief executive on 1 October 2004, and Jamie Cayzer-Colvin who is a director of a major shareholder, Caledonia Investments plc.

The non-executive directors participate fully with their executive colleagues in Board meetings and have access to any information they need to perform their duties. They bring an independent judgement to bear on Group policies and strategies as well as management actions and performance, including resourcing and standards of conduct. The senior independent non-executive director is Giles Coode-Adams.

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

Board performance

The Board carries out an appraisal of its operation and performance as a whole on an annual basis. In 2006, an external facilitator, Dr Tracy Long of Boardroom Review, was used to assist with the design of a questionnaire and with the interpretation of the results. These were discussed by the full Board and an action plan agreed. Areas for Board focus identified included the formalisation of a conflicts of interest policy, providing the Board with greater exposure to executives below Board level, directors' and officers' insurance coverage, and overall Board contribution.

Individual appraisal of each director's performance is undertaken either by the chief executive (for the executive directors) or chairman (for the non-executive directors) each year and involves meetings with each director on a one-to one basis. The non-executive directors, led by the senior independent director, carry out an appraisal of the performance of the chairman.

Board training

The Group's overall objective is to maintain and enhance professional standards for all its employees. It is particularly necessary to maintain these standards for all staff who fall under the scope of the Financial Services Authority Training and Competence rules. All directors and staff under the scope of these rules are required to perform a certain number of hours of development training during a year. This development training is divided into structured and unstructured time.

New directors are given an induction process, which includes time with employees in a number of business areas, attendance at routine meetings, demonstrations of systems and key business processes, and visits to Group offices.

Board Committees

The four principal Board Committees are the Executive, Audit, Remuneration and Nomination Committees. The Board has delegated full authority to the Executive Committee subject to a list of matters which are reserved for decision by the full Board. The other Board Committees have formal terms of reference, which are reviewed and approved by the Board on an annual basis. These are available on request from the Company's registered office and on the Company website.

Executive Committee
The Executive Committee is chaired by the chief executive, Andy Pomfret and comprises Ian Buckley, Paul Chavasse, Sue Desborough, Richard Lanyon and Mark Powell. James Lifford served on the Committee until his retirement on 31 December 2006. The purpose of the Executive Committee is to monitor every aspect of the Group businesses on a continuing basis and to analyse and plan all business proposals in detail for submission to and consideration by the Board. The Executive Committee meets monthly and more frequently when required.

Audit Committee
Members of the Audit Committee are Giles Coode-Adams (chairman), James Barclay, Caroline Burton, Oliver Corbett and Mark Robertshaw. Jamie Cayzer-Colvin left the Committee on 31 December 2006. Details of its work are set out in the Audit Committee report.

Remuneration Committee
Members of the Remuneration Committee are Caroline Burton (chairman), James Barclay, Giles Coode-Adams, Oliver Corbett and Mark Robertshaw. Jamie Cayzer-Colvin left the Committee on 31 December 2006. Full details of its role are set out in the Remuneration report.

Nomination Committee
Members of the Nomination Committee are Mark Powell (chairman), James Barclay, Caroline Burton, Giles Coode-Adams, Oliver Corbett, Andy Pomfret and Mark Robertshaw. Jamie Cayzer-Colvin left the Committee on 31 December 2006. Full details of its role are set out in the Nomination committee report.

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

Table 1. Board meeting and committee attendance in 2006

	Plc Board*	Executive Committee**	Audit Committee	Remuneration Committee	Nomination Committee
J C Barclay	7/7	–	6/6	4/4	2/2
I M Buckley	7/7	12/12	–	–	–
C M Burton	7/7	–	6/6	4/4	2/2
J M B Cayzer-Colvin	7/7	–	6/6	4/4	2/2
P D G Chavasse	7/7	11/12	–	–	–
J G S Coode-Adams	7/7	–	6/6	4/4	2/2
O R P Corbett	6/6	–	2/3	2/2	1/1
S M Desborough	7/7	12/12	–	–	–
R P Lanyon	7/7	12/12	–	–	–
Viscount Lifford	7/7	12/12	–	–	–
A T Morris	7/7	–	–	–	–
R A Morris	6/7	–	–	–	–
P G Pearson-Lund	6/7	–	–	–	–
A D Pomfret	7/7	12/12	–	–	2/2
G M Powell	7/7	11/12	–	–	2/2
R I Smeeton	7/7	–	–	–	–
M Robertshaw	5/6	–	3/3	2/2	1/1

* Scheduled bi-monthly meeting and strategy meeting
** Scheduled monthly meeting

Shareholder relations

The Company is committed to ensuring that there is effective communication with all shareholders. All regulatory news announcements, press releases and financial reports are available on the Company website. Following the publication of the interim and full year results, presentations are given to major shareholders, fund managers, analysts and employees. The presentation packs used and any web-casts are also on the website.

Meetings with major shareholders provide an opportunity to discuss governance and strategy issues, and provide an opportunity to introduce other directors including non-executive directors. All shareholders have the opportunity to meet non-executive directors at the AGM. Feedback from these meetings is reported to the Board. At least 20 business days' notice of the AGM is given to allow time for proper consideration of the resolutions by shareholders. Separate resolutions are proposed for each substantially separate issue. Every effort is made to ensure that all Board members, and in particular committee chairmen, are at the meeting. The Board welcomes questions and comments from shareholders. Votes are taken on a show of hands (unless a poll is requested) and full details of proxy voting figures are disclosed after the vote and on the website.

Risk management and internal control

The Board of directors has overall responsibility for the Group's systems of internal control. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The chairman ensures that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties and canvasses the views of non-executive directors upon the adequacy of the management information.

The Risk Management Committee reports to the Board and comprises members of the Executive Committee together with the Group heads of personnel, compliance and internal audit. This committee is an important element in the Group's overall control system and undertakes a full review of risk within the Group. It reports on a regular basis to the Board both on the identification of risks and the steps being taken to control or mitigate such risks. Risk review procedures have been in place throughout the year and up to 28 February 2007.

The other key elements of the Group's overall control systems include:

- a formal structure of committees and subsidiary company boards where senior staff oversee the operation of the business on a regular basis;
- an annual budgeting, regular forecasting and monthly financial reporting system for all Group divisions, which enables trends to be evaluated and variances to be acted upon;
- a defined set of policies and procedures for treasury operations with limits set by the Banking Committee;
- a confidential reporting policy, which encourages employees to raise serious concerns about a colleague's or Group company's practice; and
- the Audit Committee which, on the Board's behalf, examines the effectiveness of the systems of control as explained above.

On behalf of the Board, the Audit Committee confirms that it has reviewed the effectiveness of the systems of internal control in existence in the Group for the year ended 31 December 2006 and has taken account of material developments since the year end. This process meets the requirements of the 'Guidance on Internal Control (The Turnbull Guidance)' published in September 1999 and revised in October 2005.

Going concern

The directors confirm that they are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Regulation

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

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

Rathbone Trust Company Jersey Limited and its subsidiary companies are regulated by the Jersey Financial Services Commission, as is Rathbone Investment Management (C.I.) Limited.

Rathbone Insurance Limited, which was incorporated on 3 January 2006 in Guernsey, is regulated by the Guernsey Financial Services Commission.

Rathbone Bank (BVI) Limited is regulated by the BVI Financial Services Commission.

Rathbones (Anguilla) Limited is regulated by the Anguilla Financial Services Commission.

Rathbone Stockbrokers Limited is a member firm of the London Stock Exchange.

Rathbone Trust Company SA is a member firm of the Association Romande des Intermédiaries Financiers.

The Board together with the Executive Committee and the Audit Committee have implemented systems and procedures to achieve adherence with the statutes and regulations relevant to each of the Group companies.

Model Code

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

Remuneration report

The Board presents the Remuneration report for the year ended 31 December 2006.

Remuneration policy for executive directors

The aim of the remuneration policy is to provide a competitive remuneration package, having regard to comparable companies in the financial sector, which is sufficient to attract and retain the quality of director needed to manage and develop the Company successfully.

The stated policy shall apply in 2007 and, subject to review, in subsequent financial years.

Remuneration packages

Remuneration packages are designed to include fixed and variable elements, and to provide rewards for both the long and short-term as follows:

	Short term	Long term
Fixed	Basic salary and benefits	Pension
Variable	Profit share	Long Term Incentive Plan

The Remuneration Committee (the Committee) considers that the key objectives of a remuneration package are to motivate directors to generate long-term shareholder value and to increase short-term profitability.

The first objective is met by long-term incentive plan (LTIP) awards providing directors with the opportunity to build a meaningful shareholding in the Company, performance permitting. Executive directors are actively encouraged to build up and maintain a shareholding to the equivalent value of at least one year's salary within five years of their appointment to the Board.

The second objective is met by profit share payments.

The link between corporate and individual performance is reinforced through the very substantial shareholdings of the executive directors set out on page 31. Current and former directors, staff and their families own over 20% of the Company.

Basic salary and benefits

An executive director's basic salary is determined by the Committee and any change implemented on 1 January of each year or when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers salaries throughout the Group as a whole and the information obtained on comparable companies in the financial sector.

Board salary costs for the year increased to £2.1m compared to £1.9m in 2005 (adjusted to reflect the retirement in that year of M P Egerton-Vernon), an increase of 10.5%. This was, in part, due to the appointment of the two new non-executive directors during the year.

When setting salary levels, use is made of survey data and information provided by the advisers to the Committee. The views of the chairman and chief executive are also taken into consideration.

All directors are entitled to take part in the Share Incentive Plan (SIP) on the same terms as all other employees. This allows all employees to purchase shares in the Company and currently these are matched on a one-for-one basis by the Company. Performance shares are also offered to employees based on earnings per share growth. In addition Rathbones provides a range of benefits, the most significant of which is a company car (or cash alternative).

Profit share

Certain executive directors on the Executive Committee are eligible for a discretionary profit share payment from a pool based on approximately 1% of Group pre-tax profits. Directors with direct responsibility for investment management, unit trust or trust departments receive a profit share payment based on the profits of the department concerned. This may be supplemented by a payment from the pool. Profit share payments are not capped and are not pensionable. Details of payments for 2006 are shown in Table 7 on page 43.

Long Term Incentive Plan (LTIP)

At an Extraordinary General Meeting in November 2000, a long-term incentive plan (LTIP) was approved by shareholders to start in 2001. No awards from the current plan will be made after November 2010.

Executive directors are provisionally awarded rights to acquire ordinary shares at the start of a three year plan cycle (the provisional award). The maximum value of a provisional award is 75% of a participant's basic salary. At the end of each plan cycle, the Company's performance is assessed against the performance targets for that cycle. The extent to which the targets have been achieved determines the actual number of shares (if any) attributable to each participant (the actual award). The performance targets used to date have been a mixture of growth in earnings per share (EPS) and total shareholder return (TSR). TSR is a measure of the overall return to shareholders. It reflects both the change in the share price and dividends, and any other cash payments made, assuming that they are reinvested.

If a participant ceases to be employed as an executive director by reason of retirement at normal retirement age (or earlier with the Company's consent), ill-health, redundancy or death, or any other circumstances which the Committee deems to be appropriate, the Committee may, at its discretion, recommend to the trustee that any distribution be based on the performance during the plan cycle as a whole but that the actual award be reduced pro rata to reflect the fact that the participant was not an executive director for the whole plan cycle.

2001/03 and 2002/04 plan cycles

The performance target for the 2001/03 and 2002/04 plan cycles was average annual compound EPS growth over the plan cycle. No actual awards were made from these plans.

2003/05 plan cycle

The performance targets for the 2003/05 plan cycle are set out in Table 3. Actual awards of 100% of the provisional award (before any pro rata service related adjustment) totalling 136,991 ordinary shares were made in March 2006 as both EPS and TSR performance conditions were fully satisfied. Awards were made in the form of 65,312 ordinary shares and the cash equivalent value of 71,679 shares at £11.45 (the market value on 8 March 2006).

2004/06 plan cycle

The performance targets for the 2004/06 plan cycle were unchanged and are set out in Table 3. Actual awards of 100% of the provisional award (before any pro rata service related adjustment) totalling 150,752 ordinary shares will be made March 2007 as both EPS and TSR performance conditions were fully satisfied. Details are set out in Table 5.

EPS increased from 38.11p in 2003 to 76.62p in 2006, an increase of 101% whilst the TSR for the three year period was 79%. A 100% award is made for each element of the Plan if the relevant percentage exceeds 37.5%.

2005/07, 2006/08 and 2007/09 plan cycles

The performance targets for 2005/07 onwards were changed taking into consideration feedback from shareholders and changes to expectations of best market practice. The Committee particularly took note of the preference for the use of a relative rather than an absolute TSR measure.

With effect from 2005/07, TSR performance relative to the FTSE All Share Index rather than absolute TSR has been used as set out in Table 4. The use of a peer group rather than a broad index was ruled out due to the small number of similar businesses in the speciality and other finance sector, and the risk that numbers would fall still further due to consolidation.

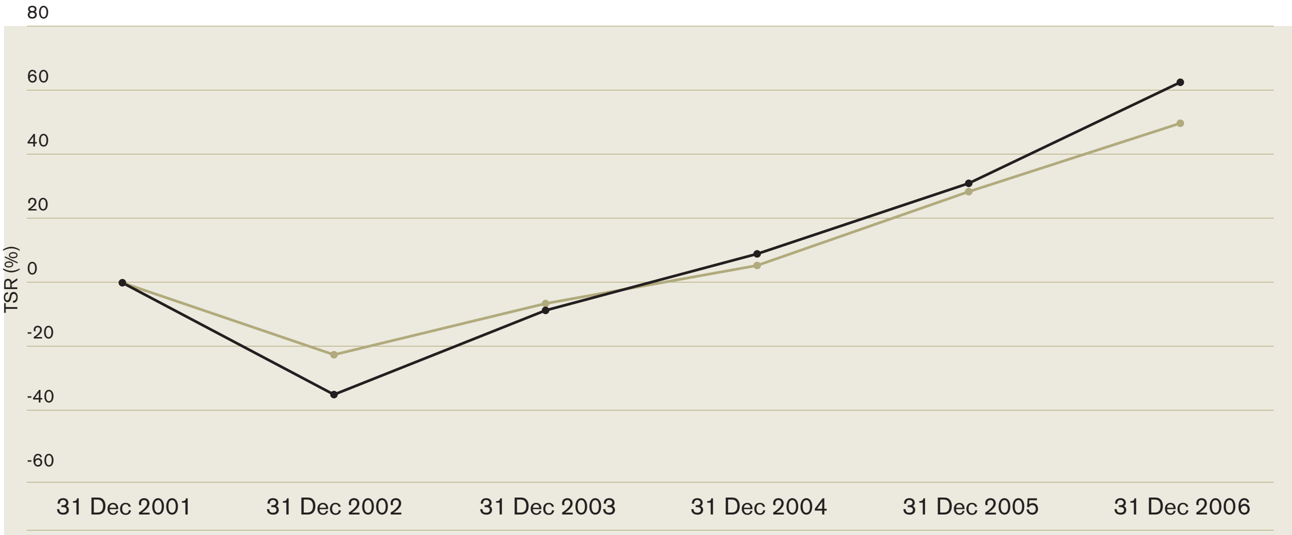
The Committee considers that the revised targets are as demanding, in the current climate, as those put in place for earlier cycles were considered to be at the time.

Details of the provisional awards for the 2005/07, 2006/08 and 2007/09 plan cycles are set out in Table 5.

On 31 December 2005, the trustee held 55,000 Rathbone Brothers Plc ordinary shares. On 8 March 2006, the trustee acquired a further 10,312 Rathbone Brothers Plc ordinary shares at £11.55 to meet the 2003/05 award. On 28 September 2006, 100,000 shares were acquired at £11.10 to be held for future actual awards, and were held at 31 December 2006. Dividend entitlements in respect of this holding have been waived and voting rights will not be exercised.

Were the maximum possible provisional awards to be made to current and former directors, 400,727 ordinary shares (2005: 472,506) would be awarded, representing 0.9% (2005: 1.1%) of the issued share capital at 31 December 2006.

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



Source: Datastream

Performance graph

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

Long term incentive arrangements for Peter Pearson Lund

Following his appointment to the Board, Peter Pearson Lund continues to participate in the Rathbone Unit Trust Management Limited (RUTM) deferred profit sharing plan rather than the LTIP.

A deferred profit sharing pool, which in a normal year equates to 20% of RUTM's pre-tax profits, is allocated to participants on the recommendation of a RUTM Plan Committee. Allocations are held in trust and invested on behalf of participants. The release of an award is conditional on continued employment (unless the participant is a 'good' leaver). Funds are released in two equal tranches two and three years after the period end.

Table 2. Awards held by Peter Pearson Lund under the RUTM Deferred Bonus Plan (audited information)

			Awards vesting in 2006			
Year of award	Awards outstanding at 1 January 2006 (£value on award)	Award made in 2006 (£value on award)	(£value on award)	(£value of funds released)	Awards outstanding at 31 December 2006 (£value on award)	Release dates
2002	2,676	–	2,676	2,970	–	2005/06
2003	35,430	–	17,715	22,534	17,715	2006/07
2004	119,185	–	–	–	119,185	2007/08
2005	218,675	–	–	–	218,675	2008/09
2006	–	317,317	–	–	317,317	2009/10
Total	375,966	317,317	20,391	25,504	672,892	

Table 3. 2003/05 and 2004/06 LTIP performance targets

	% of award
(a) TSR over the plan cycle	50%
(b) EPS growth over the plan cycle	50%

(a) TSR

TSR over the plan cycle	Shares distributed as % of shares provisionally awarded in the TSR part
Less than 15%	0%
15%	25%
Over 15% but less than 37.5%	Straight line increase
37.5% or greater	100%

(b) EPS

EPS growth over the plan cycle	Shares distributed as % of shares provisionally awarded in the EPS part
Less than 15%	0%
15%	25%
Over 15% but less than 37.5%	Straight line increase
37.5% or greater	100%

Table 4. 2005/07, 2006/08 and 2007/09 LTIP performance targets

	% of award
(a) TSR over the plan cycle	50%
(b) EPS growth over the plan cycle	50%

(a) TSR

TSR ranking relative to the constituents of the FTSE All Share Index	Shares distributed as % of shares provisionally awarded in the TSR part
Below the 50th percentile	0%
Between the 50th and 75th percentiles	Straight line increase
At or above the 75th percentile	100%

(b) EPS

EPS growth over the plan cycle	Shares distributed as % of shares provisionally awarded in the EPS part
Less than 15%	0%
15%	25%
Over 15% but less than 37.5%	Straight line increase
37.5% or greater	100%

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

Plan cycle Status End of performance period	2004/06 Actual award 31 December 2006	2005/07 Maximum provisional award 31 December 2007	2006/08 Maximum provisional award 31 December 2008	2007/09 Maximum provisional award 31 December 2009
I M Buckley	16,180	15,777	14,113	11,673
P D G Chavasse	14,157	14,849	13,721	13,179
S M Desborough	–	13,921	13,721	12,238
R P Lanyon	17,186	16,241	14,898	12,364
Viscount Lifford	17,186	16,241	14,270	–
A T Morris	13,651	13,921	12,545	10,418
R A Morris	6,379	–	–	–
A D Pomfret	18,748	21,346	19,210	17,259
G M Powell	23,258	21,346	18,034	16,317
R I Smeeton	12,501	13,921	12,545	10,418
Former directors	11,506	16,241	–	–
Total	150,752	163,804	133,057	103,866
Market value of shares at date of provisional award	£7.42	£8.08	£9.56	£11.95

The provisional LTIP awards listed above are the maximum awards achievable assuming all performance targets are met and that the participant is an executive director for the whole plan cycle. The value of these awards when made was 75% of a participant's basic salary.

The market value of shares at the date of provisional award is the average mid-market price over the 20 dealing days prior to the start of the plan.

Share options

Historically, share options were granted to senior employees who it was considered would have a significant impact on the earnings and profitability of the Group during the following five years. The Board is of the view that, following the introduction of International Financial Reporting Standards, share options are increasingly expensive to administer and that there is a mis-match between their cost to the business and their perceived value to employees. In future, option grants will only be made in exceptional circumstances. Options are no longer granted to directors after their appointment to the Board.

Options granted prior to 21 June 2004 can be exercised if the earnings per share of the Group during the period from grant to the date of notification of exercise has increased in percentage terms by more than the increase in the Retail Price Index (RPI) plus 2% per annum (or pro rata for any part thereof).

Options granted after 21 June 2004 can be exercised if the earnings per share of the Group between the accounting period immediately prior to the option grant and the accounting period immediately prior to the third anniversary of grant has increased in percentage terms by more than the increase in the RPI plus 3% per annum (or pro rata for any part thereof).

Option grants to a participant in a ten year rolling period are capped at four times remuneration. There is no automatic waiving of performance conditions in the event of a change of control or the early termination of a participant's employment. Options may not normally be exercised before the third anniversary of the date of grant and expire on the tenth anniversary of grant.

Details of outstanding options at the start and end of the year together with details of options exercised during the year are set out in Table 6. The terms and conditions of all options have remained unchanged during the year.

Table 6. Outstanding share options and movements in the year (audited information)

	At 1 January 2006	Exercised in 2006	At 31 December 2006	Date of grant	Earliest exercise date	Latest exercise date	Exercise price	Exercise date	Market value at date of exercise
Grant prior to Board appointment									
P D G Chavasse	20,000	4,509	15,491	25/09/01	25/09/04	25/09/11	665.33p	21/03/06	1180p
S M Desborough	7,500		7,500	24/04/01	24/04/04	24/04/11	827.50p		
S M Desborough	5,000		5,000	24/04/02	24/04/05	24/04/12	810.00p		
S M Desborough	4,000	4,000	–	14/03/03	14/03/06	14/03/13	415.00p	21/03/06	1180p
S M Desborough	2,000		2,000	16/03/04	16/03/07	16/03/14	743.50p		
S M Desborough	35,000		35,000	13/09/04	13/09/07	13/09/14	690.00p		
A T Morris	5,000	5,000	–	16/06/98	16/06/01	16/06/08	643.30p	25/04/06	1179p
A T Morris	6,000	6,000	–	23/04/99	23/04/02	23/04/09	732.50p	25/04/06	1179p
A T Morris	10,000		10,000	10/04/00	10/04/03	10/04/10	932.50p		
P G Pearson Lund	15,000	3,650	11,350	09/09/99	09/09/02	09/09/09	814.17p	27/09/06	1112p
P G Pearson Lund	10,000	34	9,966	24/04/01	24/04/04	24/04/11	827.50p	19/09/06	1160p
P G Pearson Lund	5,000		5,000	24/04/02	24/04/05	24/04/12	810.00p		
P G Pearson Lund	10,000		10,000	14/03/03	14/03/06	14/03/13	415.00p		
P G Pearson Lund	10,000		10,000	16/03/04	16/03/07	16/03/14	743.50p		
R I Smeeton	12,000		12,000	10/04/00	10/04/03	10/04/10	932.50p		
Grant on or after Board appointment									
P D G Chavasse	50,000	16,666	33,334	14/03/03	14/03/06	14/03/13	415.00p	19/09/06	1160p
A T Morris	50,000	16,667	33,333	14/03/03	14/03/06	14/03/13	415.00p	21/03/06	1180p
P G Pearson Lund	10,000		10,000	15/03/05	15/03/08	15/03/15	852.00p		
A D Pomfret	50,000		50,000	09/09/99	09/09/02	09/09/09	814.17p		
A D Pomfret	75,000	12,500	62,500	14/03/03	14/03/06	14/03/13	415.00p	21/03/06	1180p
	391,500	**69,026**	**322,474**						

(a) No options lapsed in 2006 or 2005.
(b) The mid-market closing price of the Company's shares on 31 December 2006 was £11.98 (2005: £9.92) and the range during the year was £9.91 to £12.40 (2005: £7.25 to £10.15).
(c) Options granted to P D G Chavasse, A T Morris and A D Pomfret in 2003, and to S M Desborough in 2004 will vest in one-third phases, on the third, fourth and fifth anniversaries of grant (subject to the performance condition being met).

Dilution

Not more than 15% of the issued ordinary share capital of the Company (adjusted for bonus and rights issues) should be issued for all share incentive schemes operated by the Company in any ten year period. Of that 15%, not more than 10% applies to shares allotted under share option schemes and not more than 5% to shares allotted under both the LTIP and SIP.

In the ten years to 31 December 2006, options over 3,126,037 ordinary shares (2005: 3,362,928) have been granted which represents 7.4% of the issued share capital at that date (2005: 8.1%). 849,674 ordinary shares (2005: 744,893) have been allotted in respect of the SIP, representing 2.0% of the issued share capital at 31 December 2006 (2005: 1.8%). No shares have been allotted for the LTIP to date.

Pension arrangements

UK staff who joined Rathbones prior to April 2002 were offered membership of the Rathbone 1987 Pension Scheme (the Scheme). The Scheme provides for members to retire at the age of 60 with a pension based on final pensionable salary. Prior to 1 April 2006, the accrual rate was 1/60th for each year of membership. With effect from 1 April 2006, employees were given the choice of either remaining on a 1/60th accrual rate (but increasing their contribution rate from 5% to 6.5% at 1 April 2006 and to 8% from 1 January 2008) or switching to a 1/70th accrual rate for future pensionable service (but continuing to contribute at 5%). Details of the Company's contributions are set out in note 27 to the accounts.

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

Paul Chavasse, Sue Desborough, Richard Lanyon, Andrew Morris, Peter Pearson Lund and Richard Smeeton are members of the Scheme. Ian Buckley, James Lifford and Andy Pomfret participate in the Scheme for death in service benefits only. Ian Buckley, James Lifford and Andy Pomfret have arrangements under self-invested personal pension schemes and Mark Powell has a personal pension scheme. Rathbones pays annual contributions of 11.5% of salary to those schemes, subject to HM Revenue & Customs maximum limits, where applicable. In the case of Mark Powell, employer pension contributions and death in service benefits ceased on 31 March 2006, and his salary was adjusted with no overall increase in cost to the company.

The changes in pension entitlements arising in the financial year, required to be disclosed by the UK Listing Authority, are shown in Table 8. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

Following the introduction of the Government's simplification of the pension taxation regime on 6 April 2006 the Company has taken action, where required, to ensure that the pension arrangements for staff conform to the new regime. Where possible, for all UK employees, death in service cover has been extended to age 65 for those that stay in service beyond age 60.

Table 7. Directors' remuneration (audited information)

	Salary or fee[1] £'000	**Profit sharing £'000**	**Benefits[2] £'000**	**2006 total £'000**	2005 total £'000	**2006 Pension contri-butions[3] £'000**	2005 Pension contri-butions[3] £'000
Executive							
I M Buckley	**187**	**35**	**1**	**233**	216	**21**	20
P D G Chavasse	**182**	**91**	**1**	**274**	238	**–**	–
S M Desborough	**182**	**85**	**1**	**268**	223	**–**	–
R P Lanyon	**197**	**172**	**1**	**370**	333	**–**	–
Viscount Lifford	**189**	**129**	**1**	**319**	283	**21**	20
A T Morris	**160**	**112**	**17**	**289**	263	**–**	–
P G Pearson Lund[4]	**157**	**508**	**1**	**666**	435	**–**	–
A D Pomfret	**252**	**131**	**1**	**384**	338	**29**	27
G M Powell	**246**	**105**	**12**	**363**	322	**7**	26
R I Smeeton	**167**	**162**	**1**	**330**	291	**–**	–
Non-executive							
J C Barclay	**29**	**–**	**–**	**29**	27	**–**	–
C M Burton	**34**	**–**	**–**	**34**	32	**–**	–
J M B Cayzer-Colvin	**29**	**–**	**–**	**29**	27	**–**	–
J G S Coode-Adams	**34**	**–**	**–**	**34**	32	**–**	–
O R P Corbett	**24**	**–**	**–**	**24**	–	**–**	–
R A Morris	**29**	**–**	**–**	**29**	30	**–**	–
M Robertshaw	**24**	**–**	**–**	**24**	–	**–**	–
	2,122	**1,530**	**37**	**3,689**	3,090	**78**	93

1 Reviewed annually on 1 January.
2 Benefits include the provision of a company car and medical insurance cover.
3 During the year, retirement benefits accrued under money purchase schemes in relation to four directors (2005: five).
4 £192,000 of P G Pearson Lund's profit share is deferred, receivable in 2008.

Table 8. Directors' accrued benefits under defined benefit schemes (audited information)

	Age at 31.12.06 Years	Years of pensionable service at 31.12.06	(1) Accrued benefit at 31.12.06	(2) Increase in accrued benefits excluding inflation	(3) Increase in accrued benefits including inflation	Transfer value of (2) less directors' contri-butions	Transfer value of accrued benefits at 31.12.06	Transfer value of accrued benefits at 31.12.05	(4) Increase in transfer value less directors' contri-butions
P D G Chavasse	42	6	15,156	3,493	3,800	12,287	101,073	69,238	20,687
S M Desborough	46	6	15,040	4,706	4,978	28,207	128,883	79,569	38,167
R P Lanyon	55	15	44,332	5,356	6,381	56,530	696,375	570,532	114,206
A T Morris	42	17	43,676	4,819	5,841	22,328	366,598	293,831	62,967
P G Pearson Lund	59	7	17,718	4,063	4,422	55,760	309,574	218,696	81,261
R I Smeeton	42	18	45,463	5,575	6,624	25,765	316,886	256,368	50,289

During 2006, six directors (2005: six) accrued benefits under defined benefit schemes.

Notes
1 The pension entitlement shown above for the six participating directors is that which would be paid annually on retirement at age 60 based on service to 31 December 2006 (or normal retirement date, if earlier).
2 The additional pension earned in the year excluding UK inflation.
3 The additional pension earned in the year including UK inflation.
4 The increase in transfer value represents the additional capital amount less directors' contributions necessary to fund the increase in the accrued pension that a director would take with him/her as part of the total transfer value if he/she were to leave the Company and move his/her benefits to another scheme.

The directors have the option to take early retirement on or after their 50th birthday, in which case their pension benefits would reduce by 0.5% per month of early retirement or by other actuarially based rates. Pensions will increase at a rate of 5% per annum (or the lesser of 5% per annum or the rise in the Retail Price Index if less for pension entitlement accrued after 1 April 2001 or for pension accrued under the Laurence Keen Scheme and being in excess of the Guaranteed Minimum Pension) after early retirement subject to H M Revenue and Customs limits. There is no undertaking or expectation for any other pension benefit to be arranged for any director by the Company.

Service contracts for executive directors

The Company has service contracts with its executive directors. It is company policy that such contracts should not normally contain notice periods of more than twelve months. Details of the contracts of employment of directors serving during the year are as follows:

Executive director	Date of contract	Notice period
I M Buckley	27 November 2003	6 months
P D G Chavasse	5 December 2002	6 months
S M Desborough	1 October 2004	6 months
R P Lanyon	1 October 1997	12 months
Viscount Lifford	29 August 1996	12 months
A T Morris	1 July 2003	6 months
P G Pearson Lund	5 January 2005	6 months
A D Pomfret	1 October 2004	6 months
G M Powell	9 March 1995	12 months
R I Smeeton	9 March 1995	6 months

There are no provisions within the contracts to provide automatic payments in excess of payment in lieu of notice upon termination by the Company and no pre-determined compensation package exists in the event of termination of employment. Payment in lieu of notice would include basic salary, pension contributions and benefits. There are no provisions for the payment of liquidated damages or any statements in respect of the duty of mitigation. Compensation payments will be determined on a case-by-case basis in the light of current market practice. Compensation will include loss of salary and other contractual benefits but mitigation will be applied where appropriate. The Board will take steps to ensure that the director is aware of his or her legal obligation to mitigate the loss incurred through severance by seeking other employment. Executive directors' contracts of service, which include details of remuneration, will be available for inspection at the Annual General Meeting.

Shareholdings

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

External appointments

Executive directors are encouraged to take on external appointments as non-executive directors, but are discouraged from holding more than one position in a major company. Prior approval of any new appointment is required by the Board with fees generally being payable to the Company. Exceptions are Ian Buckley, who was appointed to the board of NXT Plc prior to joining Rathbones, and James Lifford, who joined the board of McKay Securities PLC prior to his retirement from the Board. In 2006, Ian Buckley received fees of £25,000 from NXT Plc whilst James Lifford received fees of £9,000 from McKay Securities PLC.

Remuneration Committee

The current members of the Remuneration Committee are the independent non-executive directors Caroline Burton (chairman), James Barclay and Giles Coode-Adams (who all served on the Committee throughout 2006) and Oliver Corbett and Mark Robertshaw (who joined the Committee on their appointment to the Board on 7 March 2006). Jamie Cayzer-Colvin served on the Committee until 31 December 2006.

None of the committee has any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The chairman and chief executive, at the invitation of the Committee, attend the meetings but are not present when their own remuneration is discussed.

The Committee met on four occasions in 2006. Details of attendance at meetings are shown on page 35.

Advisers to the Remuneration Committee

At a meeting on 19 February 2002, the Remuneration Committee appointed Deloitte & Touche LLP (Deloitte) as advisers to the Committee. Deloitte attend at least one Remuneration Committee meeting per annum and advise on best practice and latest developments in senior executive remuneration. Deloitte also advises the Group on share scheme issues. The appointment is reviewed annually. The Committee is also assisted by the personnel department and by the company secretary.

Non-executive directors

Non-executive directors do not have contracts of employment but, as with all other directors, are required to stand for election at the Annual General Meeting following their appointment and thereafter every three years. The effectiveness of the non-executive directors is subject to an annual assessment. The executive directors are responsible for determining the fees of the non-executive directors, who do not receive pension or other benefits from the Group and do not participate in any group incentive scheme, other than the SIP.

All non-executive directors receive a fee of £30,000 per annum (increased from £27,000 with effect from 1 July 2006) with an additional payment of £5,000 per annum to the chairmen of the Audit and Remuneration Committees. Fees are reduced pro rata if the appointment is made during the year.

Annual General Meeting (AGM)

The Committee considers that, taken together, these various remuneration components help to align the interests of directors with those of shareholders and conform to the principles laid down in The Combined Code on Corporate Governance published in July 2003 as an appendix to the UKLA Listing Rules and effective for accounting periods beginning on or after 1 November 2003. The Board will move at the AGM an ordinary resolution seeking approval of the Directors' Remuneration Report for 2006. Notice of the AGM is on pages 106 to 110.

Approved by the Board on 28 February 2007 and signed on its behalf by:

Caroline Burton
Chairman of the Remuneration Committee

Audit committee report

Committee members

The current members of the Audit Committee are the independent non-executive directors Giles Coode-Adams (chairman), James Barclay and Caroline Burton (who all served on the Committee throughout 2006), and Oliver Corbett and Mark Robertshaw (who joined the Committee on their appointment to the Board on 7 March 2006). Jamie Cayzer-Colvin served on the Committee until 31 December 2006. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience.

The Committee met six times in 2006. Details of attendance by members are set out on page 35.

Role of the Committee

The terms of reference of the Committee are reviewed annually. Its duties include the review of the adequacy of the accounting systems and financial control of the Group, the interim and full year financial statements, and the Group's accounting policies.

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

The Group internal audit department reviews Group operations on a continuing basis and the frequency of the reviews is determined by an internal risk-based audit programme which is approved by the Audit Committee. The Audit Committee also regularly reviews the resources and authority of the Group internal audit department.

The Audit Committee is responsible for reviewing external audit arrangements and for any recommendation to the Board regarding the rotation of audit partner or change of audit firm. This review includes consideration of the external auditor's period in office, their compensation and the scope, quality, and cost-effectiveness of their work.

Whilst the Committee was satisfied with the effectiveness of KPMG Audit Plc, it asked that a review be undertaken prior to the start of the 2006 audit. KPMG Audit Plc had been appointed as auditors in May 1999 and it was the Committee's view that whilst fixed term rotation of audit firms is not desirable, audit arrangements should be put out to tender every five to ten years. Following this review, a decision was made to appoint PricewaterhouseCoopers LLP as auditors.

The Audit Committee reviews the independence and the nature of non-audit services supplied and non-audit fee levels relative to the audit fee. Prior approval by the Audit Committee is required where the fee for an individual non-audit service is anticipated to exceed £25,000. Fees for non-audit services paid to the auditors should not, in aggregate, exceed 50% of the audit fee in any year without prior approval of the Audit Committee. The Committee recognises that, given their knowledge of the business, there are often advantages in using the auditors to provide certain non-audit services. The Committee is satisfied that the independence of the auditors has not been impaired by providing these services. Details of the auditors' fees are shown in note 9 on page 72.

The Audit Committee also approves significant changes to the Group's Public Interest Disclosure Act confidential reporting (or whistleblowing) policy.

During 2006, the Committee received presentations on the implementation of International Financial Reporting Standards (and in particular the accounting for acquistions and the resulting goodwill and intangible assets), periodic reviews of trust division client files and SIPP investment management. Presentations were received from the outgoing auditors on the 2005 audit and from the incoming auditors on the audit transition process and on their 2006 audit plans. Members of the Committee visited the offices in Bristol, Edinburgh, Geneva, Jersey, Liverpool and London.

On invitation, the finance director, other executive directors, compliance officers, senior internal audit staff and the external auditors attend meetings to assist the Committee to fulfil its duties. The Committee can access independent professional advice if it considers it necessary.

Nomination committee report

Committee members

Members of the Nomination Committee are Mark Powell (chairman), James Barclay, Caroline Burton, Jamie Cayzer-Colvin, Giles Coode-Adams and Andy Pomfret (who all served on the Committee throughout 2006), and Oliver Corbett and Mark Robertshaw (who joined the Committee on their appointment to the Board on 7 March 2006). Jamie Cayzer-Colvin served on the Committee until 31 December 2006.

The Committee met formally on two occasions in 2006. Details of attendance by members are set out on page 35. It also met informally on a number of occasions, particularly as part of the director selection process referred to below.

Role of the Committee

The Committee considers and makes recommendations to the Board for the appointment of directors; the Board as a whole decides upon any such appointment. The Committee takes advice from specialists in the field of board recruitment. An external search consultancy and/or open advertising are used when recruiting new directors. When considering possible candidates, the Committee evaluates the skills, knowledge and experience of the candidates and, in the case of non-executive appointments, their other commitments.

During the year, the Committee recommended the appointment of Oliver Corbett and Mark Robertshaw as new non-executive directors to the Board. In this instance, a specialist non-executive search firm was used rather than open advertising. The Committee was keen to improve the balance of executive and non-executive directors, and to refresh and augment the level of financial expertise, particularly on the Audit Committee. Both have brought considerable knowledge and experience to the Board and its Committees.

The Committee also reviewed the board composition and balance, succession plans for executive and non-executive directors, and short-term cover arrangements in the event of the incapacity of an executive director.

Non-executive committee members are exposed to senior management below board level during visits to Group offices, Audit Committee and strategy day presentations, and attendance at Rathbone Investment Management Limited board meetings.

The Committee also discussed the retirement and re-election of directors at the AGM. All directors are required to seek election by the members at the AGM following their appointment, and re-election every three years. A non-executive director is not appointed for a fixed term but would not normally serve as a director for more than nine years.

Corporate responsibility report

Our social and environmental policy aims to ensure that social, environmental and ethical considerations are taken into account in all aspects of our activities. The Social & Environmental Committee (SEC), now chaired by the chief executive following the retirement from the Board of James Lifford, oversees the continual development and implementation of the Group's environmental, social and community policies. Through this work, the SEC is also able to identify and communicate any potential areas of non-financial risk.

The SEC has responsibility for ongoing development of the social and environmental policy framework, and its implementation, improvement, management and monitoring. It meets on a quarterly basis and reports to the Board. The implementation of the social and environmental policy is managed on a day-to-day basis by committee members and a network of site-based personnel.

During 2006, we were pleased to see that our efforts in addressing social, environmental and ethical challenges continued to be recognised by the FTSE4 Good policy committee, and that the Company remains a constituent of the FTSE4 Good Index Series.

Socially responsible investment (SRI)

We acknowledge that the Group's most significant social and environmental impacts arise indirectly as a result of its investment activities. While the primary consideration is to maximise risk-adjusted returns to clients, we recognise that non-financial considerations can impact the long-term value of companies.

Although general investment activities are not covered by a formal SRI policy, social, environmental and ethical considerations are taken into account for specific mandates throughout the Group but particularly our Bristol-based specialist ethical investment unit, Rathbone Greenbank Investments.

During 2006, the Group amended its policy on proxy voting: this now extends to all companies in the FTSE 350 and those where it holds 3% or more of the issued share capital (with the exception of Rathbone Brothers Plc). Voting is also undertaken on any company if requested by an underlying shareholder.

In 2006, Rathbones participated as a signatory to the Carbon Disclosure Project's fourth request for information from the world's largest companies about their greenhouse gas emissions, together with the risks and opportunities presented by climate change. Along with other institutional investors, Rathbone Greenbank Investments is lending its support to the fifth iteration of this project in February 2007.

Environmental policy

Rathbones aims to reduce the environmental impact of its operational activities through a reduction in consumption and the conservation of resources. Efficient resource usage to deliver environmental benefits and cost savings will be achieved through using energy and natural resources economically and efficiently, and by reducing emissions and waste levels. Where reducing consumption is not a viable option, we aim to utilise materials derived from sustainable or recycled sources.

We recognise the need to reduce greenhouse gas emissions and support the UK Government's commitment to do this. We are demonstrating our commitment to this in our aim to develop systems to monitor energy use, promote more efficient use of energy in all buildings and encourage practices which reduce energy consumption.

Environmental management system

Rathbones continues to work towards the establishment of a formal environmental management system to ensure the implementation and communication of social and environmental policies across the organisation.

Environmental performance

Waste management and recycling

In 2006, Rathbones' London office continued to recycle significant quantities of paper and other types of waste. At present, volumes of recycled waste (as provided by Paper Round Ltd.) are only available for the London office; total volumes of various waste streams are not available, so it has not been possible to calculate an actual recycling rate.

Table 1. London office recycling (kg)

Type of waste	**2006**	2005	2004
Mixed and white paper	**31,440**	27,945	27,877
Security shredding	**9,140**	4,680	5,812
Cardboard	**3,445**	2,325	2,370
Cans and plastic bottles	**322**	218	–
Glass	**3,945**	3,120	2,212
Total (kg)	**48,292**	38,288	38,271

During 2006, all our UK regional offices maintained their arrangements for the shredding of confidential waste (as required by the Data Protection Act) with the additional benefit that this office grade paper is sent for recycling. Several offices also have local arrangements in place for the collection of recyclable waste streams such as newspapers, magazines and cardboard, and during 2007, a pilot scheme will be introduced to measure all waste in order to ascertain recycling rates.

Where possible, we continue to recycle fluorescent tubes, printer toner cartridges, mobile telephones and batteries. Redundant IT equipment is returned to our London and Liverpool offices for data cleaning and refurbishment by specialist third parties prior to being donated, where appropriate, to deserving causes both national and local. In 2006 this included 54 monitors and 50 base units, and several boxes of associated hardware.

Where desktop printers are still required, those capable of double-sided (duplex) printing are purchased as standard. However, a usage audit of network printers throughout the Group has led to the decision to phase out the use of most desktop printers and replace them with shared multi-functional devices - 23 have now been installed. This will enable a considerable saving on printer consumables and maintenance, as well as a reduction in energy consumption. In addition 92 low energy PCs were installed in 2006.

Over the year, we have continued to work towards ensuring future compliance with regulations relating to the Waste Electrical and Electronic Equipment Directive, which came into effect on 1 January 2007.

Resource usage

We are again able to publish comparative data on electricity, gas and water consumption for our London office which houses some 43% of the Group's UK-based staff.

The London office is currently in the process of undergoing a refurbishment programme, during which a new energy efficient lighting system will be installed. This will use the latest 'T8' type lamps which are 15-20% more energy efficient than standard fluorescent lamps.

During 2006 in London, total carbon dioxide emissions from energy rose by 1.7% from 352 tonnes to 358 tonnes. When normalised per head of full-time staff, carbon dioxide emissions showed a decrease of 1.6%. We note, and are examining, the rise in London gas usage, although it remains a small part of the office's overall energy usage.

Table 2.
London office: electricity usage

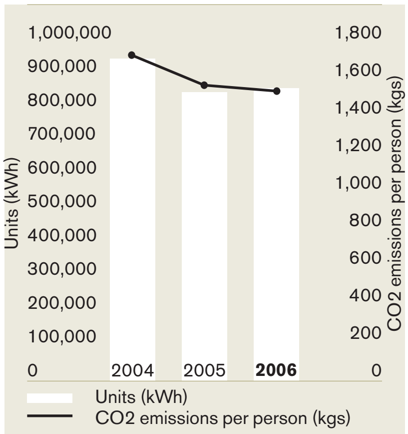


Table 3.
London office: gas usage

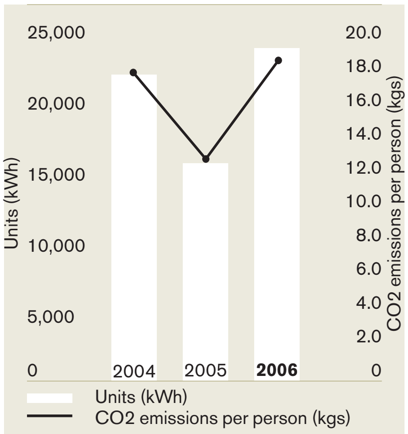
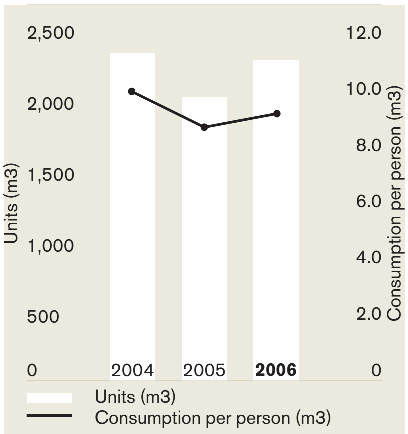


Table 4.
London office: water consumption



Our landlord has recently changed metering equipment for the whole premises where our Liverpool office (and some 44% of UK staff) are located. We are therefore unable to present any reliable performance data or comparisons for utility usage (including carbon dioxide emissions) this year.

We have embarked upon a pilot scheme to collate utility consumption data for our six UK regional offices and aim to present preliminary results from this study next year.

Business travel

Rathbones acknowledges that business travel represents one of the major environmental impacts within its control. We continue to believe that the extensive use of teleconferencing and videoconferencing facilities contributes greatly to a reduction in the need to travel for internal business purposes and continue to encourage their use.

We have reviewed our policy on the provision of company cars and have decided to phase out this benefit from February 2007. As a result, the proposed health check of our vehicle fleet by the Energy Savings Trust was not carried out during 2006.

Ethical purchasing

The most significant use of paper within Rathbones continues to be in the production of investment management reports for clients. During 2006, these reports continued to be printed using 100% recycled paper. Several marketing publications and investor communications including the Group's report and accounts are now produced using paper containing a high percentage of post-consumer waste and we are now using recycled copier paper. We continue to support the use of Fairtrade products with several offices regularly purchasing tea, coffee and sugar from certified sources.

Jersey

In September 2006, staff moved into our new office in Jersey. The building incorporates several state-of-the-art energy efficiency measures, including low energy lighting and an automatic switching system which prevent lights being left on whilst the office is unoccupied. The office has also implemented a new print management system linked to the building's security access system that reduces the production of unwanted or wasted print items. It is our intention to find a local recycling provider and to implement a recycling scheme for the Jersey office in 2007. Recycling figures should be available for future reporting. A Green Travel Plan has also been introduced, encouraging staff to use environmentally friendly means of travel to and from the office.

Employees

Our employees are vital to the Group's continuing success and there are a number of areas in which work is taking place to ensure that our staff continue to choose to develop their careers at Rathbones.

We are mindful of changing legislation, especially in the area of age discrimination, which has led to a review of all policies and procedures to ensure that employees and job applicants are not inadvertently discriminated against on the grounds of age.

Health and welfare

Rathbones is committed to providing a safe and healthy environment in which its employees can work. Upon completion of a qualifying period, all UK employees are eligible for private medical cover provided by the Company, which extends to direct family members of employees.

Additionally, all UK staff have the opportunity to attend an annual medical examination and a biennial eye test. We also provide an independent and confidential Employee Assistance Programme offering advice on employment, personal and legal concerns. The facility can also provide face-to-face counselling if deemed necessary.

Consultants were engaged in 2006 to carry out a full review of health and safety policy and procedures, and will be retained on an ongoing basis to ensure that standards are maintained. The review of the policy is nearing completion, monitoring for risk assessments has been improved and training will be provided for employees with health and safety responsibilities in 2007.

Equality and diversity

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

It is our policy to give full and fair consideration to applications for employment by disabled people. If employees become disabled during their service with Rathbones, wherever practicable, arrangements are made to continue their employment and training.

Work-life balance

Rathbones has made significant progress in reviewing and implementing new work-life balance policies. The childcare voucher scheme has been running for two years and 33 employees currently take the opportunity to purchase vouchers through salary deduction. The popular holiday purchase scheme was run again in 2007, with 117 employees opting to buy up to five additional days of leave, but we are mindful that this can lead to greater pressure on other staff.

Maternity benefits remain considerably in excess of those required under statutory provisions and the policy has been updated to take account of the legislative changes announced in October 2006. In 2006, only two women out of the 15 on maternity leave chose not to return to work. Career breaks of up to two years are also available for those with childcare responsibilities. Flexible working policies are offered with a high number of successful applications.

Data to monitor the uptake and effectiveness of these policies, together with other indicators of staff satisfaction levels, such as average annual sickness rates and staff turnover, are regularly reported and reviewed. A new human resources and payroll system is now fully functional and has enabled the production of more sophisticated reports.

Staff turnover fell from 11% in 2005 to 9% in 2006. Over 88% of UK employees have more than one-year's service and over 55% have worked for the Group for more than five years.

Training and development

Rathbones recognises that training, competence and development have a clear benefit for the business and encourage personal growth. We are committed to the training and development of all employees, and will support participation in appropriate programmes, whether externally or internally provided. In recognition of the challenges that we face in a highly regulated and growing business, a new director of training has recently been recruited.

Rewards and benefits

Employees are encouraged to identify, and to become involved with, the financial performance of the Group. We have used equity as part of the package for investment managers bringing business into the firm and, in 2001, Rathbones was one of the first companies in the country to launch a Share Incentive Plan (SIP). Under the SIP, which is open to all employees, the Company matches every share purchased by individual employees with another free of charge. Shares are also given free of charge if earnings growth conditions are achieved. Take-up of the SIP is high, with employees at all levels and in all locations participating. A member of staff who has been in the SIP since launch and has made the maximum monthly contributions now owns 3,291 shares which are valued at £39,426 as at 31 December 2006.

In relation to 2006, as a result of the significant increase in earnings per share, staff will receive a further allocation of free shares worth £2,310 to full-time employees (2005: £2,060).

In 2006, we introduced a new long-service award for staff with over 20 years' service, awarding them travel vouchers and an additional week's holiday in that year. A total of 48 awards were made in the first year, with the longest-serving recipient having worked for Rathbones for 45 years. A further 24 employees will qualify for the award in 2007.

To encourage the use of public transport, we offer interest-free loans for season tickets to all staff on satisfactory completion of their probationary period. In addition, the advances and loans policy has been revised to allow staff meeting certain criteria to apply for small interest-free loans.

Pension

Rathbones recognises its responsibility to assist in the financial welfare of its employees when they reach retirement age and pays contributions to provide death in service cover and benefits on retirement. It has encouraged staff to review their personal arrangements in light of the pension simplification changes that came into effect in April 2006.

We believe that the benefits provided are generous and worthwhile, and are valued by all permanent employees eligible to join the schemes available. We continually monitor this area to ensure the provision of benefits and practices remain up-to-date and in line with rapidly changing legislative requirements.

Communication

Communication with staff is effected via internal email, an electronic document library and an internal newsletter which is published quarterly and to which all staff are invited to contribute. It contains regular features focusing on social, environmental and community issues.

Community

Rathbones continues to review community activities, both on a group and a local scale, and supports employees' participation in a wide range of activities involving both local and international charities.

We encourage employees to take up voluntary and charitable positions, and the Board leads participation in such activities. For example, the chairman is deputy chairman of Fight for Sight and the chief executive is involved with an educational charity. Many of our staff are involved with schools, colleges, charities, civic, youth and religious groups in various capacities.

Donations and fundraising

During the year, the Group made charitable donations of £68,000 representing 0.15% of pre-tax profits (2005: £58,000, representing 0.16% of pre-tax profits). In 2006, the Elfrida Society was selected as our charity of the year. Employees were encouraged to support the charity through participating in events such as a Beaujolais Day celebration and Christmas party raffles, and raised over £5,000.

In early 2007, a new charity will be chosen by employee ballot from a selection of local, national and international charities nominated by employees. This charity will be the focus of a range of group-wide activities during the year.

Staff are encouraged to donate to charity in a tax efficient manner through the Give As You Earn (GAYE) payroll giving scheme. In 2006, Rathbone staff gave a total of £46,750 (2005: £29,640) through this scheme, which is administered by the Charities Aid Foundation. The Company matched staff donations of up to £50 per month made through GAYE and in 2006 donated £22,250 (2005: £19,190) to causes chosen by employees through this method. From 1 January 2007, the scheme has been enhanced with the Group now matching donations of up to £100 per month per employee.

Sponsorships

As well as direct charitable donations, Rathbones provides support in the form of sponsorship, advertising and attendance at events organised by charities and arts organisations. Rathbone Greenbank Investments continues to support Schumacher UK in its aims to promote sustainable development through its co-sponsorship of the organisation's Bristol series of lectures.

Rathbone Greenbank Investments has also maintained its sponsorship of The Funding Network, a UK-based organisation which brings people together in a marketplace to help fund charitable projects. It was pleased to participate as a sponsor of Resurgence magazine's 40th anniversary celebrations during the year.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the group and parent company financial statements, in accordance with law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK accounting standards. The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' report, Remuneration report and Corporate governance statement that comply with that law and those regulations.

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

In the case of persons who were directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Consolidated accounts

Contents

Independent auditors' report to the members of Rathbone Brothers Plc

We have audited the Group financial statements of Rathbone Brothers Plc for the year ended 31 December 2006, which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense, and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Company financial statements of Rathbone Brothers Plc for the year ended 31 December 2006 and on the information in the Remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Operating and financial review that is cross referred from the Business review section of the Directors' report.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Operating and financial review and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 February 2007

Consolidated income statement

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Interest and similar income	5	**37,335**	27,472
Interest expense and similar charges	5	**(21,297)**	(15,029)
Net interest income		**16,038**	12,443
Fee and commission income	6	**120,039**	102,869
Fee and commission expense	6	**(8,365)**	(6,850)
Net fee and commission income		**111,674**	96,019
Dividend income	7	**117**	78
Net trading income	8	**1,285**	1,409
Net income from sale of available for sale securities		**3,196**	2,261
Other operating income		**1,376**	975
Operating income		**133,686**	113,185
Operating expenses	9	**(88,966)**	(77,887)
Aborted acquisition costs		**–**	(1,381)
Other operating expenses		**(88,966)**	(76,506)
Profit before tax		**44,720**	35,298
Profit before aborted acquisition costs and tax		**44,720**	36,679
Aborted acquisition costs		**–**	(1,381)
Income tax expense	11	**(12,582)**	(10,617)
Profit for the year attributable to equity holders of the Company		**32,138**	24,681
Earnings per share attributable to equity holders of the Company for the year:	13		
Basic		**76.62p**	60.13p
Diluted		**74.71p**	58.84p
Dividends paid and proposed for the year per ordinary share	12	**35.00p**	30.00p
Dividends (£'000)	12	**14,786**	12,351

Consolidated balance sheet

as at 31 December 2006

	Note	2006 £'000	2005 £'000
Assets			
Cash and balances at central banks	14	**281**	511
Settlement balances		**19,628**	14,017
Loans and advances to banks	15	**119,247**	144,975
Loans and advances to customers	16	**77,360**	37,520
Investment securities			
– available for sale	17	**6,152**	5,157
– held to maturity	17	**558,368**	396,000
Intangible assets	18	**81,248**	60,101
Property, plant and equipment	19	**6,463**	4,295
Deferred tax asset	20	**5,321**	8,599
Prepayments, accrued income and other assets	21	**38,551**	25,093
Total assets		**912,619**	696,268
Liabilities			
Deposits by banks	22	**12,119**	1,853
Settlement balances		**18,078**	16,133
Due to customers	24	**664,762**	493,612
Debt securities in issue		**–**	141
Accruals, deferred income, provisions and other liabilities	25	**39,605**	27,533
Current tax liabilities		**8,143**	7,869
Retirement benefit obligations	27	**10,763**	18,710
Total liabilities		**753,470**	565,851
Equity			
Share capital	28	**2,114**	2,063
Share premium	29	**24,518**	17,487
Other reserves	29	**53,717**	53,013
Retained earnings	29	**78,800**	57,854
Total equity		**159,149**	130,417
Total equity and liabilities		**912,619**	696,268

Approved by the Board of Directors on 28 February 2007 and signed on its behalf by

SM Desborough
Finance Director

AD Pomfret
Chief Executive

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000 restated
Cash flows from operating activities			
Profit before tax		**44,720**	35,298
Net interest income		**(16,038)**	(12,443)
Net income from sale of available for sale investment securities		**(3,196)**	(2,261)
Movement in fair value of derivative financial instruments		**(30)**	(12)
Impairment losses on loans and advances		**323**	386
Profit on disposal of plant and equipment		**(49)**	(160)
Depreciation and amortisation		**3,418**	2,497
Defined benefit pension scheme charges		**3,448**	2,920
Share based payment charges		**2,080**	1,971
Interest paid		**(20,655)**	(14,781)
Interest received		**30,728**	27,211
		44,749	40,626
Changes in operating assets and liabilities			
– net decrease/(increase) in loans and advances to banks and customers		**18,158**	(18,490)
– net (increase) in settlement balance debtors		**(5,611)**	(2,818)
– net (increase) in prepayments, accrued income and other assets		**(6,851)**	(2,702)
– net increase in amounts due to customers and deposits by banks		**129,407**	67,509
– net increase in settlement balance creditors		**1,946**	894
– net increase in accruals, deferred income, provisions and other liabilities		**5,296**	4,339
Cash generated from operations		**187,094**	89,358
Defined benefit pension contributions paid		**(5,927)**	(3,359)
Tax paid		**(10,609)**	(10,246)
Net cash inflow from operating activities		**170,558**	75,753
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired		**(5,786)**	–
Purchase of property, equipment and intangible assets		**(5,690)**	(2,602)
Proceeds from sale of property and equipment		**113**	205
Purchase of investment securities		**(1,363,970)**	(1,229,307)
Proceeds from sale and redemption of investment securities		**1,178,798**	1,240,609
Net cash (used in)/generated from investing activities		**(196,535)**	8,905
Cash flows from financing activities			
Repayments of debt securities		**(141)**	(146)
Purchase of shares for share based schemes		**(3,407)**	(293)
Issue of ordinary shares	33	**6,715**	1,586
Dividends paid	12	**(13,449)**	(11,660)
Net cash used in financing activities		**(10,282)**	(10,513)
Net (decrease)/increase in cash and cash equivalents		**(36,259)**	74,145
Cash and cash equivalents at the beginning of the year		**234,883**	160,517
Effect of exchange rate changes on cash and cash equivalents		**(281)**	221
Cash and cash equivalents at the end of the year	33	**198,343**	234,883

Consolidated statement of recognised income and expense

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Profit after taxation		**32,138**	24,681
Exchange translation differences		**(240)**	120
Actuarial gain/(loss) on retirement benefit obligations	27	**5,468**	(4,166)
Revaluation of available for sale investment securities:			
– net gain from changes in fair value	17	**4,202**	199
– net profit on disposal transferred to income during the period	17	**(3,196)**	(2,261)
		1,006	(2,062)
Deferred tax on equity items:			
– available for sale investment securities	20	**(302)**	619
– actuarial gains and losses	20	**(1,640)**	1,250
		(1,942)	1,869
Net income/(expense) recognised directly in equity		**4,292**	(4,239)
Recognised income and expense for the year attributable to equity holders of the Company		**36,430**	20,442

Notes to the consolidated accounts

1 Principal accounting policies

Rathbone Brothers Plc is a public company incorporated in the UK.

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its individual accounts in accordance with generally accepted accounting principles in the UK (UK GAAP); these are presented on pages 96 to 105.

At the date of approval of these accounts, IFRS 7: Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures, which have been endorsed by the EU and which are relevant to the Group's operations but which have not been applied in preparing these accounts, were in issue but not yet effective.

The directors anticipate that the adoption of this Standard and the related amendment to IAS 1, which come into effect for periods commencing on or after 1 January 2007, will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments.

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any material impact on the Group's accounts; and

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any material impact on the Group's accounts.

Changes in accounting policies and disclosures
During the year, the Group has adopted the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts that relate to financial guarantees. In accordance with IAS 39, financial guarantees issued by the Group are initially recognised in the balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the contract.

Adoption of the amendments did not have a material impact on the reported results or position of the Group for the years ended 31 December 2005 and 2006. Comparative figures have therefore not been restated.

The comparative figures in the cash flow statement have been restated to show separately interest paid and received.

Basis of presentation
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below, and, unless otherwise stated, have been applied consistently to all periods presented in the consolidated accounts.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefit from the entities activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements incorporate the financial statements of Rathbone International Finance BV, which is effectively controlled by the Company, although the Company does not own any of the entity's share capital.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Impairment

At each balance sheet date, the Group considers the carrying amounts of its assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount of non-financial assets is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The recoverable amount of held to maturity investment securities and loans and receivables is calculated as the present value of estimated future cash flows, discounted at the effective interest rate of the asset on recognition.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss (excluding goodwill) subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss in respect of a held to maturity security or loans and receivables is reversed if the subsequent increase can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in equity instruments classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through profit or loss.

Interest income and expenses

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost and for available for sale financial instruments using the effective interest method. Interest payable and receivable on derivative financial instruments is included within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income

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

Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

1 Principal accounting policies continued

Fees and commissions
Portfolio and other management advisory and service fees are recognised over the period the service is provided. Asset management fees are recognised rateably over the period the service is provided.

Commissions receivable and payable are accounted for in the period in which they are earned.

To the extent that retained initial charge income received on the sale of units arises from an identifiable brokerage service, the income is recognised on the performance of that service. Other retained initial charges are deferred and recognised as income on a straight line basis over the estimated average life of the unit holding.

Property, plant and equipment
All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method, on the following bases:

Leasehold land and buildings:	over the lease term
Plant, equipment and computer hardware:	over three to five years

The assets' residual lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Intangible assets

(a) Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and is reviewed for impairment at least annually, or when other occasions or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the profit and loss and is not subsequently reversed. Goodwill arising on acquisition is allocated to groups of cash generating units that correspond with the Group's segments, as these represent the lowest level within the Group at which management monitor goodwill for purposes of impairment testing. Cash generating units are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

(b) Computer software and software development costs
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to four years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding four years).

(c) Client relationships
Client lists acquired are shown at historical cost. Those in respect of business combinations are initially recognised at fair value. Client relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the client relationships over their estimated useful lives (7 – 15 years).

Financial assets
The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification of financial assets is determined at initial recognition.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated. Derivatives are also categorised as held for trading.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services to a debtor or purchases a loan with no intention of trading the receivable.

(c) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables or that the Group has classified as available for sale or fair value through profit or loss.

(d) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been effectively transferred, or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity (except for changes arising from fluctuations in foreign exchange rates, which are recognised as income or expenditure in the income statement for monetary assets and directly in equity for non-monetary assets), until the financial asset is sold, derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

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

Loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Borrowing costs are recognised as an expense in the period in which they are incurred.

Work in progress
Trust work in progress is included within other assets and is valued at the expected recoverable amount, including an appropriate portion of profit, calculated by reference to the stage of completion of the service rendered. The corresponding income is recognised within fees and commissions receivable.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring which has been notified to affected parties.

Foreign currencies
Transactions in currencies other than the relevant group entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary financial assets carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

1 Principal accounting policies continued

Foreign currencies continued

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the Group's presentational currency at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in equity within the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Gains and losses arising on translation are taken to the Group's translation reserve. The Group has elected to treat goodwill and fair value adjustments denominated in a currency other than the Group's functional currency arising on acquisitions before the date of transition to IFRS as non-monetary foreign currency items and they are translated using the exchange rate applied on the date of acquisition.

Retirement benefit costs

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

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

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

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill (or negative goodwill) for which amortisation is not deductible for tax purposes or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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

Cash and cash equivalents

Cash comprises cash on hand and demand deposits which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition.

Cash and cash equivalents continued

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

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the Company's share price over the life of the option/award and other relevant factors. Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met. Shares purchased and issued are charged directly to equity.

Segmental reporting
A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Direct costs are allocated to the segment that generated the cost. Indirect costs are allocated to reporting segments so as to reflect the proportion of the cost that each segment has generated, on a pro rata basis.

Fiduciary activities
The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

The Group holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Services Authority. Such monies and the corresponding liability to clients are not shown on the face of the balance sheet as the Group is not beneficially entitled thereto.

2 Critical accounting judgements and key sources of estimation and uncertainty

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

Retirement benefit obligations
The Group makes estimates about a range of long term trends and market conditions to determine the value of the deficit on its retirement benefit schemes, based on the Group's expectations of the future and advice taken from qualified actuaries. The principal assumptions underlying the reported deficit of £10,763,000 are given in note 27.

Long term forecasts and estimates are necessarily highly judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the Group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different. The history of experience adjustments is set out in note 27.

Income recognition
Revenue in the Trust and Tax business is calculated by reference to the estimated stage of completion of the service rendered. Estimates are also made as to the recoverability of work in progress and debtors in relation to this income. At the year end, total work in progress and debtors for trust and pension services amounted to £11,372,000 (2005: £10,753,000).

Conversely, very little judgement is required in the recognition of income arising from the Investment Management and Unit Trusts businesses, due to the close proximity of billing dates to the year end and the inherently non-judgmental nature of interest accrual calculations.

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

Share based payments
In determining the fair value of equity settled share based awards and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgements must be formed as to the likely number of shares that will vest, and the fair value of each award granted. The fair value of awards is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and future volatility in the price of the Group's shares. Such assumptions are based on publicly available information where available and reflect market expectations and advice taken from qualified actuaries. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments. The assumptions used at the year end are set out in note 28.

Impairment of goodwill
The Group makes estimates in relation to the value in use of the cash generating units to which goodwill has been allocated in determining whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £69,965,000. The assumptions underlying the value in use calculation are set out in note 18. There has been no impairment of goodwill in prior years.

3 Segmental information

(a) Business segments
For management purposes, the Group is currently organised into three operating divisions: Investment Management, Unit Trusts and Trust and Tax. These divisions are the basis on which the Group reports its primary segment information.

Transactions between the business segments are on normal commercial terms and conditions. Intra-segment income constitutes trail commission.

Revenues and expenses are allocated to the business segment that originated the transaction. Centrally incurred expenses are allocated to business segments on an appropriate pro-rata basis. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and borrowings.

At 31 December 2006	Investment management £'000	Unit trusts £'000	Trust and tax £'000	Eliminations £'000	Total £'000
External revenues	115,322	22,652	22,178	–	160,152
Revenues from other segments	1,463	–	–	(1,463)	–
	116,785	22,652	22,178	(1,463)	160,152
Unallocated external revenues					3,196
Total revenues					**163,348**
Segment result	34,119	5,059	2,346		41,524
Unallocated items					3,196
Profit before tax					44,720
Income tax expense					(12,582)
Profit for the year					**32,138**
Segment assets	805,597	17,307	55,193		878,097
Unallocated assets					34,522
Total assets					**912,619**
Segment liabilities	689,943	12,654	18,048		720,645
Unallocated liabilities					32,825
Total liabilities					**753,470**
Other segment items					
Capital expenditure	11,995	194	2,393		14,582
Depreciation and amortisation	2,737	143	538		3,418
Other non-cash expenses	1,481	208	714		2,403
Provisions charged in the year	1,788	–	613		2,401
Provisions utilised in the year	6,273	–	457		6,730

At 31 December 2005	Investment management £'000	Unit trusts £'000	Trust and tax £'000	Eliminations £'000	Total £'000
External revenues	93,927	16,600	22,221	–	132,748
Revenues from other segments	1,199	–	–	(1,199)	–
	95,126	16,600	22,221	(1,199)	132,748
Unallocated external revenues					2,316
Total revenues					**135,064**
Segment result	27,383	3,784	3,194		34,361
Unallocated items					937
Profit before tax					35,298
Income tax expense					(10,617)
Profit for the year					**24,681**
Segment assets	601,607	11,374	53,617		666,598
Unallocated assets					29,670
Total assets					**696,268**
Segment liabilities	511,966	7,985	17,589		537,540
Unallocated liabilities					28,311
Total liabilities					**565,851**
Other segment items					
Capital expenditure	1,816	93	693		2,602
Depreciation and amortisation	1,891	138	467		2,496
Other non-cash expenses	1,498	208	785		2,491
Provisions charged in the year	1,819	–	704		2,523
Provisions utilised in the year	230	–	339		569

Unallocated external revenues are principally comprised of gains on disposal of available for sale securities.

(b) Geographical segments

The Group's operations are located in the United Kingdom, Jersey, Switzerland and the British Virgin Islands. The following table provides an analysis of the Group's revenues by geographical market, by origin of the services:

Total revenues by geographical market

	2006 £'000	2005 £'000
United Kingdom	**140,666**	113,146
Jersey	**18,421**	17,579
Rest of the world	**4,261**	4,339
	163,348	135,064

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Assets allocated to business segments

	2006 £'000	2005 £'000
United Kingdom	**826,822**	622,115
Jersey	**31,448**	24,132
Rest of the world	**19,827**	20,351
	878,097	666,598

3 Segmental information continued

(b) Geographical segments continued

Additions to property, plant and equipment and intangible assets

	2006 £'000	2005 £'000
United Kingdom	**12,421**	2,022
Jersey	**2,122**	444
Rest of the world	**39**	136
	14,582	2,602

(c) Total revenues and operating income

	2006 £'000	2005 £'000
Interest and similar income	**37,335**	27,472
Fee and commission income	**120,039**	102,869
Dividend income	**117**	78
Net trading income	**1,285**	1,409
Net income from sale of available for sale securities	**3,196**	2,261
Other operating income	**1,376**	975
Total revenues	**163,348**	135,064
Interest expense and similar charges	**(21,297)**	(15,029)
Fee and commission expense	**(8,365)**	(6,850)
Operating income	**133,686**	113,185

4 Business combinations

On 6 April 2006, the Group acquired the investment management and private banking business of Dexia Banque Internationale à Luxembourg S.A., London Branch. The business was transferred to Rathbone Investment Management Limited, a principal subsidiary of the Company, by way of a Court order sanctioning a banking business transfer scheme pursuant to Part VII of the Financial Services and Markets Act 2000.

Included within the consolidated income statement for the year ended 31 December 2006 is a profit before tax of £228,000 relating to the acquired business. If the acquisition had occurred on 1 January 2006, the estimated total revenue for the Group for the year ended 31 December 2006 would have been £164,642,000 and profit after tax for the year would have been £32,094,000.

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

	Recognised values £'000	Fair value adjustments £'000	Carrying amounts £'000
Cash and cash equivalents	9,101	–	9,101
Loans and advances to customers	43,342	–	43,342
Property, plant and equipment	91	–	91
Client relationships	3,962	3,962	–
Other receivables	14	–	14
Due to customers	(52,443)	–	(52,443)
Net identifiable assets acquired	4,067	3,962	105
Goodwill on acquisition	12,230		
Total net assets acquired	**16,297**		

Total consideration for the acquisition, including directly attributable costs, constitutes the following:

	Amount paid £'000	Amount deferred £'000	Total £'000
Cash consideration	14,478	1,410	15,888
Professional fees	409	–	409
	14,887	**1,410**	**16,297**

The goodwill arising on the acquisition is attributable to the employees and the anticipated profitability of incorporating the business into the Group's operating model and utilising existing capacity within its operations.

5 Net interest income

Interest income

	2006 £'000	2005 £'000
Investment securities	**25,018**	19,388
Other	**12,317**	8,084
	37,335	27,472

Interest expense

	2006 £'000	2005 £'000
Banks and customers	**21,272**	15,018
Debt securities in issue	**3**	10
Other	**22**	1
	21,297	15,029

6 Net fee and commission income

Fee and commission income

	2006 £'000	2005 £'000
Investment management	**78,343**	67,880
Unit trusts	**20,410**	13,470
Trust	**21,286**	21,519
	120,039	102,869

Fee and commission expense

	2006 £'000	2005 £'000
Investment management	**1,164**	1,847
Unit trust	**7,201**	5,003
	8,365	6,850

7 Dividend income

Dividend income comprises income from available for sale securities of £117,000 (2005: £78,000).

8 Net trading income

	2006 £'000	2005 £'000
Unit trust management net dealing profits	**1,255**	1,397
Increase in value of derivative financial instruments	**30**	12
	1,285	1,409

9 Operating expenses

	2006 £'000	2005 £'000
Staff costs (note 10)	**59,307**	50,207
Depreciation of property, plant and equipment (note 19)	**1,927**	1,605
Amortisation of internally generated intangible assets included in operating expenses (note 18)	**192**	165
Amortisation of purchased intangible assets included in operating expenses (note 18)	**1,299**	726
Auditors' remuneration (see below)	**590**	1,215
Impairment losses on loans and advances (note 16)	**323**	386
Operating lease rentals	**3,573**	3,221
Other operating expenses	**21,755**	20,362
	88,966	77,887

A more detailed analysis of auditors' remuneration is provided below:

	2006 £'000	2005 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**113**	125
Fees payable to the Company's auditors and their associates for other services to the Group:		
– audit of the Company's subsidiaries pursuant to legislation	**268**	296
– other services pursuant to legislation	**99**	82
– tax services	**22**	30
– corporate finance	**–**	565
– other services	**88**	117
Total	**590**	1,215

In addition to the amounts above, non-audit fees of £93,000 were paid to KPMG Audit Plc during the period in which they remained in office as auditors, from 1 January 2006 to 25 May 2006, comprising £10,000 in relation to tax services and £83,000 in relation to other services.

10 Staff costs

	2006 £'000	2005 £'000
Wages and salaries	**47,863**	40,290
Social security costs	**4,805**	4,206
Share based payments	**2,080**	1,971
Pension costs (note 27):		
– defined benefit schemes	**3,448**	2,920
– defined contribution schemes	**1,111**	820
	4,559	3,740
	59,307	50,207

The average number of employees during the year was as follows:

	2006	2005
Investment management	**494**	455
Unit trusts	**31**	30
Trust	**203**	218
Shared services	**22**	18
	750	721

11 Income tax expense

	2006 £'000	2005 £'000
Current tax	**10,820**	11,649
Adjustments in respect of previous years	**64**	387
Deferred tax (note 20)	**1,698**	(1,419)
	12,582	10,617

The tax charge for the year is lower (2005: higher) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	2006 £'000	2005 £'000
Tax on profit from ordinary activities at the standard rate of 30% (2005 – 30%)	**13,416**	10,590
Effects of:		
UK dividend income	**(23)**	(17)
Disallowable expenses	**257**	639
Share based payments	**(649)**	(101)
UK tax on overseas subsidiary dividends	**–**	63
Tax relief on purchased goodwill	**79**	(3)
Withholding tax suffered	**–**	3
Lower tax rates on overseas earnings	**(719)**	(36)
Under/(over) provision for tax in previous years	**221**	(521)
Income tax expense	**12,582**	10,617

In addition to the amount charged to the income statement, deferred tax relating to actuarial gains and losses, share based payments and gains and losses arising on available for sale investment securities amounting to £1,580,000 has been charged directly to equity (2005: £2,800,000 credited to equity).

12 Dividends

	2006 £'000	2005 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2005 of 18.5p (2004: 17p) per share	**7,754**	6,948
– adjustment to 2005 final dividend on 4,763 shares in respect of dividends waived	**(1)**	–
– adjustment to 2004 final dividend on 31,991 shares in respect of dividends waived	**–**	(5)
– interim dividend for the year ended 31 December 2006 of 13.5p (2005: 11.5p) per share	**5,697**	4,724
– adjustment to 2005 interim dividend on 59,435 shares in respect of dividends waived	**–**	(7)
– adjustment to 2006 interim dividend on 6,170 shares in respect of dividends waived	**(1)**	–
	13,449	11,660
Proposed final dividend for the year ended 31 December 2006 of 21.5p (2005: 18.5p) per share	**9,090**	7,634

The interim dividend of 13.5p per share was paid on 13 October 2006 to shareholders on the register at the close of business on 22 September 2006.

The final dividend declared of 21.5p per share is payable on 10 May 2007 to shareholders on the register at the close of business on 13 April 2007. The final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13 Earnings per share

Basic earnings per share has been calculated by dividing the profits attributable to shareholders of £32,138,000 (2005: £24,681,000) by the weighted average number of shares in issue throughout the year of 41,946,781 (2005: 41,046,753).

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

	2006	2005
Weighted average number of ordinary shares in issue during the year – basic	**41,946,781**	41,046,753
Effect of ordinary share options	**580,127**	385,312
Effect of dilutive shares issuable under the Share Incentive Plan	**152,580**	163,556
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**334,720**	354,242
Diluted ordinary shares	**43,014,208**	41,949,863

14 Cash and balances at central banks

	2006 £'000	2005 £'000
Cash in hand	**5**	6
Balances with central banks	**–**	191
Included within cash and cash equivalents (note 33)	**5**	197
Mandatory reserve deposits	**276**	314
	281	511

Mandatory deposits are not available for use in the Group's day to day operations. Cash in hand, balances with central banks and mandatory reserve deposits are non-interest bearing.

15 Loans and advances to banks

	2006 £'000	2005 £'000
Repayable:		
– on demand or at short notice	**62,295**	54,811
– 3 months or less excluding on demand or at short notice	**51,820**	82,508
– 1 year or less but over 3 months	**5,132**	6,746
– 5 years or less but over 1 year	**–**	910
	119,247	144,975
Amounts include loans with:		
– variable interest rates	**23,825**	57,152
– fixed interest rates	**95,266**	87,550
– non interest bearing	**156**	273
	119,247	144,975

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

Loans and advances to banks included in cash and cash equivalents at 31 December 2006 were £108,338,000 (2005: £118,686,000).

16 Loans and advances to customers

	2006 £'000	2005 £'000
Repayable:		
– on demand or at short notice	**22,077**	15,659
– 3 months or less excluding on demand or at short notice	**29,790**	16,845
– 1 year or less but over 3 months	**14,239**	5,447
– 5 years or less but over 1 year	**5,344**	125
– over 5 years	**6,600**	49
Less: allowance for losses on loans and advances	**(690)**	(605)
	77,360	37,520
Amounts include loans with:		
– variable interest rates	**61,002**	21,509
– fixed interest rates	**4,646**	4,768
– non interest bearing	**11,712**	11,243
	77,360	37,520

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

There are no non-performing banking loans and advances to customers as at 31 December 2006 (2005: nil). The specific bad and doubtful debt provisions relate to debtors for trust and pension services. The total debtors in relation to trust and pension services included in loans and advances to customers as at 31 December 2006 amount to £9,271,000 (2005: £8,554,000).

Allowance for losses on loans and advances

	2006 £'000	2005 £'000
At 1 January	**605**	354
Exchange rate adjustment	**(26)**	9
Amounts written off	**(212)**	(144)
Charge to the income statement	**323**	386
At 31 December	**690**	605

17 Investment securities

Available for sale securities

	2006 £'000	2005 £'000
Equity securities – at fair value:		
– listed	**5,236**	4,326
– unlisted	**916**	831
	6,152	5,157

Held to maturity securities

	2006 £'000	2005 £'000
Debt securities – at amortised cost:		
– unlisted	**558,368**	396,000
	558,368	396,000

17 Investment securities continued

Maturity of debt securities

	2006 £'000	2005 £'000
Due within 1 year:		
Included within cash and cash equivalents (note 33)	**90,000**	116,000
Other debt securities due within 1 year	**460,944**	275,000
	550,944	391,000
Due after more than 1 year	**7,424**	5,000
	558,368	396,000

Debt securities comprise bank and building society certificates of deposit and have fixed coupons. Equity securities do not bear interest. The fair value of debt securities at 31 December 2006 was £568,937,000 (2005: £395,771,000).

The Group has not reclassified any financial asset from being measured at amortised cost to being measured at fair value through profit and loss during the year (2005: nil). The Group has not designated at initial recognition any financial asset as at fair value through profit or loss.

Fair value for held to maturity assets is based on market bid prices.

Realised gains on disposal of available for sale financial assets in the year were £3,196,000 (2005: £2,261,000) arising from the sale of 205,882 shares of London Stock Exchange Group plc (2005: 400,000 London Stock Exchange shares) and the repurchase by London Stock Exchange Group plc of 94,118 shares in a capital restructuring on 28 May 2006. The Group continues to hold 400,000 shares in London Stock Exchange Group plc, which have been recognised at fair value of £5,236,000.

The movement in investment securities may be summarised as follows:

	Available for sale £'000	Held to maturity £'000	Total £'000
At 1 January 2005	7,219	381,119	388,338
Additions	–	1,345,306	1,345,306
Disposals (sale and redemption)	(2,261)	(1,330,425)	(1,332,686)
Gains from changes in fair value	199	–	199
At 1 January 2006	5,157	396,000	401,157
Exchange rate adjustment	(11)	–	(11)
Additions	–	1,453,970	1,453,970
Disposals (sale and redemption)	(3,196)	(1,291,602)	(1,294,798)
Gains from changes in fair value	4,202	–	4,202
At 31 December 2006	**6,152**	**558,368**	**564,520**

18 Intangible assets

	2006 £'000	2005 £'000
Goodwill	**69,965**	57,739
Other intangible assets	**11,283**	2,362
	81,248	60,101

18 Intangible assets continued

Goodwill

	2006 £'000	2005 £'000
Cost		
At 1 January	**57,739**	57,739
Exchange rate adjustment	**(4)**	–
Additions (note 4)	**12,230**	–
	69,965	57,739
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Carrying amount at 31 December	**69,965**	57,739

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2006 £'000	2005 £'000
Investment Management	**44,423**	32,194
Trust (Jersey)	**23,588**	23,591
Trust (Liverpool)	**1,954**	1,954
	69,965	57,739

The recoverable amounts of goodwill allocated to the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management extrapolated based on a growth rate of 3% (2005: 3%). The pre-tax rate used to discount the forecast cash flows is 9.69% (2005: 8.69%).

Other intangible assets

	Acquired client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2005	642	633	6,428	7,703
Internally developed in year	–	184	–	184
Purchased in year	–	–	949	949
At 31 December 2005	642	817	7,377	8,836
Internally developed in year	–	283	–	283
Purchased in year	5,419	–	748	6,167
Acquired through business combinations (see note 4)	3,962	–	–	3,962
At 31 December 2006	**10,023**	**1,100**	**8,125**	**19,248**
Amortisation				
At 1 January 2005	13	286	5,284	5,583
Charge for the year	19	165	707	891
At 31 December 2005	32	451	5,991	6,474
Charge for the year	475	192	824	1,491
At 31 December 2006	**507**	**643**	**6,815**	**7,965**
Carrying amount at 31 December 2006	**9,516**	**457**	**1,310**	**11,283**
Carrying amount at 31 December 2005	610	366	1,386	2,362
Carrying amount at 1 January 2005	629	347	1,144	2,120

Purchased software with a cost of £3,827,000 (2005: £3,801,000) has been fully amortised but is still in use.

19 Property, plant and equipment

	Short term leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2005	3,160	16,834	19,994
Exchange adjustments	–	(9)	(9)
Additions	26	1,443	1,469
Disposals	–	(996)	(996)
At 31 December 2005	3,186	17,272	20,458
Exchange adjustment	(11)	(58)	(69)
Additions	2,009	2,070	4,079
Acquired through business combinations (see note 4)	–	91	91
Disposals	–	(1,936)	(1,936)
At 31 December 2006	**5,184**	**17,439**	**22,623**
Depreciation			
At 1 January 2005	1,324	14,190	15,514
Exchange adjustments	–	(6)	(6)
Charge for the year	285	1,320	1,605
Disposals	–	(950)	(950)
At 31 December 2005	1,609	14,554	16,163
Exchange adjustments	(8)	(50)	(58)
Charge for the year	419	1,508	1,927
Disposals	–	(1,872)	(1,872)
At 31 December 2006	**2,020**	**14,140**	**16,160**
Carrying amount at 31 December 2006	**3,164**	**3,299**	**6,463**
Carrying amount at 31 December 2005	1,577	2,718	4,295
Carrying amount at 1 January 2005	1,836	2,644	4,480

All property included above is occupied by the Group for its own activities. The fair value of property, plant and equipment is not materially different from its carrying value.

20 Deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2005: 30%).

The movement on the deferred tax account is as follows:

	2006 £'000	2005 £'000
At 1 January	**8,599**	4,379
Adjustments in respect of prior years	**(234)**	–
(Charged)/credited to the income statement	**(1,464)**	1,419
Actuarial gains and losses	**(1,640)**	1,250
Share based payments	**362**	932
Available for sale securities:		
– fair value measurement	**(1,261)**	(60)
– transfer to net profit	**959**	679
At 31 December	**5,321**	8,599

Deferred tax assets

	2006 £'000	2005 £'000
Excess of depreciation	**1,089**	1,124
Share based payments	**1,306**	2,085
Staff related costs	**2,103**	1,385
Pensions	**3,229**	5,613
Deferred income	**473**	426
	8,200	10,633

Deferred tax liabilities

	2006 £'000	2005 £'000
Available for sale securities	**1,845**	1,534
Goodwill	**534**	–
Unremitted overseas earnings	**500**	500
	2,879	2,034

The deferred tax charge in the income statement comprises the following temporary differences:

	2006 £'000	2005 £'000
Excess of depreciation	**35**	(69)
Share based payments	**1,141**	231
Staff related costs	**(718)**	774
Pensions	**744**	(132)
Deferred income	**(47)**	744
Unremitted overseas earnings	**–**	(125)
Goodwill	**534**	–
Other provisions	**9**	(4)
	1,698	1,419

21 Prepayments, accrued income and other assets

	2006 £'000	2005 £'000
Trust work in progress	**2,101**	2,199
Derivative financial instruments (note 23)	**23**	–
Prepayments	**8,751**	3,902
Accrued income	**27,676**	18,992
	38,551	25,093

22 Deposits by banks

Included within deposits by banks is the amount of £12,000,000, drawn down under a £24,000,000 facility that expires on 30 April 2007, which is repayable in ten, six-monthly instalments ending on 4 April 2011. Interest is payable on the loan at 0.7% above the London Inter-Bank Offer Rate.

All other deposits have variable interest rates and are repayable on demand. The fair value of deposits by banks was not materially different to their carrying value. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates.

23 Derivative financial instruments

The Group uses OTC Forward Rate Agreements (FRAs) to manage its exposure to interest rate risk. FRAs with a total nominal amount of £40,000,000 were outstanding at 31 December 2006 (2005: £5,000,000). The total liability in relation to contracts with a negative fair value at 31 December 2006 was £nil (2005: £7,000). The total asset in relation to contracts with a positive fair value at 31 December 2006 was £23,000 (2005: nil).

24 Due to customers

	2006 £'000	2005 £'000
Repayable:		
– on demand or at short notice	**474,204**	331,437
– 3 months or less excluding on demand or at short notice	**184,745**	153,678
– 1 year or less but over 3 months	**5,745**	7,413
– 5 years or less but over 1 year	**68**	1,035
– over 5 years	**–**	49
	664,762	493,612
Amounts include:		
– variable interest rates	**406,412**	320,672
– fixed interest rates	**249,813**	165,834
– non interest bearing	**8,537**	7,106
	664,762	493,612

The fair value of amounts due to customers was not materially different to their carrying value. The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed-interest bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

25 Accruals, deferred income, provisions and other liabilities

	2006 £'000	2005 £'000
Creditors	**9,793**	6,700
Derivative financial instruments (note 23)	**–**	7
Accruals and deferred income	**21,364**	18,015
Other provisions (note 26)	**8,448**	2,811
	39,905	27,533

26 Other provisions

	Deferred contingent consideration £'000	Client compensation £'000	Litigation related £'000	Total £'000
At 1 January 2006	157	2,072	582	2,811
Exchange adjustments	–	–	(13)	(13)
Charged to the income statement		1,373	1,028	2,401
Unused amount credited to the income statement		(676)	(174)	(850)
Net charge to the income statement(i)		697	854	1,551
Capitalised during the year(ii)	10,829			10,829
Utilised/paid during the year	(4,579)	(1,244)	(907)	(6,730)
At 31 December 2006	**6,407**	**1,525**	**516**	**8,448**
Current	4,540	1,189	422	6,151
Non-Current	1,867	336	94	2,297
	6,407	1,525	516	8,448

(i) In addition to the net charge of £1,551,000 (2005: £2,523,000) to the income statement in the above table, a net credit of £179,000 (2005: £594,000) has been recognised in the income statement during the period in relation to expected insurance recoveries resulting in a net charge to the income statement for other provisions of £1,372,000 (2005: £1,929,000).

(ii) Amounts capitalised during the period comprise £5,410,000 deferred consideration in relation to the acquisition of the investment management and private banking business of Dexia Banque Internationale à Luxembourg S.A., London Branch (see note 4), £4,425,000 in relation to deferred payments to investment managers under earn-out schemes and £994,000 in relation to the acquisition of client relationships.

Deferred contingent consideration relates to a number of agreements in relation to the attraction of investment management clients. The amount of the consideration is contingent on the value of funds attracted and is payable in cash.

In the ordinary course of business, the Group receives complaints from clients in relation to the services provided. Complaints are assessed on a case by case basis and provisions for compensation are made where judged necessary.

Provisions have also been made in relation to a number of cases where legal proceedings are expected to result in loss to the Group.

27 Retirement benefit obligations

The Group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to this scheme during the year was £594,000 (2005: £370,000). The Group also operates defined contribution schemes for overseas employees, for which the total contributions were £517,000 (2005: £450,000).

The Group operates two pension schemes providing benefits based on final pensionable pay for executive directors and staff employed by the Company (the Rathbone 1987 Scheme and the Laurence Keen Scheme). The schemes are currently both clients of Rathbone Investment Management Limited, with investments managed on a discretionary basis. Scheme assets are held separately from those of the Group. The scheme operated by Rathbone Stockbrokers Limited (the Laurence Keen Scheme) was closed to new entrants and future pension accrual for the current membership with effect from 1 October 1999. As from that date all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002. Both schemes continue on a closed basis with the existing assets remaining invested thereunder.

The schemes are valued by independent actuaries every three years using the projected unit credit method which looks at the value of benefits accruing over the years following the valuation date based on projected salary to date of termination of services. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at:

	Last full actuarial valuation as at:
Rathbone 1987 Scheme	31 December 2004
Laurence Keen Scheme	31 December 2002

The actuarial valuation of the Laurence Keen Scheme as at 31 December 2005 is in progress but has not yet been completed. Consideration has been given to the preliminary results of that valuation in preparing these financial statements.

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	2006 Laurence Keen Scheme	2005 Laurence Keen Scheme	**2006 Rathbone 1987 Scheme**	2005 Rathbone 1987 Scheme
Rate of increase in salaries	**4.15%**	4.05%	**4.15%**	4.05%
Rate of increase in pensions in payment	***3.50%**	*2.80%	***2.90%**	*2.80%
Rate of increase of deferred pensions	**2.90%**	2.80%	**2.90%**	2.80%
Discount rate	**5.20%**	4.90%	**5.20%**	4.90%
Expected return on scheme assets	**6.21%**	5.99%	**7.09%**	7.06%
Inflation assumption	**2.90%**	2.80%	**2.90%**	2.80%

* 5% for service prior to April 2001

The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed below.

Normal retirement age is 65 for members of the Laurence Keen Scheme and 60 for members of the Rathbone 1987 Scheme. The assumed life expectancy for the membership of both schemes is based on the PA92 actuarial tables. In 2006, the assumption for life expectancy was updated to take account of recent and expected future improvements in life expectancy by using the "Medium Cohort" projection, rated up by 2 years. The assumed life expectations on retirement were:

		2006 Males	2005 Males	**2006 Females**	2005 Females
Retiring today	– aged 60	**24.7**	24.6	**27.6**	27.5
	– aged 65	**20.0**	19.9	**22.9**	22.8
Retiring in 20 years	– aged 60	**25.9**	25.8	**28.7**	28.6
	– aged 65	**21.1**	21.1	**23.9**	23.9

27 Retirement benefit obligations continued

The amount included in the balance sheet arising from the Group's obligations in respect of the schemes is as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
Present value of defined benefit obligations	**(10,423)**	**(53,982)**	**(64,405)**	(11,697)	(50,501)	(62,198)
Fair value of scheme assets	**8,996**	**44,646**	**53,642**	8,118	35,370	43,488
Deficit in schemes	**(1,427)**	**(9,336)**	**(10,763)**	(3,579)	(15,131)	(18,710)

The amounts recognised in the income statement, within operating expenses, are as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
Current service cost	**–**	**3,445**	**3,445**	–	2,585	2,585
Interest cost	**567**	**2,571**	**3,138**	519	2,182	2,701
Expected return on scheme assets	**(480)**	**(2,655)**	**(3,135)**	(419)	(1,947)	(2,366)
	87	**3,361**	**3,448**	100	2,820	2,920

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on scheme assets was £565,000 (2005: £958,000) for the Laurence Keen scheme and £3,381,000 (2005: £6,244,000) for the Rathbone 1987 scheme.

Movements in the present value of defined benefit obligations were as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
At 1 January	**11,697**	**50,501**	**62,198**	9,552	38,214	47,766
Service cost (employer's part)	**–**	**3,445**	**3,445**	–	2,585	2,585
Interest cost	**567**	**2,571**	**3,138**	519	2,182	2,701
Contributions from members	**–**	**959**	**959**	–	778	778
Actuarial gains and losses	**(1,592)**	**(3,038)**	**(4,630)**	1,864	7,138	9,002
Benefits paid	**(249)**	**(456)**	**(705)**	(238)	(396)	(634)
At 31 December	**10,423**	**53,982**	**64,405**	11,697	50,501	62,198

Movements in the fair value of scheme assets were as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
At 1 January	**8,118**	**35,370**	**43,488**	6,836	25,947	32,783
Expected return on scheme assets	**480**	**2,655**	**3,135**	419	1,947	2,366
Actuarial gains and losses	**85**	**753**	**838**	539	4,297	4,836
Contributions from the sponsoring companies	**562**	**5,365**	**5,927**	562	2,797	3,359
Contributions from scheme members	**–**	**959**	**959**	–	778	778
Benefits paid	**(249)**	**(456)**	**(705)**	(238)	(396)	(634)
At 31 December	**8,996**	**44,646**	**53,642**	8,118	35,370	43,488

The analysis of the scheme assets, measured at bid prices, and expected rates of return on those assets at the balance sheet date was as follows:

Laurence Keen Scheme

	1.1.06 Expected return %	1.1.05 Expected return %	2006 Fair value £'000	2005 Fair value £'000	2006 Current allocation %	2005 Current allocation %
Equity instruments	**7.50**	7.50	**5,047**	4,302	**56**	53
Debt instruments	**4.30**	4.60	**3,738**	3,342	**42**	41
Cash	**4.30**	4.50	**211**	474	**2**	6
			8,996	8,118		

Rathbone 1987 Scheme

	1.1.06 Expected return %	1.1.05 Expected return %	2006 Fair value £'000	2005 Fair value £'000	2006 Current allocation %	2005 Current allocation %
Equity instruments	**7.50**	7.50	**35,515**	27,504	**80**	78
Debt instruments	**5.20**	5.50	**8,649**	7,045	**19**	20
Cash	**4.30**	4.50	**482**	821	**1**	2
			44,646	35,370		

The expected return on equities was assumed to be 3.25% above the return on long dated Gilts. The expected rate of return on debt instruments is based on long term yields at the start of the year, with an adjustment for the risk of default and future downgrade in relation to corporate bonds. Cash has been assumed to generate a similar return to short dated government bonds.

The history of experience adjustments is as follows:

Laurence Keen Scheme

	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(10,423)**	(11,697)	(9,552)
Fair value of scheme assets (£'000)	**8,996**	8,118	6,836
Deficit in the scheme (£'000)	**(1,427)**	(3,579)	(2,716)
Experience adjustments on scheme liabilities:			
– amount (£'000)	**1,592**	1,864	466
– percentage of scheme liabilities (%)	**15%**	16%	5%
Experience adjustments on scheme assets:			
– amount (£'000)	**85**	539	359
– percentage of scheme assets (%)	**1%**	7%	5%

Rathbone 1987 Scheme

	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(53,982)**	(50,501)	(38,214)
Fair value of scheme assets (£'000)	**44,646**	35,370	25,947
Deficit in the scheme (£'000)	**(9,336)**	(15,131)	(12,267)
Experience adjustments on scheme liabilities:			
– amount (£'000)	**3,038**	7,138	1,881
– percentage of scheme liabilities (%)	**6%**	14%	5%
Experience adjustments on scheme assets:			
– amount (£'000)	**753**	4,297	1,132
– percentage of scheme assets (%)	**2%**	12%	4%

27 Retirement benefit obligations continued

The total regular contributions made by the Group to The Rathbone 1987 Scheme during the year were £2,365,000 (2005: £1,802,000). On 1 April 2006, the Group increased its contributions from 11.5% to 15.5% of pensionable salary and on 25 August 2006, in accordance with advice received from the scheme actuaries, the Group's contributions were reduced to 13.9% of pensionable salaries. Additional lump sum contributions amounting to £3,000,000 were also paid in 2006 (2005: £1,000,000). With effect from 1 April 2006, each active member of the scheme was required to elect either to maintain their current rate of contributions but receive a lower benefit accrual rate or to pay a higher rate of contributions whilst maintaining their current benefit accrual rate. The Group has committed to make additional payments of up to £7,000,000 to reduce the current funding deficit during the course of 2007. After 31 March 2002 the Rathbone 1987 Scheme was closed to new entrants and, consequently, the current pension cost will increase as the members of the Scheme approach retirement.

The total contributions made by the Group to the Laurence Keen Scheme during the year were £562,000 (2005: £562,000). The level of funding will be reviewed as part of the process to conclude the triennial valuation as at 31 December 2005. As the Scheme was closed to new entrants with effect from 1 October 1999, the current pension cost will increase as the members of the Scheme approach retirement.

28 Share capital

	Ordinary shares No.	Ordinary shares £'000
Authorised:		
Ordinary shares of 5p each		
1 January and 31 December 2006	100,000,000	5,000
Allotted, called up and fully paid ordinary shares of 5p each:		
At 1 January 2005	40,868,815	2,043
Issued during the year	397,508	20
At 1 January 2006	41,266,323	2,063
Issued during the year	1,010,529	51
At 31 December 2006	**42,276,852**	**2,114**

The following movements in share capital occurred during the period:

	Number of shares issued	Exercise price Pence	Share capital £'000	Share premium £'000	Total consideration £'000
Issue of shares in relation to:					
– share incentive plan	104,781	847.0 – 1176.0	5	1,021	1,026
– exercise of options	905,748	322.5 – 985.0	46	6,010	6,056
	1,010,529		51	7,031	7,082

Share incentive plan and long term incentive plan

The Group operates a share incentive plan and a long term incentive plan.

The Share Incentive Plan (SIP) is available to all employees. Employees can contribute up to £125 per month to acquire shares which are acquired twice a year at the end of six month accumulation periods. The Group currently matches employee contributions on a one for one basis to acquire matching shares.

The Group also provides performance-related free shares, with eligible employees receiving shares valued at the rate of £100 per 1% real increase in EPS up to a maximum of £3,000 annum.

For UK employees, SIP dividends are reinvested and used to purchase shares whilst for overseas employees, dividends are paid in cash.

Details of the general terms of the Long Term Incentive Plan are set out in the remuneration report on pages 37 to 45.

As at 31 December 2006, the trustees of the Share Incentive Plan held 1,142,915 (2005: 987,517) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £13,692,000 (2005: £9,796,000). No dividends on these shares have been waived. Of the total number of shares held by the trustees 495,429 (2005: 458,501) have been conditionally gifted to employees.

At 31 December 2006, the trustees of the Long Term Incentive Plan held 100,000 (2005: 55,000) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £1,198,000 (2005: £546,000). Dividends on these shares have been waived by the Trustees.

Equity settled share option scheme

The Company has a share option scheme for all employees of the Group. Under the scheme, certain employees hold options to subscribe for shares in the Company at prices ranging from 322.5p to 1172p under the share option schemes approved by shareholders in 1993 (as amended in 1996), 1996 and 2000. Options are conditional on the employee completing 3 years' service (the vesting period) and are exercisable three years from grant date. The options have a contractual option term of seven years from the date that they become exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding were as follows:

	2006 Number of share options	**2006 Weighted average exercise price (£)**	2005 Number of share options	2005 Weighted average exercise price (£)
At 1 January	**2,283,932**	**7.13**	2,251,975	6.91
Granted in the year	**48,109**	**11.60**	255,534	8.52
Forfeited in the year	**(12,642)**	**8.09**	(59,744)	6.08
Exercised in the year	**(905,748)**	**6.69**	(163,833)	7.86
At 31 December	**1,413,651**	**7.56**	2,283,932	7.13

The weighted average share price at the dates of exercise for share options exercised during the year was £11.87 (2005: £8.21). The options outstanding at 31 December 2006 had a weighted average contractual life of 5.6 years (2005: 6.2 years). In 2006, options were granted on 29 March 2006 and 22 August 2006. The aggregate of the estimated fair values of the options granted on those dates determined using the binomial valuation model, including expected dividends, is £139,000. In 2005, options were granted on 15 March 2005. The aggregate of the estimated fair values of the options granted on that date determined using the binomial valuation model was £523,845. Options exercisable at 31 December 2006 had a weighted average exercise price of £7.13 (2005: £8.14).

The weighted average inputs into the binomial model for options granted during the year are as follows:

	2006	2005
Share price	**£11.71**	£8.55
Exercise price	**£11.60**	£8.52
Expected volatility	**23.4%**	24%
Risk free rate	**4.5%**	4.8%
Expected dividend yield	**2.5%**	3.1%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 6 years. The weighted average expected life as calculated by the model is 5.2 years (2005: 4.6 years).

28 Share capital continued

The number of share options outstanding at the end of the year, the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price (p)	Exercise period	**2006 No.**	2005 No.
1996	322.50	1999-2006	**–**	30,000
1997	372.00	2000-2007	**30,000**	30,000
1998	643.30	2001-2008	**21,700**	33,450
1999	732.50	2002-2009	**57,900**	121,060
1999	733.50	2002-2009	**4,095**	8,190
1999	734.50	2002-2009	**–**	300
1999	814.17	2002-2009	**61,350**	65,000
2000	932.50	2003-2010	**157,020**	216,800
2001	985.00	2004-2011	**33,000**	63,000
2001	827.50	2004-2011	**105,214**	245,750
2001	915.80	2004-2011	**54,328**	104,306
2001	665.33	2004-2011	**25,000**	35,000
2002	810.00	2005-2012	**108,079**	294,010
Exercisable at 31 December 2005				1,246,866
2003	415.00	2006-2013	**239,836**	557,494
Exercisable at 31 December 2006			**897,522**	
2004	743.50	2007-2014	**181,760**	188,006
2004	715.00	2007-2014	**2,032**	2,032
2004	690.00	2007-2014	**35,000**	35,000
2005	852.00	2008-2015	**250,584**	254,534
2006	1172.00	2009-2016	**36,753**	–
2006	1116.00	2009-2016	**10,000**	–
			1,413,651	2,283,932

The Group recognised total expenses of £2,080,000 in relation to equity-settled share based payments transactions in 2006 (2005: £1,971,000).

29 Reserves and retained earnings

	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Translation reserve £'000	Retained earnings £'000
At 1 January 2005	14,766	49,428	5,029	(109)	46,283
Profit for the year					24,681
Foreign currency translation				120	
Dividends paid					(11,660)
Shares issued	2,721				
Actuarial gains and losses					(4,166)
Revaluation of investment securities			199		
Net gains transferred to net profit on disposal of available for sale investment securities			(2,261)		
Share based payments					
– value of employee services					1,971
– cost of shares issued/purchased					(1,448)
Tax on equity items			618		2,182
At 1 January 2006	17,487	49,428	3,585	11	57,843
Profit for the year					32,138
Foreign currency translation				(240)	
Dividends paid					(13,449)
Shares issued	7,031				
Actuarial gains and losses					5,468
Revaluation of investment securities			4,202		
Net gains transferred to net profit on disposal of available for sale investment securities			(3,196)		
Share based payments					
– value of employee services					2,080
– cost of shares issued/purchased					(3,773)
Tax on equity items			(302)		(1,278)
At 31 December 2006	**24,518**	**49,428**	**4,289**	**(229)**	**79,029**

30 Financial risk management

The primary objective of the Group's treasury policy is to manage short-term liquidity requirements in such a way as to minimise financial risk. The Group enters into contracts involving financial instruments during the normal course of its business. Such financial instruments, which are primarily term deposits and certificates of deposit, are not held for trading purposes. In addition, certain financial instruments such as settlement debtors and creditors arise directly from the Group's operations. The Group also makes use of derivative financial instruments to manage interest rate risk (see note 23). The Group's overall strategy and policies for monitoring and management of financial risk are set by the board of directors.

The Treasury Department, reporting through the Banking Committee to the Board, has principal responsibility for investing surplus liquidity and for monitoring exposure to market risk (which includes interest rate risk and currency risk), credit risk and liquidity risk. All procedures and delegated authorities are documented in a Group Treasury Manual, and policy documents are in place to cover the management and monitoring of each type of risk.

Operational, reputational and legal risks are actively monitored by the Risk Management Committee which works with divisional management to identify and grade the different risks to which the business and support areas are exposed. Active steps are taken to mitigate or control risks wherever practicable.

Cash flow and fair value interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is addressed by managing the mismatch between the Group's interest bearing and non-interest bearing assets and liabilities. The Group's interest rate exposure is broadly reflected in the interest rate repricing table below. The table shows the consolidated repricing profile of the Group's assets and liabilities, stated at their carrying amounts, as at the year end and therefore provides an indication of the sensitivity of the Group's earnings to interest rate movements. Also shown are the weighted average effective interest rates for interest bearing monetary financial instruments at the year end.

30 Financial risk management continued

At 31 December 2006	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000	Effective interest rate %
Assets								
Cash and balances at central banks	276	–	–	–	–	5	281	2.50%
Settlement balances	–	–	–	–	–	19,628	19,628	–
Loans and advances to banks	113,959	5,132	–	–	–	156	119,247	4.77%
Loans and advances to customers	62,688	2,566	6	68	320	11,712	77,360	6.19%
Investment securities	215,084	140,854	195,006	7,424	–	6,152	564,520	5.00%
Other assets	–	–	–	–	–	131,583	131,583	–
	392,007	148,552	195,012	7,492	320	169,236	912,619	
Liabilities								
Deposits by banks	119	12,000	–	–	–	–	12,119	5.90%
Settlement balances	–	–	–	–	–	18,078	18,078	–
Due to customers	653,736	2,213	6	68	202	8,537	664,762	3.40%
Other liabilities	–	–	–	–	–	58,511	58,511	–
	653,855	14,213	6	68	202	85,126	753,470	
Other								
Commitments	–	–	–	–	–	14,768	14,768	
Interest rate sensitivity gap	(261,848)	134,339	195,006	7,424	118	98,878	173,917	
Cumulative gap	(261,848)	(127,509)	67,497	74,921	75,039	173,917		

At 31 December 2005	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000	Effective interest rate %
Assets								
Cash and balances at central banks	485	–	–	–	23	3	511	3.80%
Settlement balances	–	–	–	–	–	14,017	14,017	–
Loans and advances to banks	137,205	5,146	1,600	910	–	114	144,975	4.41%
Loans and advances to customers	14,274	6,449	5,447	125	49	11,176	37,520	5.28%
Investment securities	254,000	15,000	122,000	5,000	–	5,157	401,157	4.56%
Other assets	–	–	–	–	–	98,088	98,088	–
	405,964	26,595	129,047	6,035	72	128,555	696,268	
Liabilities								
Deposits by banks	1,853	–	–	–	–	–	1,853	6.50%
Settlement balances	–	–	–	–	–	16,133	16,133	–
Due to customers	471,560	6,814	7,047	1,035	49	7,107	493,612	2.62%
Debt securities in issue	141	–	–	–	–	–	141	4.50%
Other liabilities	–	–	–	–	–	54,112	54,112	–
	473,554	6,814	7,047	1,035	49	77,352	565,851	
Other								
Commitments	–	–	–	–	–	4,990	4,990	–
Interest rate sensitivity gap	(67,590)	19,781	122,000	5,000	23	56,193	135,407	
Cumulative gap	(67,590)	(47,809)	74,191	79,191	79,214	135,407		

The Banking Committee has set an overall interest rate exposure limit of £2,500,000 (2005:£1,000,000) for the total profit or loss resulting from an immediate and sustained 1% movement in sterling interest rates for Rathbone Investment Management Limited (the Bank), the principal operating subsidiary, which is permitted to take deposits under the Financial Services and Markets Act 2000. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest bearing liabilities compared with the period to repricing on a corresponding amount of interest bearing assets. At 31 December 2006, Rathbone Investment Management Limited had £626 million (2005: £464.9 million) of sterling liabilities averaging 4 days (2005: 8 days) to repricing which were matched by sterling assets averaging 96 days (2005: 65 days) to repricing, creating an exposure of 92 days (2005: 57 days). This represented a total potential profit or loss of £1,579,000 (2005: £726,000) at 31 December for a 1% decrease or increase in interest rates. The impact of the group's forward rate agreements is to reduce this exposure by £275,000 (2005: £25,000).

Currency risk

The Group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts so as to reduce any currency exposure to a minimal amount. The Group is also subject to a structural currency exposure on its net investments in overseas subsidiaries primarily in Switzerland and the British Virgin Islands.

The table below summarises the Group's exposure to foreign currency exchange risk at 31 December. Included in the table are the Group's assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2006	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	4	276	–	1	281
Settlement balances	17,574	1,523	342	189	19,628
Loans and advances to banks	107,164	5,497	5,371	1,215	119,247
Loans and advances to customers	58,110	1,827	14,998	2,425	77,360
Investment securities					
– available for sale	5,241	–	911	–	6,152
– held to maturity	558,368	–	–	–	558,368
Intangible assets	81,222	–	–	26	81,248
Property, plant and equipment	6,317	5	–	141	6,463
Other assets including tax assets	42,478	100	796	498	43,872
	876,478	9,228	22,418	4,495	912,619
Liabilities					
Deposits by banks	12,001	–	–	118	12,119
Settlement balances	16,715	1,068	253	42	18,078
Due to customers	638,124	5,952	19,838	848	664,762
Other liabilities including tax liabilities	44,935	397	681	1,735	47,748
Retirement benefit obligations	10,763	–	–	–	10,763
	722,538	7,417	20,772	2,743	753,470
Net on-balance sheet position	153,940	1,811	1,646	1,752	
Credit commitments	14,768				

At 31 December 2005	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Total assets	666,095	4,079	21,477	4,617	696,268
Total liabilities	540,979	3,487	19,154	2,231	565,851
Net on-balance sheet position	125,116	592	2,323	2,386	
Credit commitments	4,990	–	–	–	

Net investment in overseas operations

	2006 £'000	2005 £'000
Functional currency of the operation involved:		
– US Dollar	**1,150**	1,543
– Swiss Franc	**962**	955
	2,112	2,498

30 Financial risk management continued

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Significant changes in the economy or in the health of a particular sector could result in losses that are different from those that the Group has provided for at the balance sheet date.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to borrowers or groups of borrowers and to geographical and industry segments.

It is the Group's policy to place funds generated internally and from banking clients with a range of high quality financial institutions. Investments are spread to avoid excessive exposure to any individual counterparty. Loans made to clients are fully secured against clients' assets that are held by Group companies. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet repayment obligations and by changing the lending limits where appropriate.

Liquidity risk

The Treasury Department has primary responsibility for ensuring compliance with the Group's liquidity policy, which requires that the Bank maintains a surplus of immediately realisable assets over its liabilities such that all known and potential cash obligations can be met. Liquidity mismatches are monitored on a daily basis against the liquidity limits set by the Banking Committee and the FSA's liquidity mismatch guidelines. Liquidity risk is primarily managed by holding marketable instruments which are realisable at short notice.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date.

At 31 December 2006	On demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Total £'000
Assets						
Cash and balances at central banks	281	–	–	–	–	281
Settlement balances	19,628	–	–	–	–	19,628
Loans and advances to banks	62,295	51,820	5,132	–	–	119,247
Loans and advances to customers	21,387	29,790	14,239	5,344	6,600	77,360
Investment securities	–	215,084	335,860	7,424	–	558,368
Other assets	38,551	–	–	–	–	38,551
	142,142	296,694	355,231	12,768	6,600	813,435
Liabilities						
Deposits by banks	12,119	–	–	–	–	12,119
Settlement balances	18,078	–	–	–	–	18,078
Due to customers	474,204	184,745	5,745	68	–	664,762
Other liabilities	31,157	–	8,143	–	–	39,300
	535,558	184,745	13,888	68	–	734,259
Net liquidity gap	(393,416)	111,949	341,343	12,700	6,600	79,176

At 31 December 2005	On demand £'000	Not more than 3 months £'000	More than 3 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Total £'000
Financial assets	109,486	353,353	149,193	6,035	49	618,116
Financial liabilities	374,137	153,820	15,289	1,035	49	544,330
Net liquidity gap	(264,651)	199,533	133,904	5,000	–	73,786

Included within loans and advances to customers and amounts due to customers, maturing on demand and in not more than three months are balances which do not have a contractual maturity date and which historical experience shows are likely to be held for longer than three months.

Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

At 31 December 2006, amounts held by the Group on behalf of clients in accordance with the Client Money Rules of the Financial Services Authority and the Jersey Financial Services Commission amounted to £45,811,000 (2005: £28,594,000). The Group has no beneficial interest in these assets or deposits and accordingly they are not included in the Group's balance sheet.

31 Contingent liabilities and commitments

(a) The Group is currently carrying out a review of its Rathbone Self Invested Personal Pension ("Rathbone SIPP") business. The principal aim of the review is to ascertain whether any of the Rathbone SIPPs arranged for clients were unsuitable. The review was initiated by the Group in 2004; the Group's regulator has been consulted in relation to the approach being adopted. To date, the review has identified a small number of cases involving the transfer of clients' existing pension policies into Rathbone SIPPs where the case files do not contain conclusive evidence of suitability and a provision has been made in relation to these (see note 26). There remains 1 case requiring further investigation and, at this stage, it is not practicable to determine what, if any, financial effect there will be for the Group in respect of that remaining case.

(b) Indemnities are provided to a number of directors and employees in our Trust Division in connection with them acting as Directors on client structures in the normal course of business.

(c) Capital expenditure authorised and contracted for at 31 December 2006 but not provided in the accounts amounted to £1,016,000 (2005: £1,363,000).

(d) The contractual amounts of the Group's commitments to extend credit to its clients are as follows:

	2006 £'000	2005 £'000
Guarantees	**411**	1,679
Undrawn commitments to lend of 1 year or less	**14,768**	4,990
	15,179	6,669

The fair value of the guarantees is nil (2005: nil).

(e) At 31 December 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006 £'000	2005 £'000
No later than 1 year	**3,956**	3,147
Later than 1 year and no later than 5 years	**10,918**	12,120
Later than 5 years	**2,936**	6,687
	17,810	21,954

Minimum lease payments under operating leases recognised in income for the year were £3,573,000 (2005: £3,221,000).

32 Related party transactions

Certain of the directors of Rathbone Trust Company Jersey Limited are also partners of Nigel Harris & Partners. During the year £562,548 (2005: £851,120) was paid to Nigel Harris & Partners for services supplied to Rathbone Trust Company Jersey Limited for the year ended 31 December 2006. At 31 December 2006 £253,322 (2005: £100,230) was due from Nigel Harris & Partners.

Certain of the directors of Rathbone Trust Company Jersey Limited are also partners of Galsworthy & Stones. During the year, £351,946 (2005: £202,251) was received from Galsworthy & Stones for services supplied by Rathbone Trust Company Jersey Limited. At 31 December 2006 £414,366 (2005: £343,825) was due from Galsworthy & Stones.

Mrs Carole Pomfret, the wife of the Group's chief executive, has been employed as a consultant since 1 November 2002 at an annual fee of £7,500 (2005: £7,500) – her employment will end during 2007. The terms of her employment entitle her to participate in one of the Group's new business incentive schemes. In accordance with this, she is entitled to receive the sum of £89,992 (2005: £137,314) – there will be no further entitlement. The amount received by her, net of tax, will be invested in ordinary shares of Rathbone Brothers Plc.

The remuneration of the key management personnel of the Group, who are defined as the Company's directors, is set out in the Remuneration report on pages 37 to 45. At 31 December 2006 key management and their close family members had outstanding deposits of £843,000 (2005: £337,000) and outstanding loans of £178,000 (2005: £53,000), which were made on normal business terms. A number of the Company's directors 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.

The Group's transactions with the pension funds are described in note 27. At the year end, £46,833 was owed to the pension schemes by the Group (2005: £1,079).

Rathbone Trust Company Jersey Limited is the tenant of a property in St Helier, Jersey, the freehold of which is owned by a number of the directors of the company.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No allowance for impairment has been made in respect of the amounts owed by related parties.

33 Consolidated cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	2006 £'000	2005 £'000
Cash and balances at central banks (note 14)	**5**	197
Loans and advances to banks (note 15)	**108,338**	118,686
Debt securities (note 17)	**90,000**	116,000
	198,343	234,883

Cash flows arising from the issue of ordinary shares in the year comprise:

	2006 £'000	2005 £'000
Cash inflow – share capital	**51**	20
Cash inflow – share premium	**7,031**	2,721
Cash outflow – financing of shares in relation to share based schemes	**(367)**	(1,155)
	6,715	1,586

34 Events after the balance sheet date

On 5 January 2007 the Group completed the sale of the private banking business acquired from Dexia Banque Internationale à Luxembourg S.A., London Branch. This resulted in derecognition of £33,208,000 of Loans and Advances to Customers from the consolidated balance sheet at this date. As part of this agreement, £9,552,000 of related amounts Due to Customers will be transferred during 2007.

Company accounts

Contents

Independent auditors' report to the members of Rathbone Brothers Plc

We have audited the Company financial statements of Rathbone Brothers Plc for the year ended 31 December 2006, which comprise the Company balance sheet, Statement of recognised gains and losses, and the related notes. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Report on directors' remuneration that is described as having been audited.

We have reported separately on the Group financial statements of Rathbone Brothers Plc for the year ended 31 December 2006.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Remuneration report and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

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

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Company financial statements. The information given in the Directors' report includes that specific information presented in the Operating and financial report that is cross referred from the Business review section of the Directors' report.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Directors' report, the unaudited part of the Remuneration report, the Chairman's statement and the Operating and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the Company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Company financial statements.

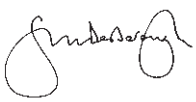
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 February 2007

Company balance sheet

as at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible fixed assets	37	**5,240**	4,879
Investments	38	**36,981**	18,216
Total fixed assets		**42,221**	23,095
Current assets			
Debtors			
Amounts owed by subsidiary undertakings		**23,118**	19,802
Other debtors	39	**2,609**	3,157
Prepayments and accrued income		**135**	10
		25,862	22,969
Cash at bank and in hand		**20**	543
Total current assets		**25,882**	23,512
Creditors: amounts falling due within one year			
Bank loans		**(12,000)**	–
Amounts owed to subsidiary undertakings		**(242)**	(109)
Other taxes and social security costs		**(1,214)**	(895)
Other creditors		**(16)**	(236)
Accruals and deferred income		**(689)**	(454)
Unsecured loan notes		**–**	(141)
Total current liabilities		**(14,161)**	(1,835)
Net current assets		**11,721**	21,677
Total assets less current liabilities		**53,942**	44,772
Pension liability	40	**(7,534)**	(13,097)
Net assets		**46,408**	31,675
Called up share capital	41	**2,114**	2,063
Share premium account	42	**24,518**	17,487
Available for sale reserve	42	**6,128**	796
Profit and loss account	42	**13,648**	11,329
Equity shareholders' funds		**46,408**	31,675

Approved by the Board of Directors on 28 February 2007 and signed on its behalf by



SM Desborough
Finance Director

AD Pomfret
Chief Executive

Statement of total recognised gains and losses

for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Profit after taxation for the year	36	**13,271**	19,669
Actuarial gains and losses	40	**5,468**	(4,166)
Share based payments	42	**(1,693)**	523
Gain on available for sale investments	38	**5,332**	14
Tax taken directly to equity shareholders' funds	42	**(1,278)**	2,182
Total recognised gains and losses		**21,100**	18,222

35 Significant accounting policies

Basis of accounting
The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, except for the amendment to FRS 17: Retirement Benefits, effective from 6 April 2007 but which the Company has adopted early in preparing these financial statements.

Impairment
Tangible fixed assets are subject to review for impairment in accordance with FRS 11: Impairment of fixed assets and goodwill. The carrying values of tangible fixed assets are written down by the amount of any permanent impairment and the loss is charged as an operating cost to the profit and loss account in the period in which this occurs. The carrying value of tangible fixed assets may be written up to a value no higher than the original depreciated cost, should an external event reverse the effects of a previous impairment.

At each balance sheet date the Company reviews the carrying amount of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where there is objective evidence that an available for sale security is impaired the cumulative loss that has been recognised in reserves is removed from reserves and recognised in the profit and loss account. An impairment loss in respect of an investment in equity instruments classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment is reversed through the profit and loss account.

Fixed assets
Fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold land and buildings:	over the lease term
Plant, equipment and computer hardware:	over three to five years

Investments
Investments in subsidiaries are carried at cost less provisions for impairment.

Share based payments
The Company's equity-settled share option programme allows employees to acquire shares of the Company. The fair value of options and share awards in relation to the Group's Share Incentive Plan and Long Term Incentive Plan granted to employees after 7 November 2002 and not vested as at 1 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model; taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Post retirement benefits
The Company operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full, net of any related deferred tax asset or liability. The movement in the scheme surplus/deficit is split between operating charges, finance items and, actuarial gains and losses.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Deferred taxation
Full provision, without discounting, is made for deferred taxation arising from timing differences which have arisen but not reversed at the balance sheet date, except where otherwise required by accounting standards. Deferred tax assets are recognised to the extent that it is more certain than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Other investments
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Equity investments are initially recognised at fair value. For unlisted securities, the Company establishes fair value by using valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been effectively transferred, or where the Company has transferred substantially all risks and rewards of ownership.

Other investments are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity (except for changes arising from fluctuations in foreign exchange rates, which are recognised as income or expenditure in the income statement for monetary assets and directly in equity for non-monetary assets), until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

Loan notes
Loan notes are initially recognised at the fair value of the consideration received. After initial recognition, loan notes are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discounts or premium on settlement. Borrowing costs are recognised as an expense in the period in which they are incurred.

Guarantees
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiaries, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

36 Profit for the year

As permitted by Section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Rathbone Brothers Plc reported a profit for the financial year ended 31 December 2006 of £13,271,000 (2005: £19,669,000).

Auditors' remuneration for audit services to the Company for the year was £18,000 (2005: £15,000).

The average number of employees during the year was as follows:

	2006	2005
Investment management	**497**	449
Unit trusts	**32**	30
Trust	**57**	57
Shared services	**24**	18
	610	554

37 Tangible fixed assets

	Short term leasehold property £'000	Plant and equipment £'000	Total £'000
Cost at 1 January 2006	3,109	20,902	24,011
Additions	617	2,139	2,756
Disposals	–	(359)	(359)
Cost at 31 December 2006	**3,726**	**22,682**	**26,408**
Depreciation at 1 January 2006	1,490	17,642	19,132
Charge for the year	379	1,979	2,358
Disposals	–	(322)	(322)
Depreciation at 31 December 2006	**1,869**	**19,299**	**21,168**
Net book value at 31 December 2006	**1,857**	**3,383**	**5,240**
Net book value at 1 January 2006	1,619	3,260	4,879

38 Investments

	Shares in subsidiaries £'000	Other £'000	Total £'000
At 1 January 2006	17,390	826	18,216
Exchange rate adjustment	–	(11)	(11)
Additions	13,444	–	13,444
Gains from change in fair value	–	5,332	5,332
At 31 December 2006	**30,834**	**6,147**	**36,981**

At 31 December 2006, the principal subsidiary undertakings, all of which were wholly owned, were as follows:

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management Limited	England	Investment management and banking services
Rathbone Bank (BVI) Limited*	British Virgin Islands	Banking
Rathbone Investment Management (C.I.) Limited*	Jersey	Investment management
Rathbone Trust Company Limited	England	Trust services
Rathbone Stockbrokers Limited*	England	Stockbroking
Rathbone Unit Trust Management Limited*	England	Unit trust management
Rathbone Trust Company BV	The Netherlands	Trust services
Rathbone Trust Company SA*	Switzerland	Trust services
Rathbone Trust Company (BVI) Limited*	British Virgin Islands	Trust services
Rathbone Pension & Advisory Services Limited	England	Pension advisory services
Rathbone Trust Company Jersey Limited	Jersey	Trust services

* held by subsidiary undertaking

A full list of the Group's companies will be included in the Company's annual return to Companies House.

39 Other debtors

	2006 £'000	2005 £'000
Deferred tax asset	**2,103**	2,870
Corporation tax debtor	**506**	287
	2,609	3,157

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2005: 30%).

The movement on the deferred tax account is as follows:

	2006 £'000	2005 £'000
At 1 January	**2,870**	1,797
Charged to the profit and loss account	**(1,129)**	141
Taken to equity:		
– share based payments	**362**	932
	2,103	2,870

The deferred tax asset is attributable to the following items:

	2006 £'000	2005 £'000
Excess of depreciation	**797**	785
Share based payments	**1,306**	2,085
	2,103	2,870

40 Pension liability

Details of the defined benefit pension schemes operated by the Company, the contribution to these schemes and the dates of the actuarial valuations are given in note 27 to the consolidated financial statements.

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	2006 Laurence Keen Scheme	2005 Laurence Keen Scheme	2006 Rathbone 1987 Scheme	2005 Rathbone 1987 Scheme
Rate of increase in salaries	**4.15%**	4.05%	**4.15%**	4.05%
Rate of increase in pensions in payment	***3.50%**	*2.80%	***2.90%**	*2.80%
Rate of increase of deferred pensions	**2.90%**	2.80%	**2.90%**	2.80%
Discount rate	**5.20%**	4.90%	**5.20%**	4.90%
Expected return on scheme assets	**6.21%**	5.99%	**7.09%**	7.06%
Inflation assumption	**2.90%**	2.80%	**2.90%**	2.80%

* 5% for service prior to April 2001

The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed below.

Normal retirement age is 65 for members of the Laurence Keen Scheme and 60 for members of the Rathbone 1987 Scheme. The assumed life expectancy for the membership of both schemes is based on the PA92 actuarial tables. In 2006, the assumption for life expectancy was updated to take account of recent and expected future improvements in life expectancy by using the "Medium Cohort" projection, rated up by 2 years. The assumed life expectations on retirement were:

		2006 Males	2005 Males	2006 Females	2005 Females
Retiring today	– aged 60	**24.7**	24.6	**27.6**	27.5
	– aged 65	**20.0**	19.9	**22.9**	22.8
Retiring in 20 years	– aged 60	**25.9**	25.8	**28.7**	28.6
	– aged 65	**21.1**	21.1	**23.9**	23.9

40 Pension liability continued

The amount included in the balance sheet arising from the Group's obligations in respect of the schemes is as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
Present value of defined benefit obligations	**(10,423)**	**(53,982)**	**(64,405)**	(11,697)	(50,501)	(62,198)
Fair value of scheme assets	**8,996**	**44,646**	**53,642**	8,118	35,370	43,488
Deficit in schemes	**(1,427)**	**(9,336)**	**(10,763)**	(3,579)	(15,131)	(18,710)

The amounts recognised in the income statement, within operating expenses, are as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
Current service cost	**–**	**3,445**	**3,445**	–	2,585	2,585
Interest cost	**567**	**2,571**	**3,138**	519	2,182	2,701
Expected return on scheme assets	**(480)**	**(2,655)**	**(3,135)**	(419)	(1,947)	(2,366)
	87	**3,361**	**3,448**	100	2,820	2,920

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on scheme assets was £565,000 (2005: £958,000) for the Laurence Keen scheme and £3,381,000 (2005: £6,244,000) for the Rathbone 1987 scheme.

Movements in the present value of defined benefit obligations were as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
At 1 January	**11,697**	**50,501**	**62,198**	9,552	38,214	47,766
Service cost (employer's part)	**–**	**3,445**	**3,445**	–	2,585	2,585
Interest cost	**567**	**2,571**	**3,138**	519	2,182	2,701
Contributions from members	**–**	**959**	**959**	–	778	778
Actuarial gains and losses	**(1,592)**	**(3,038)**	**(4,630)**	1,864	7,138	9,002
Benefits paid	**(249)**	**(456)**	**(705)**	(238)	(396)	(634)
At 31 December	**10,423**	**53,982**	**64,405**	11,697	50,501	62,198

Movements in the fair value of scheme assets were as follows:

	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000	2005 Laurence Keen Scheme £'000	2005 Rathbone 1987 Scheme £'000	2005 Total £'000
At 1 January	**8,118**	**35,370**	**43,488**	6,836	25,947	32,783
Expected return on scheme assets	**480**	**2,655**	**3,135**	419	1,947	2,366
Actuarial gains and losses	**85**	**753**	**838**	539	4,297	4,836
Contributions from the sponsoring companies	**562**	**5,365**	**5,927**	562	2,797	3,359
Contributions from scheme members	**–**	**959**	**959**	–	778	778
Benefits paid	**(249)**	**(456)**	**(705)**	(238)	(396)	(634)
At 31 December	**8,996**	**44,646**	**53,642**	8,118	35,370	43,488

The analysis of the scheme assets, measured at bid prices, and expected rates of return on those assets at the balance sheet date was as follows:

Laurence Keen Scheme

	1.1.06 Expected return %	1.1.05 Expected return %	2006 Fair value £'000	2005 Fair value £'000	2006 Current allocation %	2005 Current allocation %
Equity instruments	**7.50**	7.50	**5,047**	4,302	**56**	53
Debt instruments	**4.30**	4.60	**3,738**	3,342	**42**	41
Cash	**4.30**	4.50	**211**	474	**2**	6
			8,996	8,118		

Rathbone 1987 Scheme

	1.1.06 Expected return %	1.1.05 Expected return %	2006 Fair value £'000	2005 Fair value £'000	2006 Current allocation %	2005 Current allocation %
Equity instruments	**7.50**	7.50	**35,515**	27,504	**80**	78
Debt instruments	**5.20**	5.50	**8,649**	7,045	**19**	20
Cash	**4.30**	4.50	**482**	821	**1**	2
			44,646	35,370		

The expected return on equities was assumed to be 3.25% above the return on long dated Gilts. The expected rate of return on debt instruments is based on long term yields at the start of the year, with an adjustment for the risk of default and future downgrade in relation to corporate bonds. Cash has been assumed to generate a similar return to short dated government bonds.

The history of experience adjustments is as follows:

Laurence Keen Scheme

	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(10,423)**	(11,697)	(9,552)
Fair value of scheme assets (£'000)	**8,996**	8,118	6,836
Deficit in the scheme (£'000)	**(1,427)**	(3,579)	(2,716)
Experience adjustments on scheme liabilities:			
– amount (£'000)	**1,592**	1,864	466
– percentage of scheme liabilities (%)	**15%**	16%	5%
Experience adjustments on scheme assets:			
– amount (£'000)	**85**	539	359
– percentage of scheme assets (%)	**1%**	7%	5%

Rathbone 1987 Scheme

	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(53,982)**	(50,501)	(38,214)
Fair value of scheme assets (£'000)	**44,646**	35,370	25,947
Deficit in the scheme (£'000)	**(9,336)**	(15,131)	(12,267)
Experience adjustments on scheme liabilities:			
– amount (£'000)	**3,038**	7,138	1,881
– percentage of scheme liabilities (%)	**6%**	14%	5%
Experience adjustments on scheme assets:			
– amount (£'000)	**753**	4,297	1,132
– percentage of scheme assets (%)	**2%**	12%	4%

41 Share capital

Details of the share capital of the Company together with changes thereto, options thereon and share based payments are provided in note 28 to the consolidated accounts.

42 Reserves

	Share premium £'000	Available for sale reserve £'000	Profit and loss account £'000
At 31 December 2005	17,487	796	11,329
Profit for the year			13,271
Dividends paid			(13,449)
Shares issued	7,031		
Actuarial gains and losses			5,468
Revaluation of investment securities		5,332	
Share based payments			
– value of employee services			2,080
– cost of shares issued/purchased			(3,773)
Tax on equity items			(1,278)
At 31 December 2006	**24,518**	**6,128**	**13,648**

43 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Opening shareholders funds	**31,675**	22,372
Profit for the year	**13,271**	19,669
Dividends paid	**(13,449)**	(11,660)
Loss/retained profit	**(178)**	8,009
Other recognised gains and losses relating to the year	**9,160**	(2,902)
Share based payments	**(1,331)**	1,455
Share capital issued	**7,082**	2,741
Net addition to shareholders funds for the year	**14,733**	9,303
Closing shareholders funds	**46,408**	31,675

44 Fair value disclosures

The fair value of the Company's financial assets and liabilities is not materially different to their carrying value in the balance sheet.

The fair value of other investments, which comprise unlisted equity securities, was determined with reference to the issuing entity's net asset value per share.

45 Contingent liabilities and commitments

The Company's obligations under operating leases are borne by a subsidiary undertaking.

46 Related party transactions

The Company has taken advantage of the exemption given by FRS 8 not to disclose transactions and balances with its subsidiaries.

Mrs Carole Pomfret, the wife of the Group's chief executive, has been employed as a consultant since 1 November 2002 at an annual fee of £7,500 (2005: £7,500) – her employment will end during 2007. The terms of her employment entitle her to participate in one of the Group's new business incentive schemes. In accordance with this, she is entitled to receive the sum of £89,992 (2005: £137,314) – there will be no further entitlement. The amount received by her, net of tax, will be invested in ordinary shares of Rathbone Brothers Plc.

The remuneration of the key management personnel of the Company, who are defined as the directors, is set out in the Remuneration report on pages 37 to 45. At 31 December 2006, key management and their close family members had outstanding deposits of £843,000 (2005: £337,000) and outstanding loans of £178,000 (2005: £53,000), which were made on normal business terms. A number of the Company's directors 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.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No allowance for impairment has been made in respect of the amounts owed by related parties.

The Company's transactions with the pension funds are described in note 40.

Notice of Annual General Meeting

Notice is hereby given that the thirty-sixth Annual General Meeting of the Company will be held at 159 New Bond Street, London W1S 2UD on Wednesday 2 May 2007 at 12.00 noon to consider and, if thought fit, pass the following resolutions.

Resolutions 1 to 14 are ordinary resolutions requiring a majority of more than 50%. Resolution 10 is an ordinary resolution requiring special notice to members and notice to the former auditor. Resolution 14 is an ordinary resolution but is classified by Article 61 of the Articles of Association of the Company as non-routine, special business.

Resolutions 15 to 17 are special resolutions requiring a majority of 75% or more.

2006 Report and Accounts

1 To adopt the Report of the Directors and the Audited Accounts for the year ended 31 December 2006.

2 To approve the Directors' Remuneration Report for the year ended 31 December 2006.

The Remuneration report can be found on pages 37 to 45. The Companies Act 1985 requires the preparation of this report which must be approved by shareholders in general meeting. This does not affect the directors' entitlements to remuneration and the result of this resolution is advisory only.

Final dividend

3 To approve the final dividend of 21.5p per share for the year ended 31 December 2006.

The payment of the final dividend requires the approval of shareholders in general meeting.

Re-election of directors

4 To re-elect Mr J C Barclay as a director of the Company.

5 To re-elect Miss C M Burton as a director of the Company.

6 To re-elect Mr R P Lanyon as a director of the Company.

7 To re-elect Mr A T Morris as a director of the Company.

8 To re-elect Mr A D Pomfret as a director of the Company.

9 To re-elect Mr R I Smeeton as a director of the Company.

Biographical details of the directors seeking re-election can be found on pages 26 to 28. Article 95 requires that each director who has not been elected or re-elected by the members at either of the two immediately previous AGMs shall retire from office and seek re-election. Following formal performance evaluation of the Board and individual appraisal by the chairman, all six continue to be effective and demonstrate commitment to the role.

Auditors

10 To appoint PricewaterhouseCoopers LLP as auditors until the conclusion of the next Annual General Meeting before which accounts are laid.

11 To authorise the directors to agree the remuneration of the auditors.

KPMG Audit Plc stood down as auditors during 2006 and PricewaterhouseCoopers LLP was appointed by the directors to fill the casual vacancy. The Companies Act 1985 requires that special notice be given of the ordinary resolution appointing the new auditors and that the notice of the resolution be given to the former auditors.

Political expenditure

12 That the Company and any company which is or becomes a subsidiary of the Company during the period to which this resolution relates be and is hereby authorised:

(a) to make Donations to EU Political Organisations; and

(b) to incur EU Political Expenditure

Provided that:

- (i) the authority conferred by this resolution shall commence on the date on which it is passed and expire at the conclusion of the Annual General Meeting to be held in 2008 or within 15 months from the date of passing this resolution, whichever is the earlier;
- (ii) the aggregate amount of such donations and expenditure made by the Company shall not exceed £50,000; and

(iii) in this resolution the expressions 'Donation', 'EU Political Organisations' and 'EU Political Expenditure' have the meaning set out in Part XA of the Companies Act 1985.

Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000) (the 'Act') prohibits the Company and its subsidiaries from making donations of more than £5,000 in any twelve month period to organisations within the European Community which are, or could be, categorised as EU Political Organisations unless they have been authorised to make donations by the Company's shareholders.

The Company has a policy that it does not make donations to political parties and the Board will not use these authorities, if given, to do so. The Act, however, includes very broad and ambiguous definitions of political donations and expenditure, which may have the effect of covering some normal business activities, and therefore presents potential for inadvertent or technical breach. The Board therefore considers that it would be prudent to obtain shareholder approval for the Company to make donations to EU political organisations and to incur EU political expenditure up to the specified limits in the forthcoming year.

Authority to post shareholder communications on a website and by other electronic means

13 That the Company may send or supply any document or information to members by making it available on a website.

This ordinary resolution, if passed, will allow the Company both to communicate with shareholders using email and to make information and documents available to them through a website, rather than through the post, in accordance with the Companies Act 2006 and the new Disclosure Rules and Transparency Rules.

If this resolution is passed and the Company wishes to use these methods to communicate with shareholders, it will first write to shareholders requesting their agreement to (i) the Company communicating with them by e-mail and (ii) the Company's use of a website for the purpose of providing documents and other information. The Company would continue to communicate in the usual way with those shareholders who do not agree to email communications and would continue to provide documents and information through the post in the usual way to those shareholders who are not treated under the Companies Act 2006 as having agreed to their provision through a website.

Authority to allot relevant securities

14 That the directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in the said section 80) up to an aggregate nominal amount of £690,000.

The authority given by this resolution shall expire 15 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution. Notwithstanding such expiry, the authority shall still permit the Company to make allotments of relevant securities in respect of offers or agreements made before such expiry which would or might require relevant securities to be allotted after such expiry. All previous authorities to directors to allot relevant securities are hereby revoked without prejudice to any allotment of securities pursuant thereto.

This ordinary resolution is proposed annually in order to provide a measure of authority to the directors to allot ordinary shares, limited to approximately 33% of the issued share capital of the Company at 28 February 2007, in circumstances defined by the resolution so as to enable them to respond, in the interests of the Company, to any appropriate opportunities that may arise.

Power to waive pre-emption rights

15

(a) That the directors be and they are hereby empowered in accordance with section 95 of the Companies Act 1985 (the Act) to allot equity securities (as defined in section 94 of the Act), payment for which is to be wholly in cash

(i) in connection with a rights issue; and

(ii) otherwise than in connection with a rights issue, up to an aggregate nominal amount of £100,000

as if section 89(1) of the Act did not apply to any such allotment. References herein to the allotment of equity securities shall include the sale of treasury shares (within the meaning of section 162A of the Act).

(b) The power in paragraph (a) above, insofar as it relates to the allotment of equity securities rather than the sale of treasury shares, is granted pursuant to the resolution conferring authority under section 80 of the Act passed on the date hereof.

Power to waive pre-emption rights continued

(c) For the purposes of this resolution 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders (other than the Company) on the register on a record date fixed by the directors of ordinary shares in proportion to their respective holdings (for which purpose holdings in certificated and uncertificated form may be treated as separate holdings) but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

(d) The powers given by this resolution shall expire 15 months after the passing of this resolution or if earlier on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution. Notwithstanding such expiry, the authority shall still permit the Company to make allotments of relevant securities in respect of offers or agreements made before such expiry which would or might require relevant securities to be allotted after such expiry.

This first special resolution seeks authority, limited to approximately 5% of the issued share capital of the Company at 28 February 2007, regarding allotments, other than to members proportionately to their respective shareholdings and for which payment is to be wholly in cash. Additionally, the resolution seeks authority for the Company to sell or otherwise deal with treasury shares (being shares acquired and held by the Company) without necessarily involving shareholders. Over the three years to 31 December 2006, shares with a nominal value of £80,411 were allotted for cash, representing 3.8% of the issued share capital at that date.

Renewal of this limited authority will enable the directors to issue shares, in the interests of the Company, in response to any appropriate opportunities that may arise. For transactions of a substantial nature involving the allotment of shares, it is normal for the UK Listing Authority or company law to require shareholder approval for the specific transaction notwithstanding this general authority.

Authority to purchase ordinary shares

16 That the directors be and they are hereby granted pursuant to Article 12 of the Articles of Association of the Company general and unconditional authority to make market purchases (as defined by section 163(3) of the Companies Act 1985) of any of its ordinary shares of 5p each upon and subject to the following conditions:

(a) the maximum number of ordinary shares in the Company hereby authorised to be acquired is 2,000,000 shares, (being approximately 5% of the issued share capital of the Company at 28 February 2007);

(b) the minimum price which may be paid for an ordinary share is 5p;

(c) the maximum price which may be paid for an ordinary share is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased and (ii) the amount stipulated by Article 5(i) of the Buy-back and Stabilisation Regulation 2003 (in each case, exclusive of expenses); and

(d) the authority hereby conferred shall (unless previously renewed) expire at the conclusion of the Annual General Meeting to be held in 2008 or within 15 months from the date of passing this resolution, whichever is the earlier, except that the Company may at any time prior to the expiry of such authority enter into a contract for the purchase of ordinary shares which would or might be completed wholly or partly after the expiry of such authority and may complete a purchase of ordinary shares in pursuance of any such contract.

This second special resolution is to renew the authority granted to the directors at the Annual General Meeting on 3 May 2006 to purchase the Company's own ordinary shares under certain stringent conditions. The authority will be used only when the directors consider that it would be advantageous to the Company and the effect would be to enhance earnings per share. Shares purchased will be held as treasury shares as defined in section 162A of the Companies Act 1985.

At 28 February 2007 there were options outstanding to subscribe for 1,413,561 new ordinary shares in the Company. This represents approximately 3.3% of the issued ordinary capital of the Company at that date and would represent approximately 3.5% if the authority to buy back shares under this resolution were used in full.

Amendment of Memorandum and Articles of Association

17 That:

(a) the Memorandum of Association of the Company be and it is hereby amended by the insertion of the following sub-paragraphs as sub-paragraphs (7) (i), (ii) and (iii) of paragraph 4 and the renumbering of existing sub-paragraphs (7) to (13) of paragraph 4 as (8) to (14):

'7(i) To such extent as may be permitted by law to indemnify any persons who are or were at any time directors, officers or employees of the Company, or of any associated company, or who are or were at any time trustees of any pension fund or employees' share scheme in which any employees of the Company or of any associated company are interested, including (without prejudice to the generality of the foregoing) against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or in exercise or purported exercise of their powers and/or otherwise in relation to the Company or associated company or pension fund;

(ii) (a) to provide a director, officer or employee with funds to meet expenditure incurred or to be incurred by him in defending any criminal or civil proceedings or in connection with any application under those provisions of the Companies Act 1985 referred to in Section 337A(2) of that Act and (b) to do anything to enable a director, officer or employee to avoid incurring such expenditure;

(iii) in this paragraph 4(7) an 'associated company' is any company (a) which is the Company's holding company or (b) in which the Company or its holding company or any of the predecessors of the Company or of such holding company has any interest whether direct or indirect or (c) which is in any way associated with the Company or its holding company or any of the predecessors of the Company or of such holding company, or (d) which is a subsidiary undertaking of any other associated company; and 'holding company' and 'subsidiary undertaking' have the same meanings as in the Companies Act 1985 as amended by the Companies Act 1989'; and

(b) the Articles of Association of the Company be and they are hereby amended by:

(i) inserting the following sub-paragraph (G) into Article 105:

'(G) any contract, proposal or arrangement concerning (a) indemnities in favour of him or (b) the funding of expenditure by him on defending proceedings against himself or (c) doing anything to enable him to avoid incurring such expenditure.'

(ii) deleting the existing Article 152 and substituting therefor the following new Article 152:

'(A) Subject to the provisions of, and so far as may be permitted by and consistent with, the Statutes, every Director, Secretary and other officer of the Company may be indemnified by the Company out of its own funds against (i) any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers other than (a) any liability to the Company or any associated company (as defined in Section 309A(6) of the Act) and (b) any liability of the kind referred to in Section 309B(3) or (4) of the Act; and (ii) any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. Such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by him in relation to such liability.

(B) Without prejudice to paragraph (A) of this Article, the Directors shall have power to purchase and maintain insurance for or for the benefit of (i) any person who is or was at any time a Director, Secretary or other officer of any Relevant Company (as defined in paragraph (C) below) or (ii) any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any Relevant Company are interested, including (without prejudice to the generality of the foregoing) insurance against any liability incurred by or attaching to him in respect of any act or omission in the actual or purported execution and/or discharge of his duties and/or in the exercise or purported exercise of his powers and/or otherwise in relation to his duties, powers or offices in relation to any Relevant Company or any such pension fund or employee share scheme (and all costs, charges, losses, expenses and liabilities incurred by him in relation thereto).

(C) For the purpose of paragraph (B) above 'Relevant Company' shall mean the Company, any holding company of the Company or any other body, whether or not incorporated, in which the Company or such holding company or any of the predecessors of the Company or of such holding company has or had any interest whether direct or indirect or which is in any way allied to or associated with the Company or any subsidiary undertaking of the Company or of such other body.

(D) Subject to the provisions of and so far as may be permitted by the Statutes, the Company may (i) provide a Director, Secretary or officer with funds to meet expenditure incurred or to be incurred by him in defending any criminal or civil proceedings or in connection with any application under the provisions mentioned in Section 337A(2) of the Act and (ii) do anything to enable a Director, Secretary or officer to avoid incurring such expenditure, but so that the terms set out in Section 337A(4) of the Act shall apply to any such provision of funds or other things done.'

The Companies (Audit, Investigations and Community Enterprise) Act 2004 came into force on 6 April 2005. It inserted a new section 309A into the Companies Act 1985 (the 'Act'), which allows a company to indemnify its directors against any liability incurred by a director to any person (other than the company or any associated company) in connection with any negligence, default, breach of duty or breach of trust in relation to that company. Previously, this was prohibited under section 310 of the Act.

The new legislation also addresses the previous restriction on companies only being able to fund a director's defence costs once final judgment in his or her favour had been reached. A new section 337A allows a company to provide its directors with funds to cover the costs incurred or to be incurred by a director in defending proceedings brought against him or her.

Since directors are increasingly being added as defendants in legal actions against companies, the Board believes that the risk of directors being placed under significant financial strain is increasing. The Board feels that the provision of appropriate indemnities and the funding of directors' defence costs as they are incurred or to be incurred, as permitted by the law, is fair and reasonable protection for the directors and is also important to ensure that the Company continues to attract and retain the highest calibre of director.

The Board therefore proposes that the Memorandum and Articles of Association of the Company be amended to reflect these statutory provisions so that the Company may agree to fund a director's defence costs in the event that an action was brought against him or her. The Board also proposes to amend the authority existing in the Articles of Association permitting it to indemnify the directors to reflect the new legislation and to amend the Memorandum of Association in the same respect.

The proposed change to the Articles of Association contained in resolution 17, part (b) (i) is to ensure that directors can vote and be counted in the quorum at board meetings at which such indemnities and funding are considered.

By Order of the Board

Richard Loader
Company Secretary

Registered Office:
159 New Bond Street, London W1S 2UD

27 March 2007

Notes

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and subject to the provisions for proxies, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 30 April 2007 (or, if the meeting is adjourned, 6pm on the day two days prior to the day fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Subsequent changes to the entries on the register will be disregarded in determining the rights of any person to attend or vote at the meeting.

2 Members entitled to attend and vote are entitled, if they so wish, to appoint one or more proxies to attend and, on a poll, vote in their stead. A proxy need not be a member. Proxy forms should be completed and returned to Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN99 6ZR by no later than 12.00 noon on 30 April 2007. The completion and return of the form of proxy will not prevent you from attending and voting at the AGM if you so wish. The 'vote withheld' option is provided on the proxy card to enable you to abstain on any particular resolution. However, it should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

3 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on Wednesday 2 May 2007 and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the of CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Lloyds TSB Registrars (ID 7RA01) by no later than 12.00 noon on 30 April 2007. No message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which our registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid CREST Proxy Instruction in the circumstances set out in Regulation 35 (5) (a) of the Uncertificated Securities Regulations 2001.

4 A memorandum of the terms of all contracts of service between Directors and the Company (or any of its subsidiaries) is available for inspection at the Registered Office during business hours on any weekday (public holidays excluded). The Memorandum will also be available for inspection at the place of the Annual General Meeting for 15 minutes prior to the meeting, and during the meeting.

Five year record

	IFRS 2006 £'000	IFRS 2005 £'000	IFRS 2004 £'000	UK GAAP 2003 £'000	UK GAAP 2002 £'000
Total Revenue	**163,348**	135,064	110,280	91,973	90,668
Operating income	**133,686**	113,185	95,527	81,777	79,825
Operating profit before goodwill amortisation	**44,720**	36,679	28,492	19,745	18,364
Goodwill amortisation	**–**	–	–	(5,580)	(3,816)
Operating profit	**44,720**	36,679	28,492	14,165	14,548
Exceptional items	**–**	(1,381)	–	1,088	777
Profit before tax	**44,720**	35,298	28,492	15,253	15,325
Tax	**(12,582)**	(10,617)	(8,540)	(5,685)	(6,211)
Profit after tax	**32,138**	24,681	19,952	9,568	9,114
Equity dividends paid and proposed	**(14,786)**	(12,351)	(11,221)	(10,524)	(10,451)
Basic earnings per share	**76.62p**	60.13p	48.99p		
– after goodwill amortisation				24.07p	23.90p
– before goodwill amortisation				38.11p	33.91p
Diluted earnings per share	**74.71p**	58.84p	48.07p		
– after goodwill amortisation				23.86p	23.83p
– before goodwill amortisation				37.77p	33.81p
Net dividends per ordinary share	**35.00p**	30.00p	27.50p	26.00p	26.00p
Equity shareholders' funds	**159,149**	130,417	117,440	105,902	100,430

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP extant at that time. The principal differences between UK GAAP and IFRS are explained in note 35 to the 2005 accounts, which provides an explanation of the transition to IFRS.

Corporate information

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