Rathbone Brothers Plc
Report and accounts 2010



RATHBONES
Established 1742

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

As at 31 December 2010, Rathbones managed £15.63 billion of client funds of which £14.59 billion are managed by Rathbone Investment Management.

Report and accounts online

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

www.rathbonesra2010.com

Highlights of the year

Operational highlights

Rathbones' total funds under management exceed £15 billion for the first time in November 2010.

£1.24 billion of net new funds under management gained by Rathbone Investment Management in the year.

Funds under management in our offices in Scotland grow by 39.4% from £1.42 billion to £1.98 billion.

17 qualified investment professionals join Rathbones during the year.

The first Rathbones Charity Symposium hosted by the charity team is held at the Royal Society.

Mark Nicholls joins the Board as Chairman-designate.

The five Rathbone Unit Trust Management authorised unit trust funds marketed to IFAs all achieve first quartile performance in 2010.

Financial highlights

Funds under management

+19.3%

2010	**£15.63bn**
2009	£13.10bn

Operating income

Continuing operations[1]

+8.9%

2010	**£127.2m**
2009	£116.8m

Underlying profit before tax[2]

Continuing operations[1]

+18.8%

2010	**£38.5m**
2009	£32.4m

Profit before tax

Continuing operations[1]

+2.0%

2010	**£30.1m**
2009	£29.5m

Underlying earnings per share[2]

Continuing operations[1]

+21.8%

2010	**63.76p**
2009	52.36p

Basic earnings per share

+9.2%

2010	**49.76p**
2009	45.55p

Dividends per share

+4.8%

2010	**44.0p**
2009	42.0p

1 Continuing operations exclude businesses disposed of and classified as held for sale in 2009 (see note 10 to the consolidated financial statements).

2 Underlying profit before tax excludes Financial Services Compensation Scheme levies, amortisation of client relationships and Lloyds Banking Group transaction costs.

Chairman's statement

Mark Powell
Chairman



2010 saw world markets going through a period of uncertainty and considerable volatility but by the year end the FTSE 100 Index had risen by 9.0% year on year and rallied by 22.8% to 5900 from its mid-year low of 4806. The FTSE APCIMS Balanced Index which is the market index which we consider most accurately reflects the mix of assets held by our clients rose by 9.3% during the course of calendar year 2010.

During the year, total funds under management within Rathbones rose by £2.53 billion (19.3%) reflecting £1.24 billion of new net organic and acquired funds. By the year end, total funds under management exceeded £15 billion for the first time ever.

Results and dividends

Profit before tax from continuing operations for the year to 31 December 2010 was £30.1 million compared with £29.5 million in 2009. This figure is struck after a charge of £4.8 million (2009: £2.0 million) in connection with the amortisation of intangible assets and a further £3.6 million charge (2009: £0.2 million) in respect of charges made by the Financial Services Compensation Scheme. The bulk of this sum is in respect of the failure of Keydata and other financial services companies regulated by the FSA but in a different sector of the market from Rathbones. I greatly regret reporting to our shareholders a significant deduction from our profits caused by what appears to be mismanagement in a different part of the financial sector over which Rathbones has no control or influence.

2010 basic earnings per share were 49.76p compared with 45.55p in 2009. Basic earnings per share from continuing operations were 49.76p (2009: 46.87p). Your Board recommends that a final dividend of 28.0p per share compared with 26.0p last year, be paid making the total dividends per share in respect of the 2010 year 44.0p reflecting the good progress which Rathbones has made and the strength of our balance sheet. The final dividend will be paid on 18 May 2011.

Financial markets

As was the case in 2009, most world stock markets ended the year near to their highest levels but in the first half many markets were extremely volatile. Earlier in the year the FTSE 100 Index fell to its low point in June, but despite the uncertainties connected with the measures taken by the Coalition Government to reduce the public sector deficit, the market rallied by the year end. During the year interest rates have remained very low as governments in many developed economies have sought to assist the relatively weak recovery that has been underway. The interest rate environment continues to have an adverse effect on Rathbones' net interest income as it is very difficult for us to place funds in money markets in an appropriately cautious and prudent way that also earns an attractive return.

Funds under management in Rathbone Investment Management (including our subsidiary based in Jersey) rose by 20.0% to £14.59 billion (2009: £12.16 billion). The FTSE APCIMS Balanced Index rose 9.3% over the same period. The average level of the FTSE 100 Index on our key quarterly charging dates was 5528 compared with 4706 in 2009, a rise of 17.5%.

During the year funds under management in Rathbone Unit Trust Management rose by 10.6% to £1.04 billion at 31 December 2010.

Investment performance in our range of publicly marketed unit trusts was very strong during 2010 and we look forward to returning to a satisfactory growth in funds under management in 2011.

Composition of the Board

During November we announced that John May, a director of Caledonia Investments Plc, who has been a valuable Non-executive Director of our Board for the last three years, would retire from the Board at the conclusion of his three year term of office. He has been a supportive and positive member of our Board and we thank him and wish him well.

At the same time it was announced that I will retire from the Board of Rathbones at the conclusion of our Annual General Meeting in May 2011. Following a carefully conducted search process, Mark Nicholls has been appointed as a Non-executive Director and he will succeed me as Chairman after the Annual General Meeting. A solicitor by training, he was head of investment banking at S G Warburg before joining the Royal Bank of Scotland. He now has a range of board appointments in financial and other companies and brings great experience and expertise to us. I have absolutely no doubt that he will be a thoughtful and effective Chairman.

Outlook

The continuing turbulence in the financial markets indicates that 2011 will bring more uncertainty, but as the steps taken by the Coalition Government to reduce the fiscal deficit combine with the relative attraction of equities compared with low yielding government and corporate bonds, this makes us cautiously optimistic about the future.

Rathbones continues to exhibit the ability to grow both organically and by attracting investment managers with experience and quality to join us. I have no hesitation in believing that the combination of Mark Nicholls' ability and strategic direction and the energy, initiative and foresight of the executive team, led by Andy Pomfret, promises Rathbones a positive and exciting future.

Mark Powell
Chairman

16 February 2011

Chief Executive's statement

Key highlights
Financial performance
Marketing and business development
Treasury and financing
Investing in our business
Regulation
Outlook

Key highlights

In spite of the continuing uncertain economic climate, 2010 has been a better year than 2009. We have gained a significant amount of new business and at the end of the year our total funds under management exceeded £15 billion, a notable milestone. With the FTSE 100 Index ending the year at 5900 and strong commission figures, especially in the second half of the year, we produced a profit before tax of £30.1 million from continuing operations (2009: £29.5 million).

As a result of the 2009 transaction with Lloyds Banking Group more than 3,000 clients joined us during 2010 contributing to a total net growth rate for our core investment management business of 10.2% (2009: 12.5%). The acquisition of teams and corporate businesses are important for our growth but I have often said that the 'best' growth is net organic growth, where our existing Investment Managers gain new clients (or attract new business from existing clients). This net organic growth figure was a very respectable 5.3% in 2010 (2009: 6.7%). This figure takes account of the withdrawal of cash from client portfolios; in the first half there were signs that clients required cash to compensate for lower income earned on their investments; this reduced over the second half. We continue to consider how we can improve and increase our net organic growth rate.

Mike Webb took over as Chief Executive of our unit trust business (Rathbone Unit Trust Management) on 1 April 2010. This business has developed well since and now has £1.04 billion of funds under management and a much improved short term track record on key funds. Indeed at 31 December 2010, all IMA ranked funds were in the top quartile for performance over the one year period. The three year track record is the most important in obtaining net sales and it will take time to rebuild this; however, it has been encouraging to see a significant decline in the level of net redemptions. We are now turning our attention to gaining net sales in 2011 and investing in this area.

We have continued to invest to improve our infrastructure, the service to clients and our overall efficiency. We have also had to increase the amount we invest in coping with regulatory change. Even simple changes can have a significant effect on our systems, for example when CGT rates are changed part way through the year as happened in 2010.

Financial performance

In spite of the overall turmoil in financial markets, it would appear that 2008 saw the market and economic low point and 2010 showed some signs of resilience and recovery both in stock market terms and in the health of underlying companies. Our overall operating income grew by 8.9% to £127.2 million (2009: £116.8 million) as fees and commissions benefited from stronger markets and the growth in funds under management. As anticipated our net interest income remains low and, although there is an expectation that interest rates will increase, the timing remains uncertain. The overall level of the market is one of the most important drivers of our income line and on our four charging dates in 2010 the FTSE 100 Index was on average 17.5% higher than on the same dates in 2009.

We continue to manage our cost base carefully whilst at the same time seeking to invest in medium and long term growth opportunities for the business. Operating expenses (excluding contribution to the Financial Services Compensation Scheme (FSCS), intangible asset amortisation and transaction costs) were £88.7 million, up 5.2% (2009: £84.3 million). Much of this cost increase related to newly acquired investment teams, office costs including those arising from office moves in Edinburgh and Cambridge, and the costs of additional projects. After two years of very tight salary cost controls, from January 2011 we have awarded salary increases of 4% overall, rewarding our staff who have worked so hard in a very difficult economic environment. Many of them had rises either well below inflation or zero over the last two years.

We are aware that in recent years our overall income as a percentage of funds under management has reduced below that of many of our competitors. We have consequently reviewed our investment management charging structure and are making changes which will come into effect from 6 April 2011. This is always a difficult and sensitive area but we believe it is fair that clients should face small increases for the premium service that they receive. We expect these increases to add approximately 3 – 4 basis points to our average net operating basis point return (85bps for 2010, 95bps for 2009) on an annualised basis.

The financial impact of FSCS levies which arise from other industry failures is wholly outside our control. The interim levy of

Andy Pomfret
Chief Executive



Financial performance continued

£3.2 million arising from the failure of Keydata Investment Services Limited and other intermediaries announced in January 2011 is unwelcome and adds to the £0.4 million we had already anticipated resulting in a £3.6 million charge for the year (2009: £0.2 million). We will be keeping a very close eye on future developments and how costs have been shared across the investment management industry.

2010 has also seen the full year impact of the amortisation of the intangible assets that arose as part of our Lloyds Banking Group transaction at the end of 2009. As expected, this largely resulted in the charge associated with client relationship intangibles growing to £4.8 million in 2010 (2009: £2.0 million).

Marketing and business development

During 2010 we have reviewed our marketing and business development activity. We are aiming to focus our resources on those target segments of the market where we have significant presence and feel we offer compelling solutions for clients. The role of Independent Financial Advisers (IFAs) is increasingly important in referring business to us. We are now focusing our efforts on a number of IFA firms where we wish to develop sustainable strategic relationships and are also targeting a number of chartered financial planners who we believe will have a significant requirement to introduce discretionary investment managers to their clients.

The impact of the Retail Distribution Review (RDR), which comes into force on 1 January 2013, has been much debated. Despite considerable industry consultation the rules as currently drafted do not reflect fully the business that we are in, namely providing a service to a client rather than selling a product to a customer. Although some changes will be inevitable the RDR will not significantly impact our business strategy. The effects on the IFA community are expected to be more profound and many IFAs will be unable to, or will not wish to, provide the bespoke discretionary investment management service that is our core business. We consider that our offering may well provide a helpful solution. In order to take advantage of this opportunity we will be investing more in our relationships with IFAs over the next year and developing our web portals for intermediaries.

We support the main principles of the RDR which will increase the professionalism of advisers and reduce the use of trail commission, which we have long viewed as an opaque means of charging the client and which, in our view, does not treat clients fairly. We continue to believe that our bespoke service offering, where a client deals directly with an investment professional, is one that sets us apart and enhances our role of trusted adviser to our clients.

Last year I highlighted our development of the Rathbone Multi Asset Portfolio Service. These funds particularly appeal to IFAs and their clients and have continued to grow well – now standing at £73.6 million of funds under management (2009: £40.7 million). We also continue to develop our panel relationships.

Our charities business has benefited from some more focused marketing spend. We held our first Charity Symposium in the autumn of 2010 at the Royal Society with over 220 attendees. We look forward to growing this part of our business further in 2011. It now has some £1.63 billion (2009: £1.39 billion) of funds under management.

We continue to improve our overall investment process and the ways we present this to both the end clients and to the increasingly important intermediary clients. The proliferation of complex investment products means we are spending more on research to ensure our Investment Managers have the widest possible investment choice for private clients and charities. We will be investing further in 2011. Our asset allocation process prompts Investment Managers to look at portfolio diversification which has helped them manage client funds in volatile markets. The way the central investment process is communicated to Investment Managers across the country has also been improved.

Treasury and financing

During the year we undertook a major review of our banking licence to establish whether it was sensible to retain it in the light of changing regulation and public perception of banks. This was an extensive exercise which took account of the views of our Investment Managers, clients, investors, regulators and the external views of competitors and consultants. Our conclusion was that the banking regime in its current form remains attractive compared to the client money alternative and that, in a normal interest rate environment, the interest margin we would achieve more than outweighs the costs of regulation. Indeed we found there to be few savings in moving to a client money

Treasury and financing continued

regime. However, we are also well prepared should we need to surrender it in future due to materially adverse changes in regulation or capital requirements.

Overall client cash levels remain static and were £0.76 billion at the end of 2010 (2009: £0.77 billion). Our treasury policy remains cautious and we are consistently seeking ways to avoid exposure to the more troubled countries in the Eurozone and the more troubled banks. The level of loans made to clients increased to £40.0 million at the end of 2010 (2009: £26.7 million). These loans are generally secured against the value of the portfolio that we manage and are often seen by clients as a very attractive way of obtaining reasonably priced bridging finance for a house move.

Our pension scheme deficits have been very volatile over the last year and at the end of 2010 were £6.6 million compared to £9.4 million at 31 December 2009 (but were £15.7 million at 30 June 2010). Our committed contributions to the schemes are £21.2 million over the next seven years and there is a triennial valuation due in 2011.

Our external borrowings were only £3.1 million at 31 December 2010 (2009: £6.2 million) so the business is effectively ungeared. Our Group Tier 1 capital ratio is 28.3% at 31 December 2010 (2009: 36.3%) on a Basel III basis, indicating the strength of our capital base. In 2010 we established an insurance cell with Harlequin Insurance PCC to provide additional cover against professional indemnity risks. This held net assets of £1.5 million at 31 December 2010.

Investing in our business

We have been looking hard at investment to drive our development. Some of the areas we have been working on and which we will progress in 2011 relate to improving our business efficiency, such as making contract notes optional for clients, upgrading our tax packs and significant work rewriting all of our primary client documentation. We have improved the way we deal and consolidated our dealing activities into our Liverpool office which has enhanced our settlement efficiency. We have also formalised the way our staff can work remotely, bearing in mind the ever present need for security of client data and for control over the way we deal.

We have moved to a new office in St Andrew Square in Edinburgh replacing what had become a cramped and dated office. Edinburgh is our second largest office measured by funds under management and is now in an appropriate home in an historic location. We have also taken more space in Liverpool to cope with the growing business and in November 2010 we moved our Cambridge office due to the expiry of the lease on our old premises. In 2011 we anticipate finalising arrangements for our London office; in the event of a move, this may result in additional costs in 2011 associated with any period of double occupation and the moving costs themselves.

Regulation

These days no report is complete without some comments on the level of regulation with which we must comply. Aside from the significant FSCS levies we have been charged, over the year we have also looked hard at the bank payroll tax (which did not impact us), the possible impact of a bank levy (again no impact due to our size), new rules on capital, liquidity management and reporting and the RDR. There are also changes in corporate governance and the way we monitor and report risk. We are currently dealing with consultation papers on the way we should structure remuneration for the more highly paid client facing staff and what we must disclose about it. None of these present fundamental problems or challenges to our business model but they do cost us either directly or indirectly, in management time, or through higher systems and processes expenditure, which may ultimately be passed on to clients.

Outlook

We have ended 2010 in a better position than 2009 with a larger business and positive markets. We will be investing in our business at an increased rate in 2011 in order to take advantage of some clear opportunities and to grow the business further. I would like to thank all staff who have worked so hard over the last year to make the business the success it is. Their experience and professionalism make us well placed to take advantage of the challenges ahead.

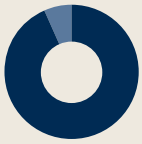
Andy Pomfret
Chief Executive

16 February 2011

Rathbones at a glance

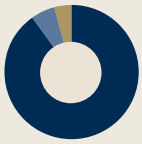
Total Rathbones

Funds under management



	2010 £bn	2009 £bn
Investment Management	**14.59**	12.16
Unit Trusts	**1.04**	0.94
	15.63	13.10

Operating income (continuing operations)



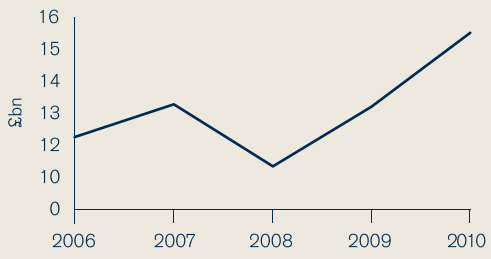
	2010 £m	2009 £m
Investment Management	**114.7**	104.3
Unit Trusts	**7.4**	7.7
Trust and Tax Services	**5.1**	4.7
	127.2	116.7[1]

1 Includes rounding

Key measures

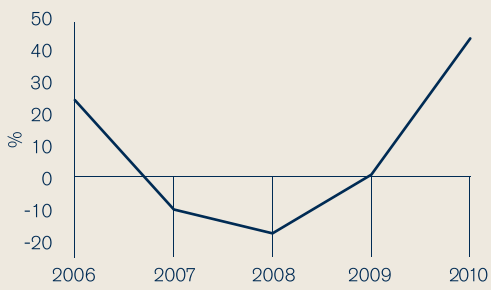
	2010	2009
Market capitalisation at 31 December 2010 (£m)	**474.5**	346.4
Total assets (£m)	**1,028.1**	1,037.1
Cash held in client portfolios (£bn)	**0.76**	0.77
Total equity (£m)	**185.4**	182.5
Basel III Tier 1 ratio (%)	**28.3**	36.3
Profit before tax (£m)	**30.1**	29.5

Funds under management



2010: 15.63
2009: 13.10
2008: 10.46
2007: 13.12
2006: 12.24

Total shareholder return



2010: 43.8
2009: 0.8
2008: (17.3)
2007: (9.8)
2006: 24.2

Investment Management

Investment Management teams provide mainly discretionary investment management services to private investors and charities with portfolios held in discretionary accounts, trust structures, ISA accounts or self-invested personal pensions (SIPPs) from offices in the UK and Jersey. The service we offer is bespoke with a well researched performance driven process servicing individual client needs.

Our fees and charges are transparent, with our banking status allowing access to a range of services including currency, fixed rate term deposits and loans secured against portfolios.

Our charities team advises over 500 charities, with funds under management worth £1.63 billion. In 2010 we held our first Charity Symposium with 130 charities in attendance.

Rathbone Greenbank Investments continues to grow, building up extensive expertise in understanding how financial and ethical issues can be integrated within portfolios to meet the overall objectives of clients.

Rathbone Pension & Advisory Services advises clients on retirement planning options and offers the Rathbone SIPP.

Principal trading names

- Rathbone Investment Management
- Rathbone Investment Management International
- Rathbone Pension & Advisory Services

Direct employees (average full time equivalents)

- 453

Offices

- Aberdeen
- Birmingham
- Bristol
- Cambridge
- Chichester
- Edinburgh
- Exeter
- Jersey
- Kendal
- Liverpool
- London
- Winchester

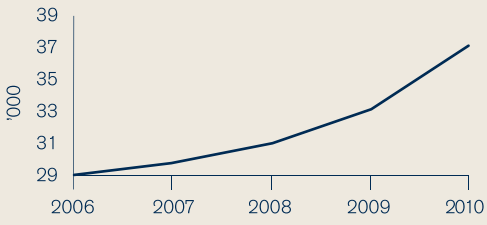
Head of Investment Management

- Richard Lanyon

Websites

- General: www.rathbones.com
- Ethical investment: www.rathbonegreenbank.com

Number of Investment Management clients



2010: 37.4
2009: 33.8
2008: 31.2
2007: 30.3
2006: 29.2

Client base breakdown

Discretionary vs non-discretionary by client numbers



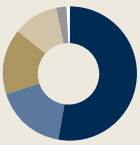
As at December 2010	%
Discretionary	92.8
Non-discretionary	7.2

Account type by funds under management



As at December 2010	%
Private client	46.4
Trust and settlements	15.1
ISAs	13.2
Charities	11.0
Pensions including SIPPs	11.0
Other	3.3

Account size by value



As at December 2010	%
Over £1 million	52.8
£500,000 – £1 million	17.3
£250,000 – £499,999	15.8
£100,000 – £249,999	11.0
£50,000 – £99,999	2.4
Up to £50,000	0.7

Top ten UK private client wealth managers (ranked by discretionary assets under management as at 31 December 2009)

Company	Discretionary AUM[3] (£bn)	Total AUM (£bn)
Coutts & Co	36.93	43.45
GLG Partners	13.92	13.92
Brewin Dolphin Ltd	12.18	21.00
Rathbones[1]	**11.43**	**12.16**
HSBC[2]	10.08	20.95
Schroders	9.31	12.58
Rensburg Sheppards	8.86	12.13
Newton Investment Management Limited	7.61	7.61
Smith & Williamson	7.36	9.20
Goldman Sachs International	7.11	23.78*

Source: Private Asset Managers directory, 2010

1 Rathbones internal data

2 Combined data for HSBC Global Asset Managers and HSBC Private Bank

3 Barclays Wealth, St. James's Place and Lloyds TSB Private Banking (total assets under management: £50.76bn, £21.40bn and £11.14bn respectively) do not provide a breakdown of their discretionary assets under management.

* Private Asset Managers directory estimate

Unit Trusts

We offer a range of Unit Trusts which are distributed mainly through independent financial advisers in the UK.

We invest directly or via collectives, employing a multi-asset approach. The Rathbone Managed Asset Portfolio was launched this year.

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

Principal trading name
- Rathbone Unit Trust Management

Direct employees (average full time equivalents)
- 24

Offices
- London

Head of Unit Trusts
- Mike Webb

Website
- www.rutm.com

Trust and Tax Services

The Trust and Tax Services division is based in the UK and provides taxation services (compliance and planning), probate services, trust services (trust formation, administration, accounting and provision of trustees and protectors), and family office services.

Principal trading name
- Rathbone Trust Company

Direct employees average (full time equivalents)
- 43

Offices
- Liverpool
- London

Head of Trust and Tax Services
- Ian Buckley

Website
- www.rathbones.com

Strategy and business performance

Clients

Our aim is to be a leading provider of high-quality, personalised investment management, trust, tax and pension advisory services to private clients, charities and trustees.

What is important to us

The UK wealth management industry is an exciting place to be with many opportunities available to firms that can deliver a tailored and personal service to clients at reasonable cost. This is exactly what we do. Our reputation depends on providing a quality service to all of our clients and this is core to our strategy. Rathbones has developed services targeted not only to individual private clients but also to professional investors, intermediaries and charities.

How we achieve our aims

- Focus our efforts in the UK on providing discretionary investment services, which allows us to streamline our spending decisions and concentrate on what we do best.
- Consistently benchmark the price of our services against others in the market to ensure we deliver what we do at a competitive cost.
- Provide a whole of market investment approach which allows our investment managers to select from a full range of investments.
- Build a research capability to provide structured investment support to investment managers in making their asset allocation and stock selection decisions.
- Continually invest in people and systems to support quality service levels and breadth of investment choice.
- Manage our own administration and treasury functions in-house to ensure that risks are managed and service levels are maintained to our high standards.
- Encourage regular feedback from our clients and act upon it.
- Offer unit trust funds tailored to private client investment.
- Help to meet the needs of our private clients by providing quality tax, trust and financial planning services.

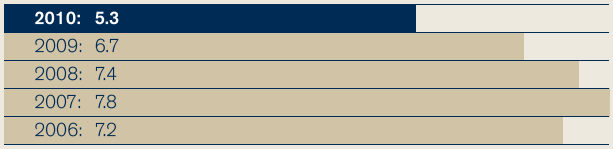
Measuring our success

Key measures of our success are our growth in total funds under management and the underlying rate of net organic funds growth in Rathbone Investment Management. This net organic growth rate takes account of cash or assets withdrawn by clients and excludes any new funds we acquire. These measures reflect the prevailing economic conditions and are important indicators of how successful we are in attracting new clients and retaining existing client relationships.

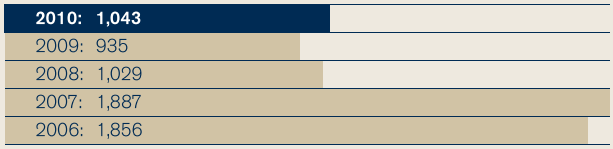
- Total funds under management as at 31 December 2010 were £15.63 billion, up 19.3% compared with 31 December 2009.
- Funds managed by Rathbone Investment Management were £14.59 billion as at 31 December 2010, up 20.0% from 31 December 2009 (FTSE 100 Index up 9.0% and FTSE APCIMS Balanced Index up 9.3%).
- An underlying net organic growth rate of 5.3% in Rathbone Investment Management (2009 6.7%).
- The number of Rathbone Investment Management clients grew 10.7% in the year to 37,400 and account closure rates remain small.
- Funds under management in Rathbone Unit Trust Management rose 10.6% to £1.04 billion at 31 December 2010.

Key performance indicators

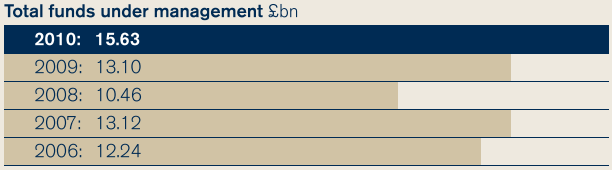
Net organic growth rates in Investment Management funds under management %



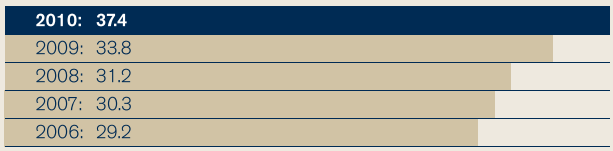
Unit Trust funds under management £m



Total funds under management £bn



Number of clients '000



Shareholders

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

What is important to us

We believe that sustainable growth comes from providing a consistantly high level of service to clients and maintaining our strong reputation. We aim to invest in the business to grow it and continually enhance what we offer to an increasingly diverse population of clients who have a range of different needs.

We aim to be very mindful of regulatory developments where possible believing that this helps to secure future long term value. We believe in open and transparent communication to the market and take regular soundings from investors on the quality and content of what we disclose.

How we achieve our aims

- Pursue acquisition opportunities which enhance earnings per share within two years and fit our culture.
- Aspire to earn average revenue margins of approximately 1% on funds under management over the economic cycle.
- Manage operating cost levels in line with growth in the size of the business and market movements over time.
- Invest in systems and IT to drive ongoing cost efficiency, and ensure that settlement and administration processes are automated wherever possible.
- Regularly re-evaluate supplier relationships to ensure we are receiving value for money and the right service levels.
- Conservatively manage treasury assets (proprietary funds and client cash balances held by us as a banking institution) within clear risk-based guidelines.
- Provide clear management accountability for operational and business risks.
- Maintain optimal capital and liquidity levels as a licenced UK deposit taker, having regard to market conditions, regulatory requirements and growth opportunities.

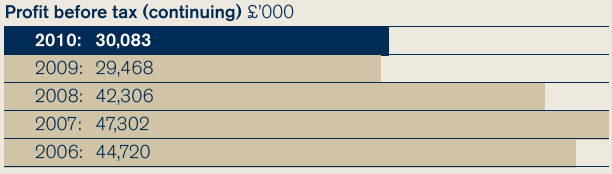
Measuring our success

We measure our success principally by the total growth in funds under management, earnings per share and dividends per share. These are standard measures, but particularly suit our business, which is highly cash generative.

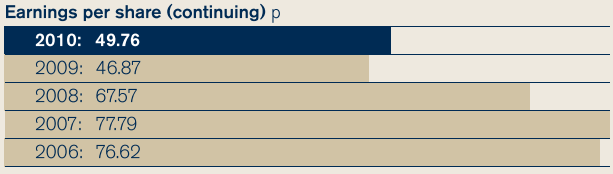
- A total net funds growth (both net organic and acquired) rate of 10.2% in Rathbone Investment Management in 2010 continues a longer term trend of good organic growth and targeted acquisitions.
- An operating margin of 23.7% in 2010 vs 25.2% in 2009 principally reflects increases in amortisation charges and levies from the Financial Services Compensation Scheme.
- Underlying operating expenses of £88.7 million in 2010 are 5.2% up from the £84.3 million in 2009 reflecting a balance of investment and cost control in 2010.
- We have invested £4.1 million of capital expenditure in 2010 to support business efficiency and client service. This is up 78.3% from the £2.3 million spent in 2009 reflecting both business development spend and improvements to our IT, property and communications infrastructure.
- Earnings per share from continuing operations is up 6.2% to 49.76p in 2010 from 46.87p in 2009 notwithstanding £3.6 million of FSCS levies.
- We have increased our dividend per share to 44.0p keeping up a long term trend of maintaining or increasing dividends.
- Our Basel III Tier 1 ratio of 28.3% at 31 December 2010 (2009: 36.3%) remains healthy and well above standards required by the recent Basel III accord.

Key performance indicators

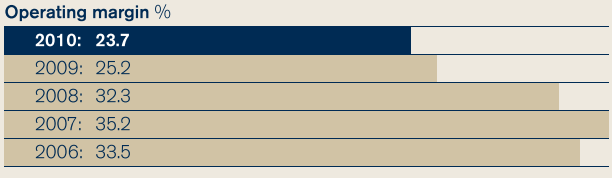
Profit before tax (continuing) £'000



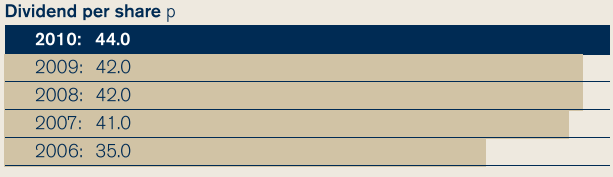
Earnings per share (continuing) p



Operating margin %



Dividend per share p



Employees

Our aim is 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, and to encourage and reward organic growth.

What is important to us

We promote a strong sense of integrity and trust among our staff that we also believe reflects how we build relationships with our clients. We promote a robust investment culture that is developing rapidly in line with investment markets as a whole.

We have dedicated and loyal employees who are driven by providing quality service to our clients. Remuneration structures encourage behaviour that will produce value over the medium to longer term.

How we achieve our aims

- Ensure that all remuneration schemes are consistent, meet regulatory requirements and foster appropriate behaviours.
- Regularly benchmark rewards where possible to ensure that awards remain reasonable, competitive and in line with shareholder interests.
- Provide mechanisms for all senior Directors to build up a meaningful shareholding over a five year period.
- Offer share-based incentives to staff across the business where feasible to encourage wider share ownership amongst employees.
- Ensure that recruitment processes are set to ensure that new employees fit the existing culture and have ample opportunity to further their career.
- Provide extensive training for all levels of staff seeking the highest professional and personal standards.
- Ensure all staff are appropriately qualified to standards required by the Retail Distribution Review.
- Share ideas and best practice throughout the organisation through timely consultation and communication.
- Act as a fair employer to staff.

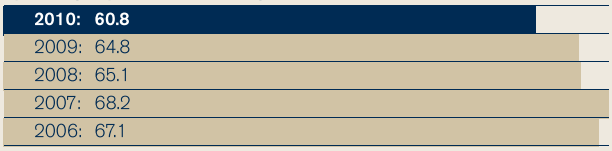
Measuring our success

As a service based business, we recognise that continuity of client service more often than not means continuity of employees who are happy to promote and represent the firm. We therefore measure our success principally by looking at how many people join and leave the organisation and learning from this experience. We encourage share ownership across the business and assess this regularly to explore opportunities to improve on staff ownership levels year to year.

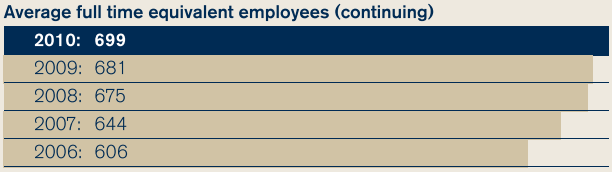
- Total staff turnover continues to be low at 6.4% in 2010 compared to 3.4% in 2009.
- Turnover in investment professionals has also remained low at 2.4% compared to 0% in 2009.
- 11,334 hours of training were delivered in 2010 compared to 2009 (11,301 hours).
- The overall number of shares held by current and former employees and their families represent approximately 20% of total issued share capital at 31 December 2010 (2009: 20%).
- The number of shares held by Share Incentive Plan (SIP) participants was 1.3 million at 31 December 2010 (2009: 1.3 million).

Key performance indicators

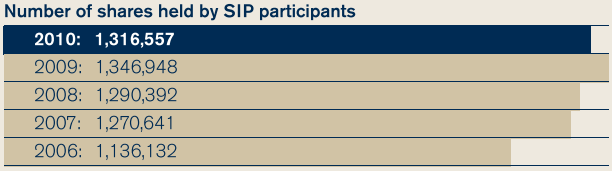
Staff costs (note 8) as a percentage of operating expenses (continuing) %



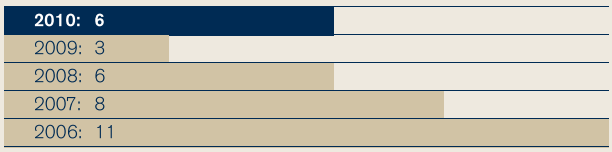
Average full time equivalent employees (continuing)



Number of shares held by SIP participants



Staff turnover (all staff) %



Business review

This business 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.

This business 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 business 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 business 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.

Investment Management

Table 1. Key performance indicators

	2010	2009
Underlying rate of net organic growth in Investment Management funds under management[1]	**5.3%**	6.7%
Underlying rate of total net growth in Investment Management funds under management[1]	**10.2%**	12.5%
Funds under management at 31 December[1]	**£14.59bn**	£12.16bn
Average net operating basis point return[2]	**85bps**	95bps

1 See table 2
2 See table 5

Business environment

After a volatile first half of 2010, the second half of the year witnessed a welcome rally with the FTSE 100 Index rising from 4917 at 30 June 2010 to 5900 at the end of the year.

Rathbone Investment Management has continued to attract funds at a healthy rate throughout 2010 largely reflecting successful acquisitions and a tried and tested business model which provides high quality services to private clients.

This growth combined with higher market levels to drive Investment Management funds under management some 20.0% higher over the year to £14.59 billion. Increases in the FTSE 100 and the FTSE APCIMS Balanced indices were 9.0% and 9.3% respectively during 2010.

Table 2 demonstrates how organic and acquired growth and market movements have impacted funds under management by reconciling opening and closing balances.

Organic inflows represent the amount of new funds brought in by existing Investment Managers, either from existing clients or from new clients. Acquired growth represents new funds either from acquisitions or from Investment Managers who have joined us recently.

Table 2. Investment Management – funds under management

	2010 £bn	2009 £bn
As at 1 January	**12.16**	9.43
Inflows[1]	**2.06**	1.86
– organic	**1.46**	1.31
– acquired	**0.60**	0.55
Outflows[1]	**(0.82)**	(0.68)
Market adjustment[2]	**1.19**	1.55
As at 31 December	**14.59**	12.16
Net organic new business[3]	**0.64**	0.63
Underlying rate of net organic growth[4]	**5.3%**	6.7%
Underlying rate of total net growth[5]	**10.2%**	12.5%

1 Value at the date of transfer in/out
2 Impact of market movements and relative performance
3 Organic inflows less outflows
4 Net organic new business as a % of opening funds under management
5 Net organic and acquired business as a % of opening funds under management

Gross organic inflows of £1.46 billion represent 12.0% of funds under management at 1 January 2010 (2009: 13.9%) and have remained at consistently high levels throughout 2010. Net organic growth (stated after fund outflows which naturally occur because clients withdraw capital and/or income from portfolios to meet other financial requirements, or close their account) remained healthy at 5.3% in 2010 (2009: 6.7%). In the first quarter of 2010 we saw evidence of clients withdrawing cash from their portfolios to supplement their income, which reduced the net organic funds growth rate to 3.2% annualised based on that quarter's experience. This effect dwindled in the second half as markets recovered. The annualised net organic growth rate in the fourth quarter of 2010 was some 7.4% of opening year funds annualised.

We are continuing to see growth across all parts of our business, including:

- Charity funds under management of £1.63 billion at 31 December 2010 up 17.3% on the £1.39 billion at 31 December 2009;
- The value of funds managed as a result of provider panel relationships which increased by 28.7% to £1.30 billion at 31 December 2010 from £1.01 billion at the start of the year;
- The value of Rathbone SIPP funds, which increased by 19.7% to £334 million at 31 December 2010 from £279 million at the start of the year; and
- Rathbone Pension & Advisory Services which saw the number of new SIPPs upon which it has advised increase by 7.3% to 1,010 (2009: 941).

Investment Management continued

We acquired some £600 million of funds under management in 2010 (2009: £546 million) including more business resulting from our transaction with Lloyds Banking Group in 2009. This transaction has now brought us some £800 million of funds in total.

Total net organic and acquired growth has added £1.24 billion of funds under management in 2010 representing a growth rate of 10.2% (2009: 12.5%).

Financial performance

Table 3. Investment Management – financial performance

	2010 £m	2009 £m
Net fee income[1]	**68.5**	55.8
Commission	**36.2**	28.7
Interest and other income[2]	**10.0**	19.8
Net operating income	**114.7**	104.3
Underlying operating expenses[3]	**(77.1)**	(72.1)
Underlying profit before tax	**37.6**	32.2
Financial Services Compensation Scheme levies	**(3.3)**	(0.2)
Amortisation of client relationships	**(4.8)**	(2.0)
Transaction costs	**–**	(0.8)
Profit before tax	**29.5**	29.2
Underlying operating % margin[4]	**32.8%**	30.9%

1 Net fee income is stated after deducting fees and commission expenses paid to introducers
2 Interest and other income is presented net of interest expense paid on client accounts
3 See table 6 for more detail
4 Underlying profit before tax divided by net operating income

Net fee income increased by 22.8% from £55.8 million in the year ended 31 December 2009 to £68.5 million in 2010 benefiting both from the healthy growth levels mentioned above and higher market levels. The average FTSE 100 Index (measured on our quarterly billing dates) was 5528 in 2010 compared with an average of 4706 in 2009; an increase of some 17.5%. The FTSE APCIMS Balanced Index increased 13.7% on the same basis.

Average funds under management of £13.40 billion can be seen from table 4 below to be 27.0% higher than £10.55 billion in 2009.

Table 4. Investment Management – average funds under management

	2010 £bn	2009 £bn
Valuation dates for billing		
– 5 April	**13.02**	9.11
– 30 June	**12.41**	9.69
– 30 September	**13.59**	11.23
– 31 December	**14.59**	12.16
Average	**13.40**	10.55
Average FTSE 100 level	**5528**	4706

Market conditions in 2010 presented Investment Managers with many opportunities to make positive investment decisions. Commission income of £36.2 million in 2010 was, as a result, some 26.1% higher than the £28.7 million in 2009. Client portfolios became more fully invested as cash represented 4.9% of portfolios at 31 December 2010 compared to 6.3% at 31 December 2009.

In contrast, interest and other income of £10.0 million fell by 49.5% compared to £19.8 million in 2009. This is unsurprising given that interest rates remained at very low levels throughout 2010 and that the first half of 2009 benefited from the three emergency base rate cuts made by the Bank of England. Whilst amounts fluctuated in response to 2010 market conditions, cash held in client portfolios ended the year at £0.76 billion (2009: £0.77 billion).

Table 5. Revenue margins

	2010 bps	2009 bps
Basis point return from[1]		
– fee income	**53**	53
– commission	**27**	28
– interest[2]	**5**	14
Total margin	**85**	95

1 Net operating income (see table 3) excluding interest on own reserves divided by the average funds under management on the quarterly billing dates. Funds under management exclude funds acquired as a result of the transaction with Lloyds Banking Group in 2009
2 Excluding interest on own reserves

Total 2010 revenue margins of 85 basis points fell from 95 basis points in 2009 largely reflecting the significant year on year fall in net interest income.

Table 6. Investment Management – operating expenses

	2010 £m	2009 £m
Staff costs[1]		
– fixed	**26.2**	25.2
– variable	**13.8**	13.9
Total staff costs[1]	**40.0**	39.1
Other operating expenses	**37.1**	33.0
Underlying operating expenses	**77.1**	72.1
Financial Services Compensation Scheme levies	**3.3**	0.2
Amortisation of client relationships	**4.8**	2.0
Transaction costs	**–**	0.8
Operating expenses	**85.2**	75.1
Underlying cost/income ratio[2]	**67.2%**	69.1%

1 Represents the costs of Investment Managers and teams directly involved in client facing activities
2 Operating expenses before the Financial Services Compensation Scheme levies, amortisation of client relationships and transaction costs divided by net operating income



Relationships

We do not sell products – we offer a service. For us, that is an important distinction.

Private clients want to be treated as individuals and trust us to manage their investments in their best interests.

We strongly believe that clients value having direct access to the person who is managing their investments and we aim to build long term relationships with individuals, their families and advisers.

Investment Management continued

Total operating expenses in Rathbone Investment Management for 2010 were £85.2 million, compared to £75.1 million in 2009, an increase of 13.4%. Fixed staff costs of £26.2 million increased by 4.0% year on year principally reflecting the successful addition of new revenue generating staff and salary inflation. Variable staff costs were marginally down year on year as higher profit-based awards in 2010 were more than offset by reductions in the amount of funds-based growth awards. These latter awards are designed to reward strong levels of organic growth and outperformance against the FTSE APCIMS Index. Performance awards were high in 2009 as a result of resurgent bond markets which improved Rathbones' performance over and above the FTSE APCIMS Index.

Average full time equivalent headcount of Investment Managers and teams involved in client facing activities was 184 in 2010 compared to 145 in 2009.

Other operating expenses of £37.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £4.1 million (12.4%) largely reflects higher variable award payments to support staff in line with increased profitability, operational costs associated with the Lloyds Banking Group transaction, one off office moving costs of £0.6 million, mostly in Edinburgh, and additional project expenditure.

Recent market conditions have resulted in a number of financial services businesses failing which in turn places demands on the Financial Services Compensation Scheme (FSCS) to compensate investors. As an asset management group with a banking licence Rathbones is potentially exposed to levies from a number of industry sectors. As costs largely arise from exceptional market conditions affecting businesses not associated with Rathbones, levy costs have been highlighted separately in the above table and excluded from underlying profit before tax.

FSCS costs of £3.6 million in 2010 are £3.4 million higher than the prior year. This largely reflects additional levies as a result of the failure of Keydata Investment Services Limited and other intermediaries, somewhat offset by the favourable impact of continued low interest rates on the size of banking levies.

Client relationship intangible assets are created in the course of acquiring funds under management. As the amortisation charges associated with these assets represents a significant non-cash item, this has been excluded from underlying profit to separately highlight what are largely cash-based earnings.

Amortisation charges in respect of client relationship intangibles have increased from £2.0 million to £4.8 million largely as a result of acquired growth and the transaction with the Lloyds Banking Group at the end of 2009. The Lloyds Banking Group transaction resulted in the creation of a portfolio of intangible assets of £21.5 million which are being amortised over 10 years, and incurred transaction costs of £0.8 million which were expensed in 2009.

Unit Trusts

Table 7. Key performance indicators

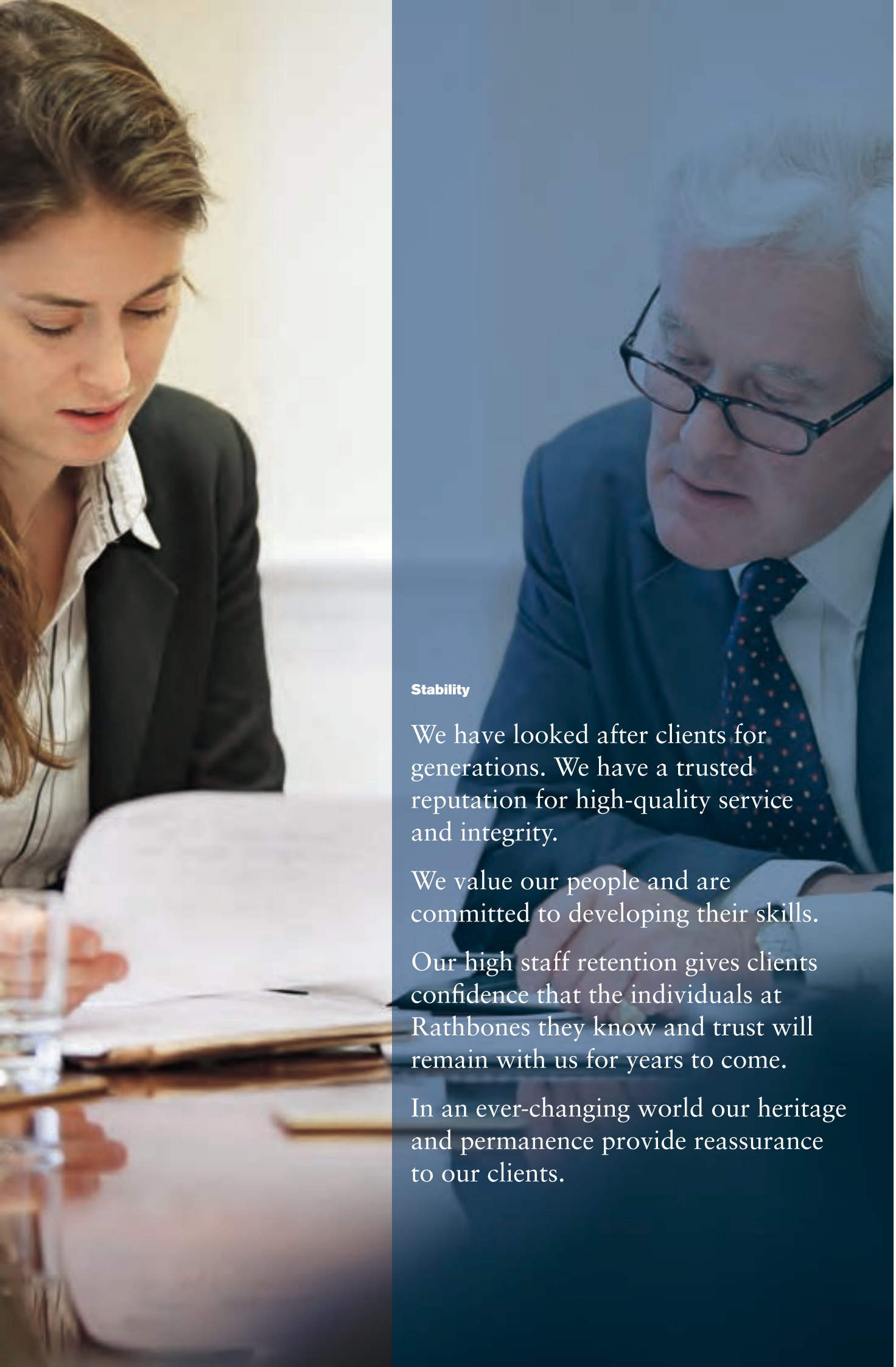
	2010	2009
Funds under management at 31 December	**£1.04bn**	£0.94bn
Underlying rate of net growth in funds under management[1]	**(3.2%)**	(22.3%)

1 See table 8

Business environment

The retail asset management sector has recovered somewhat from difficult times in recent years. Gross intermediary sales, including through platforms, were some £87 billion in 2010 compared to £68 billion in 2009 (source: IMA). Much of the year was dominated by sales in bond sectors, although latterly investors began to move into equities. Throughout the year sales into funds of funds were very strong, signalling a greater move by IFAs to outsourcing their investment services in reaction to the RDR. Performance remains fundamental to attracting funds growth in a market that is becoming increasingly dominated by institutional buying practices.

Following the arrival of Mike Webb as Chief Executive in 2010 the business is rebuilding its performance record after a difficult 2008, and is refocusing distribution to adapt to market changes. In June 2010, Rathbone Unit Trust Management publicly launched two multi asset funds, which play to the outsourcing theme above.



Stability

We have looked after clients for generations. We have a trusted reputation for high-quality service and integrity.

We value our people and are committed to developing their skills.

Our high staff retention gives clients confidence that the individuals at Rathbones they know and trust will remain with us for years to come.

In an ever-changing world our heritage and permanence provide reassurance to our clients.

Unit Trusts continued

Table 8. Unit Trusts – funds under management

	2010 £bn	2009 £bn
As at 1 January	**0.94**	1.03
Net outflows	**(0.03)**	(0.23)
– inflows[1]	**0.15**	0.11
– outflows[1]	**(0.18)**	(0.34)
Market adjustments[2]	**0.13**	0.14
As at 31 December	**1.04**	0.94
Underlying rate of net growth[3]	**(3.2%)**	(22.3%)

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

Funds under management increased 10.6% to £1.04 billion at 31 December 2010 from £0.94 billion at the start of the year. Whilst net redemptions continued for most of 2010, they slowed considerably over the course of the year as sales and fund performance improved and the fourth quarter saw net fund inflows of £18.3 million. Fund details are outlined in tables 9 and 10 below.

Table 9. Unit Trusts – fund assets

	31 December 2010 £m	31 December 2009 £m
Income Fund	**483**	503
Global Opportunities Fund	**105**	76
Blue Chip Income and Growth Fund	**59**	52
Ethical Bond Fund	**54**	42
Recovery Fund	**69**	69
Multi Asset Portfolio Service funds	**74**	41
Other	**199**	152
	1,043	935

Overall, funds have been well positioned throughout 2010 with performance showing early signs of improvement across the range. Efforts will continue in earnest recognising the importance of three year performance records to platforms and institutions.

Table 10. Unit Trusts – fund performance

Quartile ranking over:	1 year	3 years	5 years
Blue Chip Income and Growth Fund	1	2	2
Ethical Bond Fund	1	2	2
Global Opportunities Fund	1	3	1
Income Fund	1	3	3
Recovery Fund[1]	1	n/a	n/a

1 Performance data for the Rathbone Recovery Fund is not yet available beyond 1 year as the fund was launched on 13 July 2009

Financial performance

Table 11. Unit Trusts – financial performance

	2010 £m	2009 £m
Initial charges net of discounts	**0.5**	1.0
Annual management charges	**12.5**	11.6
Net dealing profits	**0.2**	0.4
Interest and other income	**0.1**	0.1
	13.3	13.1
Initial commission payable	**–**	(0.1)
Rebates and trail commission payable	**(5.9)**	(5.3)
Net operating income	**7.4**	7.7
Underlying operating expenses	**(6.6)**	(7.6)
Underlying profit before tax	**0.8**	0.1
Financial Services Compensation Scheme levies	**(0.3)**	**–**
Profit before tax	**0.5**	0.1
Operating % margin[1]	**10.8%**	1.3%

1 Unit Trusts underlying profit before tax divided by net operating income

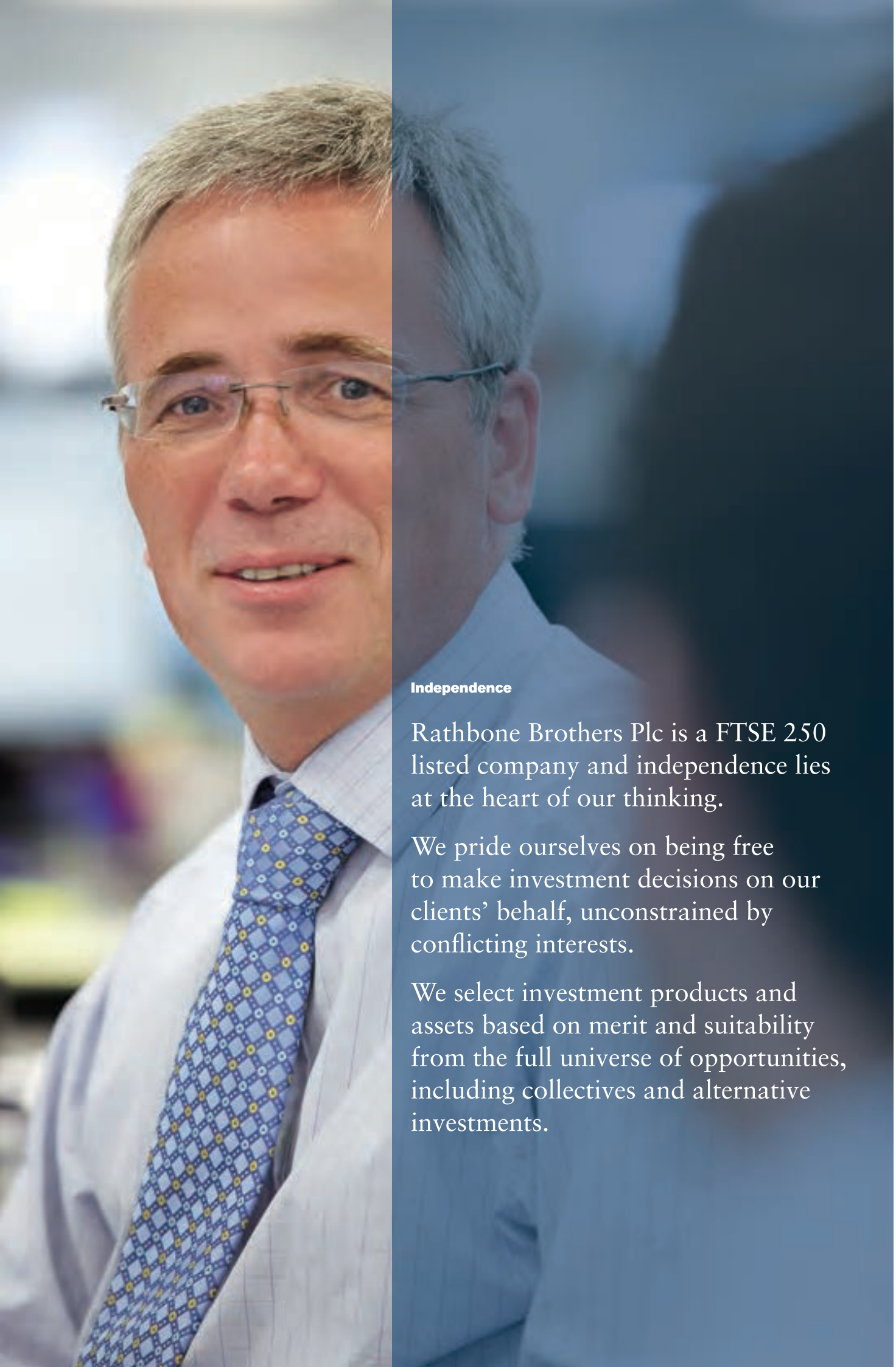
Annual management charges increased 7.8% from £11.6 million in the year ended 31 December 2009 to £12.5 million in 2010 with average funds under management increasing from £0.88 billion in 2009 to £0.94 billion in 2010. Annual management charges as a percentage of average funds under management are consistent at 1.3% (2009: 1.3%) year on year.

Rebates and trail commission payable as a percentage of annual management charge income was broadly consistent at 47.2% compared to 45.7% in 2009. Managers' box dealing profits constituted 2.7% of net operating income in the year (2009: 5.2%) as a consequence of fund redemptions. Net operating income as a percentage of average funds under management was 0.8% in 2010 compared to 0.9% in 2009.

Table 12. Unit Trusts – operating expenses

	2010 £m	2009 £m
Staff costs[1]		
– fixed	**2.2**	2.1
– variable	**1.2**	1.8
Total staff costs	**3.4**	3.9
Other operating expenses	**3.2**	3.7
Underlying operating expenses	**6.6**	7.6
Financial Services Compensation Scheme levies	**0.3**	**–**
Operating expenses	**6.9**	7.6
Underlying cost/income ratio[2]	**89.2%**	98.7%

1 Represents the costs of Investment Managers and teams directly involved in investment or distribution activities
2 Operating expenses excluding Financial Services Compensation Scheme levies as a % of net operating income (see table 11)



Independence

Rathbone Brothers Plc is a FTSE 250 listed company and independence lies at the heart of our thinking.

We pride ourselves on being free to make investment decisions on our clients' behalf, unconstrained by conflicting interests.

We select investment products and assets based on merit and suitability from the full universe of opportunities, including collectives and alternative investments.

Unit Trusts continued

Fixed staff costs of £2.2 million for year ended 31 December 2010 (2009: £2.1 million) grew marginally due to salary inflation and the full year effect of headcount changes. Average full time equivalent headcount was unchanged at 24 in 2010 and 2009, although 2010 year end headcount was 28, reflecting more investment in the sales team.

Variable staff costs of £1.2 million were down 33.3% as the impact of high prior year profit share schemes which are spread over the service periods of relevant employees was considerably reduced. New profit-based award schemes which are also linked with growth and performance have been put in place in 2010. Table 13 demonstrates the impact of deferred profit share awards on 2010 variable costs.

Table 13. Unit Trusts – variable staff costs

	2010 £m	2009 £m
Total variable staff costs	**1.2**	1.8
Deferred profit share adjustment	**(0.3)**	(1.4)
Variable staff costs excluding deferred profit share	**0.9**	0.4
Variable staff costs excluding deferred profit share as a % of underlying profit before tax and total variable staff costs	**45.0%**	21.1%

Other operating expenses have reduced by 13.5% to £3.2 million, as costs of £3.7 million in 2009 included £0.5 million of one off fund merger costs, redundancies and recruitment fees.

Trust and Tax Services

Table 14. Key performance indicators for Trust and Tax Services

	2010	2009
Operating % margin[1]	**2.0%**	4.3%

1 See table 15

Business environment

The UK trust business is closely aligned with our core discretionary investment management business. It comprises:

- the family office service based in London which provides advisory services to substantial family groups including trustee administration and taxation planning; and
- the taxation services business based in Liverpool, which prepares tax returns for individuals and trusts, and provides income and capital tax planning services.

A rapidly changing legal and taxation environment in the UK continues to provide opportunities to provide quality advice to private clients and family offices.

Table 15. Trust and Tax Services – financial performance

	2010 £m	2009 £m
Net operating income	**5.1**	4.7
Operating expenses	**(5.0)**	(4.5)
Profit before tax	**0.1**	0.2
Operating % margin[1]	**2.0%**	4.3%

1 Profit before tax divided by net operating income

Operating income grew by 8.5% to £5.1 million in 2010 from £4.7 million in 2009 reflecting higher advisory fees earned following the recruitment of two senior practitioners and their team in 2010.

Table 16. Trust and Tax Services – operating expenses

	2010 £m	2009 £m
Staff costs[1]		
– fixed	**2.7**	2.5
– variable	**0.2**	0.3
Total staff costs[1]	**2.9**	2.8
Other operating expenses	**2.1**	1.7
Operating expenses	**5.0**	4.5
Cost/income ratio[2]	**98.0%**	95.7%

1 Represents the costs of fee earning staff and teams involved in client facing activities
2 Operating expenses divided by net operating income

Fixed staff costs of £2.7 million for 2010 compare to costs of £2.5 million in 2009 reflecting a higher average full time equivalent headcount of 43 compared to 40 in 2009. Other operating expenses represent property, depreciation, finance, IT and other support costs which are largely fixed, and were 42.0% of total operating expenses in 2010 (2009: 37.8%).

Operations and resources

Rathbones' information technology department has continued to provide a robust operations infrastructure. There have been a large number of developments in our investment systems and our support systems to drive the business forward and improve efficiency. Some of the more significant examples in 2010 have been:

- decommissioning of our Pershing dealing platform and centralising all dealing activity in Liverpool;
- improving our voice over IP telephone technology;
- significantly upgrading our Microsoft Exchange server capacity;
- implementing a new client documentation management system; and
- improving our online reporting functionality.

We continued to achieve excellent CREST, unit trust and overseas settlement rates, and will continue to invest in our core processes to secure future efficiencies.



Skill

Our Investment Process provides structure and well-researched guidance for Investment Managers. This is non-prescriptive and allows Investment Managers the latitude to take investment decisions based on specific client requirements.

The Rathbone Investment Process supports managers in their choice of a growing range of investment options, including alternatives as well as more traditional investment choices.

Internal performance monitoring and risk control processes ensure that the appropriate quality of service and fulfilment of client objectives are achieved.

Operations and resources continued

In 2011 we plan to outsource to a data centre to ensure we benefit from best practices and efficiencies, and upgrade our treasury management systems.

We will continue to work hard to secure optimal use of space as part of our overall plans to manage costs carefully. Having relocated our Edinburgh and Cambridge offices in November and set up a new office in Aberdeen, our focus in 2011 will be on finalising our position on our London location in advance of lease break opportunities in 2012.

Taxation

The effective tax rate for the year is 28.4% (2009: 31.5%), calculated as the total tax charge on continuing operations of £8.5 million (2009: £9.3 million) divided by the profit before income tax on continuing operations of £30.1 million (2009: £29.5 million).

The effective rate of tax in 2010 is higher than the composite UK standard rate of 28.0% due principally to the impact of disallowable expenses and a small over-provision for tax in prior years.

A full reconciliation of income tax expense is included in note 9 to the consolidated financial statements.

Dividend

An interim dividend of 16.0p per share was paid to shareholders on 6 October 2010 and the Board is recommending that a final dividend of 28.0p be paid on 18 May 2011. This results in a total payment of 44.0p (2009: 42.0p) for the year. This dividend is covered 1.1 times by reported basic earnings per share and 1.4 times by basic underlying earnings per share (see note 12).

Capital management

Rathbones is classified under the Capital Requirements Directive as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis. The Group has adopted the standardised approach to calculating its Pillar I credit risk component and the basic indicator approach to calculating its operational risk component.

In addition to a variety of stress tests performed as part of ICAAP work, and daily reporting for regulatory purposes, capital levels are monitored and forecast on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions. Subject to regulatory minimums, capital is freely transferable across the Group and regular exercises are run to ensure that Group structures remain optimal. Investment of proprietary funds is controlled by the treasury team.

Rathbones remains well capitalised and does not rely on the wholesale market to fund its operations. On a Basel III basis, the Group's Tier 1 ratio, calculated as Tier 1 capital as a proportion of total risk weighted assets, was 28.3% at 31 December 2010 (2009: 36.3%).

Rathbones' Pillar III disclosure is presented on our website at www.rathbones.com. Further details on capital management processes can be found in note 29 to the consolidated financial statements.

Treasury and financing

As a licenced deposit taker, Rathbone Investment Management holds the Group's surplus liquidity on its statement of financial position together with any clients' cash not held on a segregated client money basis.

The treasury department of Rathbone Investment Management, reporting through the Banking Committee to the Board, operates in accordance with procedures set out in a Board-approved treasury manual and monitors exposure to market, credit and liquidity risk, as set out in note 28 to the consolidated financial statements.

The treasury department invests in a range of appropriate instruments issued by a relatively wide number of counterparties. Counterparties must be 'A' rated or higher by Fitch and are regularly reviewed to ensure ratings remain appropriate.

As a net provider of liquidity to the banking markets Rathbones does not rely on wholesale funding to finance its operations and it is anticipated that this will not change. External borrowings are limited to a term loan facility of £3.1 million at 31 December 2010 from Barclays Bank PLC (2009: £6.2 million), which will be repaid in full by 4 April 2011.

Liquidity and cash flow

As fee income is largely collected directly from client portfolios and expenses by and large are predictable, Rathbones operates with a modest amount of working capital. Larger cash flows are principally generated from banking/treasury operations when



Operational excellence

We believe that to sustain successful, long term relationships our services must be underpinned by high-quality administration.

Our aim is to provide first-class administration which exceeds client expectations at reasonable cost.

We continue to invest in this area as we see the needs of our private clients, charity trustees and professional intermediaries evolve.

Liquidity and cash flow continued

Investment Managers make investment and asset allocation decisions about the amount of cash to be held in client portfolios. Liquidity risks are managed on a daily basis and depend on transaction activity.

As a bank, Rathbones is subject to the FSA's Internal Liquidity Adequacy Assessment regime.

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

- outflows relating to the payment of dividends of £18.2 million (2009: £18.1 million);
- outflows relating to intangible asset additions of £27.7 million (2009: £2.2 million) mainly in respect of the Lloyds Banking Group transaction; and
- £2.7 million capital expenditure on property, plant and equipment (2009: £1.1 million).

Pensions

Rathbones operates two defined benefit pension schemes (both of which are closed to new members) and a defined contribution pension scheme. At 31 December 2010, the combined accounting deficit for the two defined benefit schemes totalled £6.6 million (2009: £9.4 million). Details of the assumptions supporting the accounting valuation and associated sensitivities are included in note 25 to the consolidated financial statements.

Actuarial funding valuations of the schemes were undertaken as at 31 December 2007 and 2008, and will be performed again for both schemes in 2011. Funding valuations are typically more prudent than valuations used for financial reporting which must be based on management's best estimate of future liabilities. Based on the previous funding valuations, the Company has agreed a schedule of contributions for both schemes totalling £21.2 million over the next seven years, in addition to regular annual contributions of £3.6 million, subject to the schemes remaining in deficit. The timing of contributions is set out in note 25 to the consolidated financial statements.

Risks

The Corporate governance report on page 32 outlines Rathbones' risk framework, risk governance processes and key risks that impact the business. Note 28 to the consolidated financial statements provides additional detail on financial risks.

Rathbones' income is dependent on the behaviour of investment markets and interest rates, which inherently impacts the risk of the business. Aside from market changes, this year presented a number of factors which particularly impacted our risk profile and these are outlined below.

Business risks

Negative impact of regulation
2010 was a very busy year from a regulatory perspective with a number of wide ranging FSA and EC pronouncements on banking capital, liquidity, payment services, the RDR, remuneration and client money. Responding in time to this regulation and refining system requirements and processes to ensure compliance has taken some considerable effort. Whilst regulation itself has done little to impact the risk profile of the business, the risk of not complying with new rules has certainly increased, although we have planned resources carefully to mitigate this.

The risk of unexpected additional levies being charged by the FSCS has increased significantly in 2010 as investor losses from institutions which failed in 2008/9 are assessed and quantified.

Competition risk
The RDR was the most significant competition risk event in 2010. This regulation will undoubtedly change the competitive landscape for providing financial advice, although its full effects remain uncertain. It is expected to present additional business opportunities for Rathbones.

Reputational risk
Rathbones remains a highly regarded member of the investment management industry. Operational losses arising from potential reputation issues were insignificant in 2010.

Operational risks

Inappropriate IT strategy
2010 has been a busy year for projects as noted in the operations and resources commentary on page 18. We have continued to deploy skilled project management resources where necessary to manage complex change and invest in training to ensure skills are up to date.

The pace of change shows no signs of abating as we continue to respond to significant external change and a continued desire to improve efficiency.

Accounting or regulatory reporting error
There continues to be a significant amount of new regulatory and accounting reporting

requirements, which increase the risk of non-compliance.

Adverse impact of a poor acquisition
Whilst we continue to acquire investment management teams, the principal acquisition related risks in 2010 were associated with the Lloyds Banking Group transaction which increased risk indicators in the operations area in the first half of 2010 as new clients were transferred. Additional controls were appropriately applied to manage the change and the acquired business was operating fully on Rathbone Investment Management systems from 30 June 2010. The amount of funds transferred was as expected.

Poor performance in Unit Trusts
The volume of unit trust sales is closely correlated to the longer term performance of unit trust funds relative to that of competitors. During 2010, investment processes have been improved and a deferred remuneration scheme revised to better align Investment Manager rewards to fund performance.

Loss of an investment management team
Investment Manager turnover has been very low historically and this has continued in 2010.

Client litigation
Complaints from clients have remained at very low levels with 22 formal complaints recorded in 2010 (2009: 39). None have resulted in litigation in the year.

Financial risks

The risk that an asset value falls or that an additional liability is incurred is sometimes dependent upon the exercise of judgement. Critical accounting judgements and the key sources of estimation and uncertainty are reported in note 2 to the consolidated financial statements.

Credit risk
Credit markets have seen a number of high profile adverse events involving banking institutions and sovereign jurisdictions in Greece, Ireland and other Eurozone countries. A volatile first half of 2010 saw cash in client portfolios rise to over £0.95 billion at 30 June 2010 returning to £0.76 billion at 31 December 2010. Credit risk capital increases or decreases directly with higher or lower cash levels respectively.

Rathbones retained its conservative treasury policy throughout the year experiencing no default issues. Credit risks associated with other investment securities did not significantly change in the year.

Liquidity risk
Rathbones remains highly cash generative with a strong liquidity profile. Liquidity was managed well within tolerances throughout the year. Rathbones has met all deadlines in respect of the FSA's Internal Liquidity Adequacy Assessment regime.

Market risk
Rathbones has maintained its conservative policy in respect of managing interest rate risk adhering to agreed tolerance limits throughout the year. Currency risks have remained minimal. The value of our equity investment securities increased by 6.9% to £3.1 million in 2010.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review. The financial position of the Group, its cash flows, capital, liquidity position, risks and borrowing facilities are also described in the business review on page 11. In addition, notes 28 and 29 to the consolidated financial statements provide further details.

The Company is regulated by the FSA and performs annual capital adequacy assessments which include the modelling of certain extreme stress scenarios. The Company publishes Pillar III disclosures annually. Note 21 to the consolidated financial statements shows that the Company has an unsecured term loan of £3.1 million at 31 December 2010 which represents 1.7% of total equity (2009: £6.2 million). The Company is not reliant on the renewal of debt facilities to continue to finance its operations.

In 2010, the Group has continued to generate organic growth in client funds under management in spite of the recent market turmoil, and this is expected to continue. The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic and political outlook.

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

Directors

Chairman

Mark Powell



Mark Powell, aged 65, is the Chairman with principal responsibility for the strategy of the Group. He moved to a non-executive role with effect from 1 January 2008 and is not considered to be independent for the purposes of the Combined Code. He is retiring from the Board after the Annual General Meeting on 11 May 2011.

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 and a Non-executive Director of HgCapital Trust plc. He is a former Chairman of the Association of Private Client Investment Managers & Stockbrokers (APCIMS) and a former member of the Takeover Panel. He is chairman of the Nomination Committee.

Chief Executive

Andy Pomfret



Andy Pomfret, aged 50, 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 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 plc and a Director of the Association of Private Client Investment Managers & Stockbrokers (APCIMS).

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, Richard Lanyon and Paul Stockton. 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

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

Remuneration Committee

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

Nomination Committee

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

Executive Directors

Ian Buckley



Ian Buckley, aged 60, is Chief Executive of the Group's Trust and Tax business and the Director responsible for its pensions and advisory business. He is the Director responsible for risk management and marketing and is also 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 a committee member of Family Assurance Friendly Society.

Paul Chavasse



Paul Chavasse, aged 46, 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 59, is the Director with overall responsibility 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. He joined the Group in 1992 to concentrate on private client discretionary investment management and was appointed to the Board in March 1996.

Andrew Morris



Andrew Morris, aged 46, is the Director responsible for Rathbones' Investment Management business in Aberdeen, Birmingham, Edinburgh, Kendal and Liverpool. 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 Business Continuity and Training and Competence Committees.

Richard Smeeton



Richard Smeeton, aged 46, 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. Having trained with County Bank, he joined Laurence Keen in 1988 prior to its acquisition by Rathbones in 1995. He was appointed to the Board in November 2000. He chairs the Group's Alternative Asset Committee.

Paul Stockton



Paul Stockton, aged 45, is the Finance Director. He qualified as a chartered accountant with PricewaterhouseCoopers in 1992. In 1999 he joined Old Mutual Plc as Group Financial Controller, becoming Director of Finance in 2001 and Finance Director of Gerrard Limited eight months later. Following the sale of Gerrard to Barclays in 2003, he left in 2005 and has since worked for Euroclear in Brussels and as a Division Finance Director of the Pearl Group. He joined Rathbones in August 2008 and was appointed to the Board in September 2008.

Non-executive Directors

David Harrel



David Harrel, aged 62, was one of the founding partners of S J Berwin LLP in 1982, and was made Senior Partner in 1992. He relinquished this role in 2006 and is now a consultant to the firm. David has a variety of other appointments. He is a Non-executive Director of Wichford Plc and The Kyte Group Limited, a member of the Board of the English National Opera and a trustee of the Clore Duffield Foundation. He was appointed to the Board in December 2007 and is considered to be independent. He was appointed as the Senior Independent Director in December 2008.

Kate Avery



Kate Avery, aged 51, began her career with Barclays Plc, where she worked for some eighteen years, becoming Managing Director of Barclays Bank Trust Company and Barclays Stockbrokers. She subsequently joined Legal and General Group Plc and served on its main board for eight years until January 2009, latterly as Group Executive Director for wealth management. She also served as a Non-executive Director with Kelda Group plc until its sale to an infrastructure fund in 2008. She is currently Chairman of Openwork Holdings Limited and a Non-executive Director of the Newcastle Building Society. She was appointed to the Board on 6 January 2010 and is considered to be independent.

Caroline Burton



Caroline Burton, aged 61, 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.

Oliver Corbett



Oliver Corbett, aged 46, is Group Finance Director of Novae Group plc. He is a chartered accountant and worked for SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein, where he was Managing Director of investment banking, before joining Novae Group in October 2003. He was appointed to the Board in March 2006 and is considered to be independent. He was appointed as chairman of the Audit Committee in December 2008.

Kathryn Matthews



Kathryn Matthews, aged 51, has spent her entire career in investment management, most recently as Chief Investment Officer, Asia Pacific (ex Japan) for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a Non-executive Director of a number of companies including Hermes Fund Managers Limited, Fidelity Asian Values Plc, Montanaro UK Smaller Companies Investment Trust Plc and J P Morgan Chinese Investment Trust Plc. She was appointed to the Board on 6 January 2010 and is considered to be independent.

Mark Nicholls



Mark Nicholls, aged 61, is a lawyer and corporate financier. After studying law at Cambridge he took articles at Linklaters before joining S G Warburg in 1976. He became a Director in 1984 and Head of Investment Banking in 1994. In 1996 he joined Royal Bank of Scotland and became head of their private equity group, leaving in 2003 to pursue a plural career. He is currently Chairman of the West Bromwich Building Society and a Non-executive Director of Northern Investors Company PLC. He was appointed to the Board on 1 December 2010 and is considered to be independent.



Governance

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Directors' report

The information contained in the Chairman's statement, Chief Executive's statement, Rathbones at a glance, strategy and business performance, business review, Directors' profiles, Corporate governance report, Audit Committee report, Nomination Committee report, Corporate responsibility report and Directors' responsibility statement form part of the Directors' report.

Group 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, charities and trusts carried out by Rathbone Investment Management Limited from eleven offices in the UK and by Rathbone Investment Management International in Jersey.

Rathbone Investment Management Limited is authorised and regulated by the Financial Services Authority and provides private banking services. The company also offers an ethical investment service (Rathbone Greenbank Investments) and is the investment adviser to five venture capital trusts. Rathbones manages eight authorised unit trusts through Rathbone Unit Trust Management Limited and is the Authorised Corporate Director of a number of Open Ended Investment Companies (OEICs) including the Rathbone Multi Asset Portfolio, a Non-UCITS Retail Scheme.

Rathbone Trust Company Limited provides a wide range of trust, company management and taxation services in the UK. 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 business review on page 11. Information about environmental, employee and social and community issues are set out in the Corporate responsibility report on page 50.

Post statement of financial position events

Details of events after the statement of financial position date are set out in note 33 to the consolidated financial statements.

Group results and Company dividends

The Group profit after taxation for the year ended 31 December 2010 was £21,552,000 (2009: £19,628,000).

The Directors recommend the payment of a final dividend of 28.0p (2009: nil) on 18 May 2011 to shareholders on the register on 3 May 2011. An interim dividend of 16.0p (2009: 42.0p) was paid on 6 October 2010 to shareholders on the register on 17 September 2010. This results in total dividends of 44.0p (2009: 42.0p) per ordinary share for the year. These dividends amount to £19,067,000 (2009: £18,159,000) – see note 11 to the consolidated financial statements.

Capital structure

The Company's share capital is comprised of one class of ordinary shares of 5p each. At 31 December 2010, 43,376,790 shares were in issue (2009: 43,296,330). The shares carry no rights to fixed income and each share carries the right to one vote at general meetings. All shares are fully paid.

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

The Board currently has the authority to allot 14.2 million shares (approximately one third of the issued share capital at 23 February 2010) with the authority to allot a further 14.2 million shares by way of fully pre-emptive rights issues in line with guidance issued by the Association of British Insurers on 31 December 2008. The Board currently has the authority to buy back up to 2.1 million shares under certain stringent conditions.

Regarding the appointment and replacement of Directors, the Company is governed by the Company's Articles of Association, the Combined Code, the Companies Acts and related legislation. Amendment of the Articles of Association requires a special resolution of shareholders.

Directors and their interests

The interests of Directors and connected persons in the share capital of the Company are shown in table 1. There were no changes between 31 December 2010 and 16 February 2011. Details of Directors' share options are shown in tables 7 and 8 on page 43.

Table 1. Directors' shareholdings

	Number of 5p ordinary shares at 1 January 2010[1]		Number of 5p ordinary shares at 31 December 2010	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Chairman				
G M Powell	251,397	12,500	113,334	8,500
Executive				
I M Buckley	33,056	–	36,813	–
P D G Chavasse	51,411	–	54,218	–
R P Lanyon	212,052	–	203,961	–
A T Morris	50,070	–	55,475	–
A D Pomfret	91,490	–	101,034	–
R I Smeeton	116,475	–	116,856	–
R P Stockton	379	–	5,114	–
Non-executive				
C R R Avery	2,457	–	2,457	–
C M Burton	3,183	–	3,623	–
O R P Corbett	1,437	–	1,849	–
D T D Harrel	8	–	8	–
K A Matthews	–	–	160	–
M P Nicholls	–	–	–	–

1 or date of appointment if later

There were no changes between the date of this report and 1 March 2011.

Executive Directors

The Directors with executive responsibilities are Andy Pomfret, Ian Buckley, Paul Chavasse, Richard Lanyon, Andrew Morris, Richard Smeeton and Paul Stockton. Their biographies are on pages 24 and 25. Peter Pearson Lund retired from the Board on 31 March 2010.

Non-executive Directors

The Directors with non-executive responsibilities are Mark Powell, Kate Avery, Caroline Burton, Oliver Corbett, David Harrel, Kathryn Matthews and Mark Nicholls. Their biographies are on pages 24 and 26.

Kate Avery and Kathryn Matthews were appointed to the Board on 6 January 2010. Mark Nicholls was appointed to the Board on 1 December 2010. James Barclay and Mark Robertshaw stepped down from the Board at the Annual General Meeting on 5 May 2010. John May stepped down from the Board on 1 December 2010. Mark Powell is to retire as a Director and Chairman at the conclusion of the Annual General Meeting on 11 May 2011, when it is intended that Mark Nicholls will take on this role.

The Senior Independent Director is David Harrel and any comment or enquiry regarding the affairs of the Company may be addressed to him. The Board considers that, with the exception of Mark Powell, all Non-executive Directors are independent.

Retirement and re-appointment of Directors

Ian Buckley, Paul Chavasse and David Harrel retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Substantial shareholdings

At 16 February 2011, the Company had received notifications in accordance with the Financial Services Authority's Disclosure and Transparency Rule 5.1.2 of the following interests of 3% or more in the voting rights of the Company.

Table 2. Substantial shareholdings at 16 February 2011

Notifier	Date of notification	Ordinary shares	% of voting rights
BlackRock Inc.	15 October 2010	6,938,467	16.03%
Lindsell Train Ltd.	17 November 2009	2,173,950	5.04%
Legal & General Group Plc	23 January 2009	1,700,574	3.96%
Lloyds Banking Group plc	15 March 2007	1,477,812	3.50%
Mawer Investment Management Ltd.	13 October 2009	1,344,818	3.12%

There were no changes between the date of this report and 1 March 2011.

Political and charitable donations

No contributions were made for political purposes during the year (2009: nil). Details of the Company's charitable donations can be found in the Corporate responsibility report on page 59.

Employees

Details of the Company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the Corporate responsibility report on page 57.

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

Policy on the payment of creditors

Rathbones does not follow a published code or standard on payment practice. Its policy is to fix terms of payment with each supplier in accordance with its requirements and financial procedures. Rathbones ensures that suppliers are aware of those terms and abides by them subject to the resolution of any disagreement regarding the supply. In the majority of cases, the terms agreed with suppliers are for payment within 30 days of their invoice date. Trade creditors of the UK subsidiaries at 31 December 2010 represented 14 days of annual purchases (2009: 13 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 28 to the consolidated financial statements.

Indemnification of Directors

On 6 April 2005 changes to company law came into effect which allowed companies to indemnify their Directors and officers against any liability incurred by them to any person (other than the company or associated company) in connection with any negligence, default, breach of duty or breach of trust (but not criminal fines or regulatory penalties) in respect of that company, associated company, pension fund or share scheme. The legislation also permitted the funding of defence costs (which are repayable if the case is lost).

At the AGM on 2 May 2007, shareholders approved changes to the Company's Memorandum and Articles of Association to reflect these provisions. Specific indemnities, which are uncapped, have been granted to all Directors and the Company Secretary by way of deed.

Share price

The mid market price of the Company's shares at 31 December 2010 was £10.94 (2009: £8.00) and the range during the year was £7.625 to £10.94 (2009: £6.68 to £9.60).

Auditor

The Audit Committee reviews the appointment of the external auditor and their relationship with the Group, including monitoring the Group's use of the auditor for non-audit services. Note 7 to the consolidated financial statements sets out details of the auditor's remuneration. Having reviewed the independence and effectiveness of the external auditor, the Audit Committee has recommended to the Board that the existing auditor, KPMG Audit Plc, be reappointed. KPMG Audit Plc have indicated their willingness to continue in office and ordinary resolutions reappointing them as auditor and authorising the Directors to set their remuneration will be proposed at the 2011 AGM.

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

Annual General Meeting

The 2011 Annual General Meeting will be held on Wednesday 11 May 2011 at 12.00 noon at 159 New Bond Street, London W1S 2UD. Full details of all resolutions with a letter of explanation from the Chairman and explanatory notes are set out in the separate notice of the meeting.

Special business

The resolutions proposed include an ordinary resolution to give the Directors the authority to allot up to 14.3 million shares (with an aggregate nominal amount of up to £715,000). They also include an ordinary resolution seeking approval of a new Long Term Incentive Plan. Full details are in the Remuneration report and Notice of AGM.

The Board are also seeking to renew, by special resolution, the existing authorities to waive pre-emption rights and to make market purchases of ordinary shares under certain stringent conditions (both subject to limits). The annual special resolution seeking the authority to convene a general meeting (other than the AGM) with not less than 14 days' notice is also proposed.

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
Company Secretary

16 February 2011

Registered office: 159 New Bond Street, London W1S 2UD

Corporate governance report

In relation to compliance with the Combined Code this report together with the Directors' report states the position at 16 February 2011.

The Combined Code compliance statement

The revised Combined Code on Corporate Governance (the Code) was issued in June 2008 by the Financial Reporting Council (FRC) and applies for reporting periods beginning on or after 29 June 2008. Explanations of how the Code principles and supporting principles have been applied are set out in the Governance sections of the report and accounts.
The Directors believe the Company was in compliance with Section 1 of the Code throughout the year with the following two exceptions which applied throughout the year:

Independence of the Chairman on appointment (Provision A.2.2)

The current 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.

Composition of the Board (Provision A.3.2)

There are currently 14 Directors, of which six (43%) are independent Non-executive Directors. The Code requires that at least half the Board, excluding the Chairman, should be independent Non-executive Directors. The number of senior practitioners from within the operating subsidiaries on the Board does result in a sizeable number of Executive Directors, making the achievement of the Code target difficult. Following the retirement of Mark Powell from the Board after the 2011 AGM, there will be 13 Directors on the Board of which six (46%) will be independent Non-executive Directors.

The Financial Reporting Council issued the UK Corporate Governance Code in June 2010 which replaces the Combined Code and applies to accounting periods beginning on or after 29 June 2010.

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 generally held. The Non-executive Directors also have informal meetings without the Chairman or Chief Executive present.

Board membership

The Board currently consists of a Non-executive Chairman, seven Executive Directors and six other 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 its development of strategy and the Chief Executive for the running of the business and implementation of Board strategy and policy.

The Board considers that all of the Non-executive Directors are independent with the exception of Mark Powell (as explained above).

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

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

Board performance

The Board, Audit and Remuneration Committees carry out appraisals of their operation and performance on an annual basis. In 2010, an internal questionnaire was used which was developed and executed with assistance from Lintstock Limited, a London based corporate advisory firm. The 2009 review focused on the major corporate transaction in 2009 and on Board oversight during the 'credit crunch'. The 2010 questionnaire was of a more general nature and was particularly designed to gain a fresh perspective on the operation of the Board from the new Non-executive Directors.

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

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

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

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 Group website.

Executive Committee

The Executive Committee is chaired by the Chief Executive, Andy Pomfret, and comprises Ian Buckley, Paul Chavasse, Richard Lanyon and Paul Stockton. 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

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

Remuneration Committee

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

Nomination Committee

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

Conflicts of interest

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

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

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

Other Board issues

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

Table 1. Board meeting and committee attendance in 2010

	Plc Board[1]	Executive Committee[2]	Audit Committee	Remuneration Committee	Nomination Committee
C R R Avery	5/7	–	4/5	4/5	2/2
J C Barclay	2/2	–	1/2	1/2	0/0
I M Buckley	7/7	11/12	–	–	-
C M Burton	6/7	–	5/5	5/5	2/2
P D G Chavasse	6/7	12/12	–	–	–
O R P Corbett	6/7	–	5/5	4/5	2/2
D T D Harrel	6/7	–	3/5	4/5	2/2
R P Lanyon	6/7	11/12	–	–	–
K A Matthews	7/7	–	5/5	5/5	2/2
J M May	6/6	–	–	–	1/2
A T Morris	7/7	–	–	–	–
M P Nicholls	1/1	–	–	1/1	0/0
P G Pearson Lund	2/2	–	–	–	–
A D Pomfret	7/7	12/12	–	–	2/2
G M Powell	7/7	–	–	–	1/2
M Robertshaw	2/2	–	2/2	2/2	0/0
R I Smeeton	7/7	–	–	–	–
R P Stockton	7/7	12/12	–	–	–

1 Scheduled bi-monthly meeting
2 Scheduled monthly meeting

Shareholder relations

The Company is committed to ensuring that there is effective communication with all shareholders. All regulatory news announcements, press releases and financial reports are available on the Group website. An HTML version of the 2010 report and accounts will be available online. Following the publication of the interim and full year results, presentations are given to major shareholders, investment managers, analysts and employees. The presentation packs used and any webcasts are also on the website. Meetings with major shareholders provide an opportunity to discuss governance and strategy issues and to introduce other Directors including Non-executive Directors. Feedback from these meetings is reported to the Board. All shareholders have the opportunity to meet Non-executive Directors at the AGM. At least 20 business days' notice of the AGM is given to allow time for proper consideration of the resolutions by shareholders. Separate resolutions are proposed for each substantially separate issue.

Every effort is made to ensure that all 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.

Risk appetite

The Board have articulated their detailed risk appetite to the FSA as part of the Individual Capital Adequacy Assessment Process (ICAAP) with some of the risks covered set out below. The overall risk appetite is assessed to be low to medium.

Risk governance

Risk Management Committee

Ian Buckley is the Director with specific responsibility for risk management. He chairs the Risk Management Committee which reports to the Board. It comprises all members of the Executive Committee together with the Group heads of personnel, compliance and internal audit. Non-executive Directors are also often in attendance.

This Committee is an important element in the Group's overall control system and undertakes a review of risk within the Group at its quarterly meetings. 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 16 February 2011.

The risk management process

A risk register is maintained which is the principal tool for monitoring risks. Each risk is rated by assessing each risk's probability of occurring and its impact if it does occur using a 1 – 5 scoring system. The inherent risk score is then reduced if the risk is reduced by internal controls or by insurance to give a residual risk score. Risks are then ranked and the top ten risks identified together with a list of other emerging risks and issues. The financial impacts of risks are also assessed where possible for regulatory capital assessment purposes.

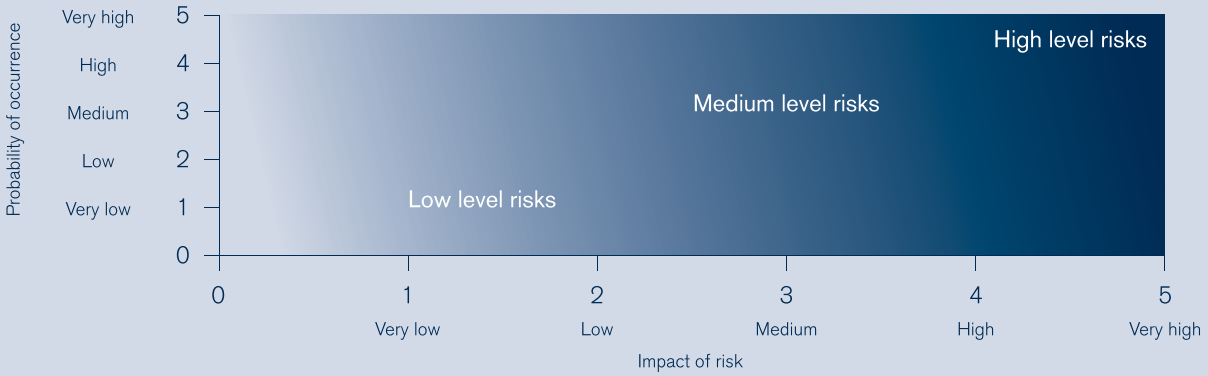
The other key elements of the Group's overall control systems include:

- 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;
- daily monitoring of regulatory capital and liquidity levels, interest rate and counterparty exposures;
- the monitoring of key risk and key performance indicators;
- an ICAAP required by FSA prudential rules which requires regular assessments of the amounts, types and distribution of capital that the Group considers adequate to cover the nature and level of the risks to which it is or might be exposed;
- a defined set of policies and procedures for treasury operations with limits set regularly by the Banking Committee;
- a confidential reporting policy, which encourages employees to raise serious concerns about a colleague's or Group company's practice;
- independent reviews of operational systems and controls;
- an appropriately skilled and staffed internal audit department; and
- the Audit Committee which, on the Board's behalf, examines the effectiveness of the systems of control as explained below.

Table 2. Risk scoring

	Probability	Score	Impact	Score
Very high	Will occur	5	Very severe Over £10.0 million	5
High	Greater than 50% chance in a 2 year period	4	Severe £2.5 million – £10.0 million	4
Medium	Less than 50% chance in a 2 – 5 year period	3	Moderate £1.0 million – £2.5 million	3
Low	Unlikely to occur in a 10 year period	2	Low Less than £1.0 million	2
Very low	A potential 1 in 50 year scenario	1	Insignificant	1

Chart 1. Risk impact/probability map



The top 10 risks

Risks can be broadly categorised under one of three headings, business risk, operational risk and financial risk. Top 10 risks are drawn from each of these risk categories and are updated monthly. Top 10 risks identified at 31 December 2010 together with their risk categories are shown in table 3.

Table 3. The top 10 risks

		Category
1	Negative impact of regulation	Business
2	Inappropriate IT strategy	Operational
3	Accounting or regulatory reporting error	Operational
4	Adverse impact of a poor acquisition	Operational
5	Treasury counterparty default	Financial
6	Competition risk	Business
7	Poor performance of Rathbone Unit Trust funds	Operational
8	Damage to Rathbones' reputation	Business
9	Loss of an investment management team	Operational
10	Client litigation	Operational

Business risks

Negative impact of regulation

Rathbones operate in a heavily regulated industry in which failure to comply with regulatory requirements can lead to significant fines and penalties. The Group's profitability could be reduced (or increased) by future regulatory changes. Rathbones is involved with a number of representative industry bodies and maintains close contact with the FSA and other regulators.

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 and demands in the marketplace, inadequate investment in marketing or distribution, or the loss of key investment professionals.

Damage to Rathbones' reputation

Reputational risk could arise for many reasons including poor performance or service, or regulatory censure leading to negative publicity. This risk is reduced by greater management monitoring of higher risk activities and the swift, open and transparent resolution of any issues that arise. Business marketing and the use of public and media relations professionals also reduce the risk of reputational damage.

Operational risks

Inappropriate IT strategy

In an increasingly IT led business, our core investment management system is considered by many to be a market leader but continual change and development is needed which can be challenging. System changes are evolutionary and are made with the close involvement of users to reduce the risk of costly developments not meeting the needs of the business.

Accounting or regulatory reporting error

Increasingly complex accounting and reporting demands, particularly in the areas of financial and regulatory reporting, increase the risk of error. Documented processes and controls and close management oversight reduce the risk of such errors.

Adverse impact of a poor acquisition

Acquisitions create a financial risk associated with the lower than anticipated taking on of clients. They can also create operational disruption and disruption to the culture of the business which can be costly. Potential acquisitions are subject to rigorous review and assessment before any recommendation to the Board is made.

Poor performance of Rathbone Unit Trust Management funds

In common with all unit trust managers, the success of Rathbone Unit Trust Management is highly dependent on the performance of the funds it manages. These risks are reduced by a robust investment process which includes regular and open analysis and discussion of performance.

Risk management and internal control continued

Loss of an investment management team

The impact of the loss of an investment management team would clearly depend on its size and location. This risk is mitigated by employment contract provisions and competitive remuneration packages including profit share and a new business incentive scheme with deferred awards.

Client litigation

Litigation can be costly. Investment Managers will gather a good deal of background information about their clients and will aim to provide an investment portfolio that is suitable for their needs, recognising that the value of all investments can fall as well as rise. Our investment process provides guidance on asset allocation and research on investments and investment products. Sound business practice reduces the risk of client dissatisfaction and complaint.

Financial risks

Treasury counterparty default

This risk mainly arises from the placement of surplus investment client cash which is held under a banking relationship. It is reduced by the use of a wide range of financial institutions with long term ratings above a minimum level, with exposure limits for each institution. Exposures are monitored daily and reviewed by the Banking Committee each month. This and other financial risks are also considered in detail in note 28 to the consolidated financial statements.

The business review on page 11 highlights factors in the year which have had an impact on Rathbones' risk profile.

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 2010 and has taken account of material developments since the year end. Necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. 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 Company's business activities, risks and uncertainties, financial performance in 2010 and the financial position at 31 December 2010 are summarised in the business review on page 11. Note 28 to the consolidated financial statements summarises how the Group manages its financial risk.

Regulation

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

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

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

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

Model code

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

Remuneration report

The Board presents the Remuneration report for the year ended 31 December 2010.

Remuneration Committee

The Board has delegated the determination of Executive Director remuneration to the Remuneration Committee (the Committee). The current members of the Committee are the independent Non-executive Directors Caroline Burton (chairman), Kate Avery, Oliver Corbett, David Harrel, Kathryn Matthews and Mark Nicholls. Kate Avery, Kathryn Matthews and Mark Nicholls joined the Committee on their appointment to the Board.

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 five occasions in 2010 (2009: five). Details of attendance at meetings are shown on page 34.

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.

There has been considerable government and regulatory focus on remuneration in 2009 and 2010, particularly in the financial services industry. This has provided an opportunity to review and update remuneration arrangements.

Following consultation with major shareholders in early 2010, the profit sharing scheme was revised to introduce an element of deferral with deferred awards invested in Rathbone shares. The current Long Term Incentive Plan (LTIP) has now reached the end of its 10 year life and shareholder approval of a replacement LTIP will be sought at the AGM on 11 May 2011. Full details are below.

Remuneration packages

The current remuneration package for an Executive Director has four main elements:

- Basic salary and benefits.
- Profit share.
- Equity incentives.
- Pension.

Remuneration packages are designed to have the following three key characteristics:

- To align the interests of the Directors with shareholders in generating long term shareholder value.
  - Participation in a LTIP and use of the total shareholder return performance condition
  - Deferred profit share invested in Rathbone Brothers Plc shares
- To align remuneration practices with effective risk management.
  - Profit share rather than income based bonus
  - Profits for these purposes are realised and in cash
  - Deferred awards (LTIP and partial deferral of profit share)
- To motivate and retain key executives.
  - Directors are incentivised to increase the deferred share element of the profit share
  - Deferred awards (profit sharing scheme and LTIP)
  - Retention provisions and up to date, best practice contracts

The Committee does not specifically take into account corporate performance on environmental, social and governance issues when considering the remuneration of Executive Directors but it is satisfied that the incentive structure does not increase risks in these areas by inadvertently motivating irresponsible behaviour.

The elements of remuneration packages are summarised below.

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.

In view of the trading conditions experienced in late 2008 and in 2009, Directors' basic salaries were not increased on 1 January 2009 or on 1 January 2010. With one exception, all Directors received a salary increase of approximately 4% with effect from 1 January 2011 which was in line with the average increase for all employees. Ian Buckley received an increase of 7.8% to reflect significant additional responsibilities taken on during the year.

Basic salary and benefits continued

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 in respect of other Board positions.

In addition Rathbones provides a range of benefits including life, private medical and permanent health insurance. The provision of company cars is being phased out as lease contracts end.

Profit share

As explained in our 2009 financial statements, changes were made to the operation of this arrangement. From 2010, awards to all Executive Directors are made from a pool of profits of 3 – 5% of Group profit before tax with an expectation that in a normal year the percentage would be around 4%. The percentage for 2010 was 5% reflecting the strong performance in 2010.

The Committee has the discretion to adjust the calculation of Group profit before tax for the purposes of the profit share to ensure that it appropriately reflects underlying business performance. For 2010, the Committee agreed that the exceptional FSCS levies of £3.6 million should be excluded from the calculation.

Awards to individual Directors are determined by the Committee following recommendations by the Chief Executive and Chairman. They are calculated taking into account the performance of the Director, the results of the business for which the Director has responsibility (where relevant) and market data where this is available.

Awards are made in both cash (one third) and deferred shares (two thirds) with interim, on account awards payable during the financial year, and final awards made shortly after the announcement of the Group's results for the year. The proportion paid in cash may be increased at the request of the participant but this will cause the overall award to be reduced such that the total will be reduced by a maximum of one-third if 100% of the award is taken in cash. In 2010, all participants took the maximum award. Individual awards are capped at 200% of basic salary.

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

For 2010, a first interim deferred share award was made on 31 March 2010 and a second interim award on 6 September 2010. The final award will be made following the announcement of the 2010 results.

Table 1. Profit share (audited information)

	IM Buckley	PDG Chavasse	RP Lanyon	AT Morris	AD Pomfret	RI Smeeton	RP Stockton	Total
Total cash award	£55,000	£62,333	£115,000	£48,000	£107,333	£113,334	£60,000	£561,000
Total deferred share award	£110,000	£124,667	£230,000	£96,000	£214,667	£226,666	£120,000	£1,122,000
Total award	£165,000	£187,000	£345,000	£144,000	£322,000	£340,000	£180,000	£1,683,000
Deferred share awards – 3 year deferral								
First interim								
Cash equivalent	£13,000	£18,000	£47,000	£20,000	£37,000	£49,000	£18,000	£202,000
Market price at award	£8.597	£8.597	£8.597	£8.597	£8.597	£8.597	£8.597	
Deferred share award (shares)	1,512	2,093	5,467	2,326	4,303	5,699	2,093	23,493
Second interim								
Cash equivalent	£15,000	£19,000	£50,000	£22,000	£40,000	£52,000	£19,000	£217,000
Market price at award	£8.326	£8.326	£8.326	£8.326	£8.326	£8.326	£8.326	
Deferred share award (shares)	1,801	2,282	6,005	2,642	4,804	6,245	2,282	26,061
Final								
Cash equivalent	£82,000	£87,667	£133,000	£54,000	£137,667	£125,666	£83,000	£703,000
Total deferred share award (cash equivalent)	£110,000	£124,667	£230,000	£96,000	£214,667	£226,666	£120,000	£1,122,000

Profit share continued

Table 2. Directors' remuneration (audited information)

	Salary or fee[1] £'000	Profit sharing – cash £'000	Profit sharing – deferred shares[2] £'000	Benefits[3] £'000	2010 total £'000	2009 total £'000	2010 pension contributions[4] £'000	2009 pension contributions £'000
Chairman								
G M Powell	**165**	**–**	**–**	**3**	**168**	168	**–**	–
Executive								
A D Pomfret (Chief Executive)	**311**	**107**	**215**	**3**	**636**	469	**37**	37
I M Buckley	**184**	**55**	**110**	**3**	**352**	272	**21**	24
P D G Chavasse	**231**	**62**	**125**	**3**	**421**	311	**–**	–
R P Lanyon	**230**	**115**	**230**	**3**	**578**	429	**–**	–
A T Morris	**188**	**48**	**96**	**17**	**349**	287	**–**	–
P G Pearson Lund	**37**	**–**	**–**	**–**	**37**	156	**–**	–
R I Smeeton	**210**	**114**	**226**	**3**	**553**	418	**–**	–
R P Stockton	**219**	**60**	**120**	**3**	**402**	298	**21**	21
Non-executive								
C R R Avery	**35**	**–**	**–**	**–**	**35**	–	**–**	–
J C Barclay	**12**	**–**	**–**	**–**	**12**	37	**–**	–
C M Burton	**40**	**–**	**–**	**2**	**42**	42	**–**	–
O R P Corbett	**43**	**–**	**–**	**2**	**45**	45	**–**	–
D T D Harrel	**40**	**–**	**–**	**–**	**40**	40	**–**	–
K A Matthews	**35**	**–**	**–**	**1**	**36**	–	**–**	–
J M May	**32**	**–**	**–**	**–**	**32**	35	**–**	–
M P Nicholls	**5**	**–**	**–**	**–**	**5**	–	**–**	–
M Robertshaw	**12**	**–**	**–**	**–**	**12**	37	**–**	–
Total	**2,029**	**561**	**1,122**	**43**	**3,755**	3,044	**79**	82

1 Reviewed annually on 1 January
2 This is the cash equivalent of deferred share awards at the date of the award. Deferred share awards vest after three years
3 Benefits include the provision of a company car and medical insurance. They also include the value of SIP matching shares awarded on a one for one basis to match partnership shares acquired up to a maximum of £1,500 per annum
4 During the year, retirement benefits accrued under money purchase schemes in relation to three directors (2009: three)

Equity incentives

Long Term Incentive Plan (LTIP)

The current LTIP was approved by shareholders in 2000 and no awards may be made after November 2010. It is therefore proposed to introduce a replacement LTIP with effect from 1 January 2011, subject to shareholder approval at the AGM.

Under the current LTIP arrangements, 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 relative total shareholder return (TSR) measured against the FTSE All Share Index. TSR is a measure of the overall return to shareholders. It reflects both the change in the share price and dividends, assuming that they are reinvested.

Whilst the rules of the proposed new LTIP have been updated and revised to reflect current practice, the main features of the proposed plan, which are set out in detail in the Notice of the AGM, are broadly unchanged. Awards are limited to 75% of salary other than in exceptional circumstances when the Committee consider that a 100% limit would be appropriate. Whilst the EPS performance target is unchanged, the TSR performance target has been revised. The TSR of the Company is compared with the FTSE All Share Total Return Index (TRI) with threshold vesting of 25% of the award if the Index is matched. There is full vesting if the Rathbones TSR exceeds that of the Index by 10% (in absolute rather than relative terms) with straight line vesting between these two points. The Committee consider that the combination of EPS and TSR is most appropriate as it ensures not only focus on a key financial driver (via EPS), but also alignment of shareholder interests (via TSR).

Equity incentives continued

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

Shares for both the profit sharing scheme and LTIP are held by The Rathbone Brothers Plc Settlement in Jersey. On 31 December 2010, the trustee, Investec Trust (Jersey) Limited, held 112,693 Rathbone Brothers Plc ordinary shares (2009: 42,693 ordinary shares). Dividend entitlements in respect of this holding have been waived and voting rights will not be exercised.

Table 3. LTIP performance targets (2005/07 to 2010/12)

	% 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	Vesting of award (TSR element)
Below the 50th percentile	0%
Between the 50th and 75th percentiles	Straight line increase
At or above the 75th percentile	100%

b EPS

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

Table 4. Proposed LTIP performance targets (2011/13 onwards)

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

a TSR

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

b EPS

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

2008/10 plan cycle

The TSR for the three year period was 19.8%, which ranked the Company at the 62.2 percentile relative to the constituents of the FTSE All Share Index resulting in an award of 48.8% of the TSR element. Basic EPS decreased from 76.54p in 2007 to 49.76p in 2010 and so no award was payable for this element of the plan.

2009/11 and 2010/12 plan cycles

Details of the provisional awards for the 2009/11 and 2010/12 plan cycles are set out in table 5.

Equity incentives continued

2011/13 plan cycle

The 2011/13 awards are subject to shareholder approval of the plan at the AGM on 11 May 2011. If approved, the awards will be treated as having been made on 1 March 2011 using the average share price in the 20 dealing days prior to that date. Participation in the LTIP is conditional on the Director signing a new service agreement.

Were the maximum possible provisional awards to be made in shares to current and former Directors as shown in table 5, 285,149 ordinary shares (2009: 393,346) would be awarded, representing 0.7% (2009: 0.9%) of the issued share capital at 31 December 2010. In practice, awards under the LTIP are intended to be satisfied using market purchased shares held in trust. Expected actual awards are difficult to predict with any accuracy.

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

Plan cycle Status	2008/10 Actual award	2009/11 Maximum provisional award	2010/12 Maximum provisional award
I M Buckley	3,617	18,905	16,904
P D G Chavasse	3,957	20,685	21,187
R P Lanyon	3,957	20,685	21,187
A T Morris	3,098	16,192	16,585
A D Pomfret	5,404	28,247	28,933
R I Smeeton	3,617	18,905	19,365
R P Stockton	2,747	18,460	18,909
Total	**26,397**	**142,079**	**143,070**
Market value of shares at date of provisional award	£10.75	£8.43	£8.23

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 the provisional award is the average mid-market price over the 20 dealing days prior to the start of the plan. Actual awards for the 2008/10 plan will be made in March 2011. The performance conditions for the 2007/09 plan were not satisfied and no award was therefore made in 2010 in respect of this plan.

Long term incentive arrangements for Peter Pearson Lund

Peter Pearson Lund, who retired from the Board on 31 March 2010, participated in the Rathbone Unit Trust Management Limited deferred profit sharing plan rather than the LTIP. As a 'good leaver' his outstanding awards vested on his retirement.

Table 6. Awards held by Peter Pearson Lund under the Rathbone Unit Trust Management Deferred Bonus Plan (audited information)

Year of award	Awards outstanding at 1 January 2010 (£ value on award)	Award made in 2010 (£ value on award)	Awards vesting in 2010 (£ value on award)	Awards vesting in 2010 (£ value of funds released)	Awards outstanding at 31 December 2010 (£ value on award)
2006	158,659	–	158,659	177,296	–
2007	462,557	–	462,557	489,485	–
2008	191,950	–	191,950	193,493	–
2009	48,050	–	48,050	48,052	–
Total	**861,216**	**–**	**861,216**	**908,326**	**–**

Share Incentive Plan (SIP) and Savings Related Share Option Plan (Save As You Earn)

All Directors are entitled to take part in the SIP on the same terms as all other employees. This allows all employees to purchase shares in the Company and currently these are matched on a one for one basis by the Company. Performance related SIP shares are also offered to employees if there is year on year EPS growth over the rate of inflation. SIP shares are included in the table of Directors' share interests on page 29.

Executive Directors may also participate in the Rathbones Savings Related Share Option Plan (commonly known as a Save As You Earn or SAYE Plan) on the same terms as all other employees. Details of grants to Directors are shown in table 7. It is anticipated that a further grant will be made in March 2011 following the announcement of the 2010 results.

Equity incentives continued

Table 7. The Rathbone Brothers Savings Related Share Option Plan 2009 (audited information)

	At 1 January 2010[1]	Granted in 2010	Exercised in 2010	Lapsed in 2010	At 31 December 2010	Date of grant	Earliest exercise date	Latest exercise date	Exercise price
I M Buckley	1,303	–	–	–	1,303	23/12/09	01/02/13	01/08/13	696p
P D G Chavasse	1,303	–	–	–	1,303	23/12/09	01/02/13	01/08/13	696p
R P Lanyon	1,303	–	–	–	1,303	23/12/09	01/02/13	01/08/13	696p
A T Morris	651	–	–	–	651	23/12/09	01/02/13	01/08/13	696p
A D Pomfret	1,303	–	–	–	1,303	23/12/09	01/02/13	01/08/13	696p
R I Smeeton	1,303	–	–	–	1,303	23/12/09	01/02/13	01/08/13	696p
R P Stockton	651	–	–	–	651	23/12/09	01/02/13	01/08/13	696p
	7,817	**–**	**–**	**–**	**7,817**				

1 or date of appointment if later

Share options

The Company's share option scheme was approved by shareholders in November 2000 with a ten year life and so no further grants may now be made.

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 8. The terms and conditions of all options have remained unchanged during the year.

Table 8. Outstanding share options and movements in the year (audited information)

	At 1 January 2010[1]	Exercised in 2010	Lapsed in 2010	At 31 December 2010	Date of grant	Earliest exercise date	Latest exercise date	Exercise price	Exercise date	Market value at the date of exercise
A T Morris	10,000	–	10,000	–	10/04/00	10/04/03	10/04/10	932.50p	–	–
R I Smeeton	12,000	–	12,000	–	10/04/00	10/04/03	10/04/10	932.50p	–	–
R P Stockton	30,000	–	–	30,000	22/08/08	22/08/11	22/08/18	813.50p	–	–
Former Director										
P G Pearson Lund	9,966	–	–	9,966	24/04/01	24/04/04	24/04/11	827.50p	–	–
P G Pearson Lund	10,000	10,000	–	–	15/03/05	15/03/08	15/03/15	852.00p	10/11/10	£10.18
	71,966	**10,000**	**22,000**	**39,966**						

1 or date of appointment if later
2 The mid-market closing price of the Company's shares on 31 December 2010 was £10.94 (2009: £8.00) and the range during the year was £7.625 to £10.94 (2009: £6.68 to £9.60)
3 P G Pearson Lund retired from the Board on 31 March 2010. His options may be exercised before 31 March 2011, subject to the performance condition being satisfied

Dilution

Currently, 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 (including the SAYE Plan) and not more than 5% to shares allotted under both the LTIP and SIP. It is proposed that at the AGM on 11 May 2011 the 15% limit will be reduced to 10%, in line with ABI guidelines.

Table 9. Potential dilution over a rolling 10 year period

	10 years to 31 December 2010 (ordinary shares)	% of issued share capital at 31 December 2010	10 years to 31 December 2009 (ordinary shares)	% of issued share capital at 31 December 2009
Share option grants	2,012,537	4.6%	2,314,537	5.3%
SAYE grants	193,585	0.4%	193,585	0.4%
Shares allotted in respect of the SIP	1,139,465	2.6%	1,071,167	2.5%
	3,345,587	**7.6%**	**3,579,289**	**8.3%**

Dilution continued

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

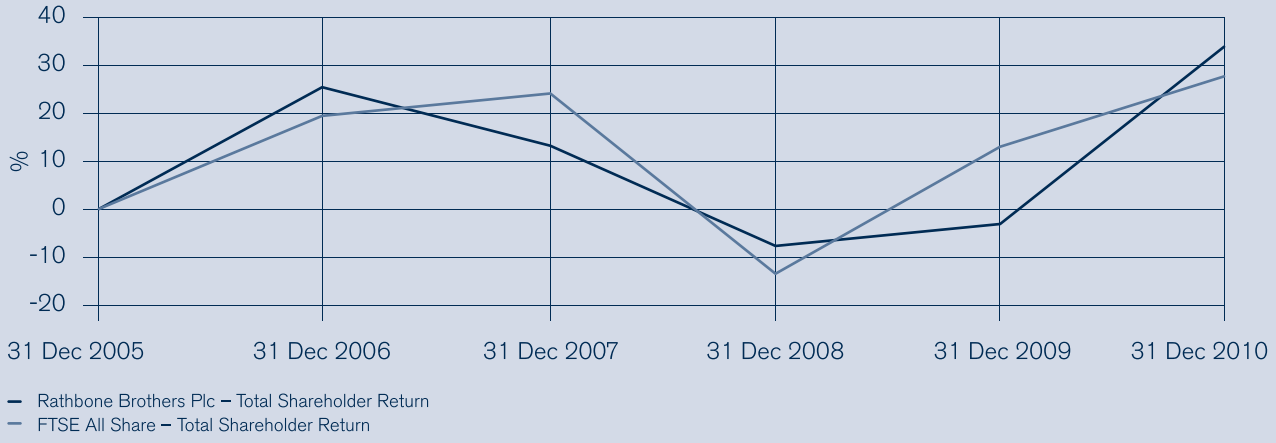


Chart 1 shows the Company's TSR against the FTSE All Share Index. TSR is calculated assuming that dividends are reinvested on receipt. The FTSE All Share Index has been selected as a comparator as it is a suitably broad market index and has been used as a performance comparator for LTIP plan cycles since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

Pension arrangements

UK employees who joined Rathbones prior to 1 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%). With effect from 1 July 2009, future service benefits are based on career average revalued earnings (CARE) with a normal retirement age of 65 rather than 60.

Details of the Company's contributions are set out in note 25 to the consolidated financial statements.

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

Paul Chavasse, Richard Lanyon, Andrew Morris and Richard Smeeton are members of the Scheme. Ian Buckley, Andy Pomfret and Paul Stockton participate in the Scheme for death in service benefits only. Ian Buckley and Andy Pomfret have arrangements under self-invested personal pension schemes whilst Paul Stockton is a member of the Group defined contribution plan. Rathbones pays annual contributions of 11.5% of salary to those schemes, subject to HM Revenue and Customs maximum limits, where applicable.

The changes in pension entitlements arising in the financial year, required to be disclosed by the UK Listing Authority, are shown in table 10. There have been no changes in the terms of Directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for Directors. The increases in transfer values are mainly due to changed assumptions for inflation, post-retirement discount rates and future mortality.

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

	Age at 31/12/10	Years of service at 31/12/10	Accrued benefit at 31/12/10[1]	Increase in accrued benefits excluding inflation[2]	Increase in accrued benefits including inflation[3]	Transfer value of 2 less Directors' contributions	Transfer value of accrued benefits at 31/12/10	Transfer value of accrued benefits at 31/12/09	Increase in transfer value less Directors' contributions[4]
P D G Chavasse	46	10	36,813	2,993	4,542	23,222	514,401	429,967	65,834
R P Lanyon	59	19	73,302	4,142	7,310	92,427	1,950,109	1,640,578	291,765
A T Morris	46	22	65,722	1,903	4,826	18,034	1,125,649	954,767	156,322
R I Smeeton	46	22	77,917	4,627	7,984	51,438	1,152,468	949,965	185,503

During 2010, four Directors (2009: five) accrued benefits under defined benefit schemes

1 The pension entitlement shown above for the four participating Directors is that which would be paid annually on retirement at age 60 or 65 based on service to 31 December 2010 (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 a Director's contributions necessary to fund the increase in the accrued pension that a Director would take with him as part of the total transfer value if he were to leave the Company and move his benefits to another scheme

Pension arrangements continued

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 HM 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 12 months. Details of the contracts of employment of Executive Directors serving during the year are as shown below:

Table 11. Executive Directors' service contracts

Executive Director	Date of contract	Notice period
I M Buckley	27 November 2003	6 months
P D G Chavasse	5 December 2002	6 months
R P Lanyon	10 October 1997	12 months
A T Morris	1 July 2003	6 months
A D Pomfret	1 October 2004	12 months
R I Smeeton	9 March 1995	6 months
R P Stockton	18 August 2008	6 months

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

An exception is Ian Buckley, who was appointed to the board of NXT Plc (now HiWave Technologies PLC) prior to joining Rathbones. In 2010, Ian Buckley received fees of £45,833 from NXT Plc (2009: £41,250). He resigned from the NXT Plc board on 1 January 2011. Following his appointment as a committee member of the Family Assurance Friendly Society on 14 December 2009, whilst he retains the fee paid of £27,350 per annum (2009: £27,350), his Rathbones salary has been reduced accordingly.

Advisers to the Remuneration Committee

The Remuneration Committee has appointed Deloitte 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 provides occasional ad hoc advice, particularly 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.

Non-executive Directors' fees

Fees were unchanged in 2010 but were increased with effect from 1 January 2011 as shown below.

Table 12. Non-executive Directors' fees

	2009 and 2010	2011
Basic fee[1]	£35,000	£38,000
Additional fees		
• Chairman of the Audit Committee	£7,500	£8,000
• Chairman of the Remuneration Committee	£5,000	£7,000
• Senior Independent Director[2]	£5,000	£8,000

1 Mark Nicholls is to receive a fee of £60,000 per annum, increasing to £120,000 per annum on his appointment as Chairman
2 The additional fee for the Senior Independent Director is only paid if he or she is not a Committee chairman

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 revised Combined Code on Corporate Governance published in June 2008 and effective for accounting periods beginning on or after 29 June 2008. The Board will move at the AGM an ordinary resolution seeking approval of the Directors' Remuneration report for 2010. The Notice of AGM has been circulated separately.

Approved by the Board on 16 February 2011 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 Oliver Corbett (chairman), Kate Avery, Caroline Burton, David Harrel and Kathryn Matthews.

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

The Committee met on five occasions in 2010 (2009: seven). Details of attendance by members are set out on page 34.

Role and responsibilities of the Committee

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

Financial reporting

The Committee considers:

- the significant financial reporting issues and judgements made in connection with the Company's financial reporting;
- the Group's accounting policies and any proposed changes;
- narrative statements and disclosures, to ensure that they are reasonable and consistent with the reported results.

Internal controls and risk management systems

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

During 2010, the Committee received a number of reports on financial reporting issues including the finance department's Group financial statements consolidation process, segmental reporting and capital planning. It was involved in and consulted on the conversion of the basis of accounting for Group subsidiary companies from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS). It also considered a Financial Reporting Council (FRC) update for audit committees on issues arising from current economic conditions. Committee members visited offices in Bristol, Exeter, Liverpool and Winchester as well as London.

A separate Risk Management Committee considers risk management issues (see page 34).

Internal audit

The Group internal audit department reviews Group operations on a continuing basis. The frequency of reviews is determined by an internal risk-based audit programme which is approved by the Audit Committee. This ensures that whilst the focus is on higher risk areas, all parts of the business are covered over a three year cycle. Regular updates are given to the Committee on the findings of internal audit reviews, the status of scheduled work and on the follow up of reviews to ensure that agreed recommendations are acted upon promptly. The internal audit department will also undertake occasional ad hoc reviews at the request of management or the Committee. The Committee also regularly reviews the resources and authority of the Group internal audit department.

External audit

The Audit Committee is responsible for reviewing external audit arrangements and for any recommendation to the Board regarding change of audit firm. This review includes consideration of the external auditor's period in office, their compensation and the scope, quality and cost-effectiveness of their work. At their December 2010 meeting, the Committee discussed the September 2010 public report by the FRC Audit Inspection Unit on their 2009/10 inspection of KPMG LLP and KPMG Audit Plc with the KPMG audit partner.

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

Non-audit fees payable to the auditor in 2010 were £301,000. This represents 67.3% of the audit fees of £447,000 which includes the audit of regulatory returns and of the interim statement (2009: £185,000, 51.4% of £360,000). The Committee recognises that, given their knowledge of the business, there are often advantages in using the auditor to provide certain non-audit services.

In 2010 the Committee and Board approved the use of KPMG for the provision of an independent opinion on an American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standard No. 70 (SAS70) Report on the Processing of Transactions by Service Organisations. The cost of this work together with pension advice was primarily responsible for the high non-audit KPMG costs in 2010.

Role and responsibilities of the Committee continued

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

Regarding the 2010 audit, presentations were received from the auditor on audit progress, findings and recommendations and unadjusted errors.

Confidential reporting policy

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

Other

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

Nomination Committee report

Committee members

The current members of the Nomination Committee are Mark Powell (chairman), Kate Avery, Caroline Burton, Oliver Corbett, David Harrel, Kathryn Matthews, Mark Nicholls and Andy Pomfret. Kate Avery, Kathryn Matthews and Mark Nicholls joined the Committee on their appointment to the Board.

The Committee met formally on two occasions in 2010 (2009: two). Details of attendance by members are set out on page 34. It also had informal discussions on a number of other occasions during the year.

Role of the Committee

The Committee considers and makes recommendations to the Board for the appointment of Directors; the Board as a whole decides upon any such appointment. 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. The Committee is mindful of the benefits of a diverse Board with a broad range of skills and experience and this has been reflected in recent Board appointments.

Regarding succession planning, the Board is exposed to senior management below Board level during visits to other offices, attendance at internal meetings and presentations by senior managers to the Board.

In June 2010, a firm of headhunters was approached regarding the recruitment of a new Non-executive Director with a view to him or her becoming Chairman on the retirement of Mark Powell in 2011. A long list of candidates was reviewed and four candidates selected for interview. Following those interviews, the Committee's recommendation to the Board was that Mark Nicholls be appointed.

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.

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

Corporate responsibility report

Introduction

I am pleased to introduce our third annual corporate responsibility report. Rathbones is committed to act as a good corporate citizen and takes its responsibilities as investment manager, employer and consumer seriously and I believe that this is reflected in this report of the Social and Environmental Committee (SEC) which I chair.

This Committee is responsible for ensuring that Rathbones effectively manages its sustainability issues. It is formed by members of staff from key functions such as facilities management, personnel, marketing, IT and investment management. It meets on a quarterly basis and reports directly to the Group Executive Committee of the Board.

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

The past year has been one of progress. Our total estimated carbon footprint has fallen by 3.3% from 2,521 tonnes CO_2e[1] in 2008/09 to 2,439 tonnes CO_2e in 2009/10. In particular, I am pleased to report a fall in business travel emissions following the disposal of our offshore trust businesses. Plans are well advanced for the move of our London data centre to a specialist third party provider which should lead to a reduction in energy usage associated with the cooling of the equipment which has always proved difficult and inefficient in our New Bond Street offices. The creation of a 'green team' in Liverpool, of which more below, has increased awareness of environmental issues in our key Liverpool office.

Looking forward, the SEC has recognised that it is unlikely that further significant reductions in our carbon footprint will be possible. It will therefore be looking at possible carbon offset arrangements with a view to making Rathbones a carbon neutral company.

Finally, I am delighted that our corporate responsibility reporting has been recognised with both the 2008 and 2009 reports nominated for the ICSA Hermes Transparency in Governance Award for best sustainability and stakeholder disclosure by a FTSE 250 company. The Company remains a constituent company in the FTSE4Good Index Series.

Andy Pomfret
Chief Executive
Chairman of the SEC

1 We have expressed our carbon footprint in terms of CO_2 equivalent (CO_2e) to accommodate non-CO_2 greenhouse gas emissions

Our strategy

Rathbones' corporate responsibility strategy can be summarised as follows:

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

Environment

As a responsible business, Rathbones believes that environmental concerns should be central to the day to day running of its business, and all due care and consideration should be given to reducing our impact on the environment.

Our direct environmental impacts are those typical of an office-based business, for example, energy consumption of buildings, travel related emissions, resource consumption and waste generation.

As such, Rathbones considers itself to be at limited risk from any change in regulation or government policy on issues such as climate change as they might relate to restrictions on emissions of major greenhouse gases. The Company is not a large emitter of such gases, nor is it an excessive consumer of resources. Unless future regulations impose restrictions on universal business environmental issues such as resource use, building procurement and business travel, then we do not consider that there would be any significant impact on our business.

The need to comply with any future tightening of energy efficiency standards would be of greater impact. However, Rathbones considers that the steps we have already taken in the course of refurbishing our Liverpool and London offices have largely addressed any reasonable measures we could be expected to take.

Our environmental performance

Scope

Our reporting period covers the year to 30 September 2010, with comparative figures for 2008/09 and 2007/08. The carbon footprint calculations now cover all UK employees[2].

Data has been collected and calculated in accordance with the requirements set in the following standards: the World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version), DEFRA Guidance on How to Report GHG Emissions (September 2009) and ISO 14064 – part 1. We have used the financial control approach in setting the organisational boundary, and measured our total direct Scope 1, 2 and significant Scope 3 emissions. Scope 1 includes all direct operational emissions (primarily from the use of gas for office heating), Scope 2 covers electricity consumption and Scope 3 includes all indirect operational emissions including business travel.

Base year

Our base year is 2007/08, which is the first year for which verifiable emissions data is available. Base year emissions for 2007/08 and 2008/09 have been recalculated in order to provide a means of consistent comparison across the years.

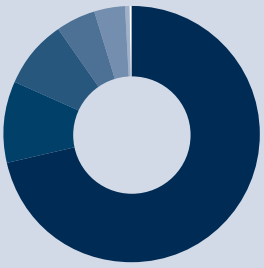
Our base year recalculation policy is to recalculate prior year emissions for relevant significant changes which meet our significance threshold of 5% of total base year emissions. This year, recalculation was undertaken to include three offices which had previously been excluded from the analysis; Birmingham, Jersey and Kendal. We have also included the newly acquired office in Aberdeen.

It should be noted that we have used the emissions factors for 2009 to recalculate the emissions figures stated for 2007/08 and 2010 emissions factors to recalculate 2008/09 figures. This is in accordance with the Government's guidance on incorporating updated emissions factors into previous carbon accounting, to ensure data accuracy and comparability.

Our carbon footprint

Our total carbon footprint for this year is 2,439 tonnes of CO_2e (2008/09: 2,521 tonnes of CO_2e). Our reported emissions have fallen 3.3% from last year as a result of a number of efficiency measures taken across our operations. In particular, a significant reduction in long haul flights has contributed to this improvement.

Chart 1. Tonnes of CO_2e by emissions source



	Tonnes CO_2e
Electricity	1,745
Gas	247
Flights	214
Non-company cars	120
National rail	95
Company cars	14
Taxis	4
Total	**2,439**

Table 1. Absolute and relative CO_2e from Rathbones' offices under scope

	2009/10	2008/09	2007/08 (Base year)[3]
Office floor space (m^2)	11,461	11,461	10,496
Number of employees as at 31 December[4]	689	683	673
Scope 1 (Gas, company cars)	261	267	308
Scope 2 (Electricity)	1,745	1,763	1,688
Scope 3 (Business travel)	433	491	505
Total CO_2e (tonnes)	2,439	2,521	2,501
Intensity measurement CO_2e (tonnes) per employee	3.54	3.69	3.72

2 Previously, the scope covered 92% of Group employees

3 Data re-baselined for 2008/09 and 2007/08 in order to include four offices previously excluded from calculations and to utilise the latest available emissions factors for the relevant years, using 2009 emissions factors for 2007/08, and 2010 emissions factors for 2008/09, in accordance with Government Guidelines

4 Employee numbers have been restated following the collection of improved data

Targets

Based on our carbon emissions during baseline year 2007/08, our overall goal is to reduce our carbon footprint where possible, to achieve savings year on year. In order to achieve this goal, we have agreed a series of actions focused on addressing carbon intensive activities. These include:

- Monitor and reduce the energy consumption of our offices through improved energy efficiency, management and staff engagement;
- Further reduce the need for travel through the use of video conferencing systems.

In addition, we are currently evaluating the business case for offsetting some of our carbon emissions.

Intensity measurement

In line with the Accounting for Sustainability model, we are reporting our carbon intensity against our operating income and funds under management.

Table 2. Carbon intensity

	2010 £m	2009 £m	**Carbon intensity[5] 2010**	2009
Operating income	**127.2**	116.8	**19.2**	21.6
Funds under management (FUM)	**15,630**	13,100	**0.16**	0.19

5 Tonnes CO_2e per £m of operating income or FUM

Liverpool case study

Rathbones occupies two floors in the iconic Grade II listed Port of Liverpool building. It is the largest office in the Group with 46% of employees based there. It was identified that significant improvements in the Group's environmental performance could be made by addressing the energy, travel, waste and resource impacts associated with the Liverpool office. A structured programme was introduced a number of years ago to strategically address the environmental performance of the Liverpool operation. Highlighted below are some of our milestones:

- an office refurbishment in 2006 allowed us to invest in energy efficient and sensor-controlled lighting technologies;
- waste and recycling facilities in the office were upgraded. We recycle our paper, card, plastic, metal, glass and toner waste;
- an environmental assessment in 2009 helped us measure our carbon footprint and identified carbon and cost saving opportunities;
- we have run a number of staff engagement projects to raise awareness and share learning;
- a green team has been created to encourage recycling, reduce energy usage and make people more aware of the environmental impact of their actions.

As a result of these actions we have managed to reduce the energy carbon footprint of the Liverpool office by 8% since 2007/08 and have achieved a zero-to-landfill policy.

Performance analysis

Energy

Electricity

Total electricity use and associated CO_2e emissions have decreased by 1% compared to the previous year. The main decrease was from the London office. Our IT infrastructure is a major user of electricity but consumption levels are falling as the energy efficiency of IT equipment improves. For example, 155 diskless PCs were deployed during the year, which use 10% of the power of a normal PC.

Natural gas

Natural gas consumption has decreased by 3% over the past year. Improved data quality has allowed us to measure a reduction in consumption in the Liverpool office of 126,900kWh, which has contributed significantly to the overall reduction. Gas use from a number of offices has been calculated using benchmark data, and accurate estimates of reduction cannot be calculated for those sites.

Objectives for 2011

We will continue to improve our data collection processes so that accurate data on energy consumption can be provided for all of our offices. We will seek to identify opportunities to improve our energy efficiency and will implement these where practical and cost-effective.

Business travel

Overall, we are pleased to report a total decrease of 14.4% in CO_2e emissions associated with business travel from the baseline year, and a 12% decrease on last year. These represent a significant proportion of the overall savings within the carbon footprint. Our business travel bookings are now fully centralised, and this has resulted in a higher level of data quality and reporting accuracy in the current reporting year.

Company cars

The emissions from our small fleet of company cars have remained stable this year.

Flights

A reduction in the total number of long haul flights contributed to a 28% reduction on the previous year's emissions, which was the largest reduction in CO_2e made throughout the total carbon footprint.

Rail

National rail travel decreased by 3% in 2009/10 from 1,732,000km to 1,675,000km, with a concurrent reduction of 3% in associated CO_2e.

Taxis and non-company cars

Our use of taxis has decreased by 46% to 15,113km with staff encouraged to use public transport where possible. This has contributed to a reduction in 3 tonnes CO_2e. Non-company car use has increased by 34% on the previous year, with a corresponding increase of 31 tonnes CO_2e in carbon emissions. This is due in part to the growth of the investment management business and in particular the acquisition of clients from the Lloyds Banking Group.

Objectives for 2011

We will continue to encourage the use of public transport where practical. Video conferencing facilities are being installed in those smaller Group offices which currently do not have the facility.

Waste and recycling

All offices have active recycling programmes with high levels of participation that cover at a minimum paper and cardboard. In most offices shredded paper, glass, plastic bottles and cans are also recycled. Of the 344kg of waste produced per employee per annum, it is estimated that 271kg is recycled.

Redundant IT equipment is passed to EOL IT Services (an approved WEEE disposal agent with a zero-to-landfill policy) for re-use or recycling. Wherever possible we continue to recycle fluorescent tubes, batteries, toner cartridges and mobile telephones.

We have carried out wide sampling of our waste streams in our main offices and have improved the quality of data received from our suppliers. We continue to improve our recycling level, achieving an estimated average 93% recycling level of recyclable materials across the business.

In London and Liverpool we have also seen waste to energy initiatives fully implemented and send 69% of our non-recycled waste to energy production. As a result, in London and Liverpool we have achieved our objective of sending no waste to landfill.

Objectives for 2011

We remain focused on reducing the mass of waste generation and improving recycling levels in our offices. Overall, we seek to achieve a total reduction in the amount of residual waste sent to landfill.

Table 3. Waste and recycling data

	Mass collected 2009/10 (tonnes)	**% of total**	Mass collected 2008/09 (tonnes)	% of total
Paper and cardboard	72	30%	70	30%
Secure shredding	106	45%	104	44%
Other materials	9	4%	9	4%
Total recycling	187	79%	183	78%
Waste to energy	34	14%	18	8%
Residual landfill waste	16	7%	33	14%
Total waste	**237**	**100%**	**234**	**100%**
Per employee (kg)	344		343	

Paper usage

Total paper consumption amounts to 128 tonnes, which is approximately equivalent to 17.1 million A4 sheets. Paper is an energy and carbon intensive product to produce. We aim, where possible, to reduce usage, to purchase recycled paper and to work with our print suppliers to reduce waste in the printing of our reports and brochures.

Table 4. Paper usage

Paper weight (tonnes)	Total 2009/10	Total 2008/09[6]	Total 2007/08[6]
Recycled paper	88	104	84
Virgin paper	40	18	24
Total paper	**128**	**122**	**108**
Recycled percentage	69%	85%	78%
Total paper usage per employee (kg)	186	179	160

6 As a result of data quality improvements, increases of 24 tonnes in the paper consumption for 2008/09, and 10 tonnes for 2007/08 reporting years were identified. These have been added into the calculation to reflect best available data.

69% of our paper consumption by weight is recycled stock. The majority of the stationery paper purchased is Evolve brand, a 100% recycled product made exclusively from UK post-consumer waste.

We have managed to reduce our stationery paper use by approximately 4 million sheets since 2007/08. Paper used for printing has, however, increased by 38% as a result of the growth of the investment management business and increased levels of client communication. This has resulted in a net increase in our overall paper consumption.

We have estimated that our paper consumption this year has caused emissions of 178 tonnes CO_2e. However, as no agreed standard currently exists for GHG emissions for paper, we have excluded this from the overall carbon footprint.

Objectives for 2011

We remain focused on improved paper management in our offices and will increase efforts to reduce our printed paper use. To address the issue of our increasing print consumption, we will consider means of delivering our client communications in a more resource efficient manner, and will consider electronic media as part of this review. We will also seek to reduce our use of virgin stock to achieve or exceed our 2007/08 level of 78% recycled stock.

Table 5. Performance versus our objectives

Our objective for 2010	Performance	Comment	Our objective for 2011
Energy			
Energy audit in Bristol	On track	An energy audit for the Bristol office has been commissioned	Investigate environmental benefits of outsourcing the London IT and communications facilities
Travel			
We will review our travel policy and seek ways of increasing the use of video conferencing	Achieved	We have reported a reduction in the number of flights. Our Scope 3 emissions have decreased by 17%	Introduce video conferencing facilities to all offices
Enhance the central travel booking system with online access	Achieved	The use of a single travel provider has increased our data quality significantly	Increase internal data quality rating to 4 by 2011 (see data quality rating below)
Waste			
Seek ways of reducing waste in offices other than London and Liverpool	On track	Our zero-to-landfill programme has been successfully initiated in our London and Liverpool offices	Seek ways of reducing waste in other offices
Paper usage			
Seek ways to reduce printed stationery use, particularly for client communication	On track	Stationery use has been successfully addressed. However, increased client communication has resulted in increased print consumption	Consider resource efficient options for delivering our client communications, including electronic media

Carbon Smart opinion statement

This statement provides Rathbones and its stakeholders with a third party assessment of the quality and reliability of Rathbones' carbon footprint data for the reporting period 1 October 2009 to 30 September 2010. It does not represent an independent third party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbone Brothers Plc for the third consecutive year to measure Rathbones' carbon footprint for all offices for its 2010 Corporate responsibility report. Through this engagement Carbon Smart has assured Rathbones that the reported carbon footprint is representative of the business and that the data presented is credible, coherent and compliant with appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 – part 1 standard and verified against the WRI GHG Protocol principles of completeness, consistency and accuracy.

Our work has included interviews with key Rathbones' personnel, a review of internal and external documentation, interrogation of source data and data collection systems including comparisons with the previous years.

We have concluded the following:

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

Completeness
Reported environmental data covers all employees and all entities that meet the criteria of being subject to control or significant influence of the reporting organisation. We recommend that Rathbones continues to improve its data collection processes.

Consistency
In order to ensure comparability, we have used the same calculation methodologies and assumptions as previous years. We have re-baselined data to account for four additional offices which were included under scope this year, as well as changes in the Government's emissions factors.

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

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

Carbon Smart has assessed the data quality against the GHG Protocol principles. Data from each emission source has been rated 1 (poorest) to 5 (best). For this year, overall data quality has been rated 3.6 which reflects a consistent improvement from the base year of 2.6.

Table 6. Data quality rating[7]

Scope	% Carbon footprint 2008/09	Data quality rating 2009/10	Data quality rating 2008/09	Data quality rating 2007/08
Overall	100%	3.6	3.2	2.6
Scope 1	11%	3	2	2
Scope 2	71%	4	4	3
Scope 3	18%	4	3	2
Paper	–	4	4	4
Waste and recycling	–	3	3	2

7 Most of our gas use data comes from meter readings or invoices. Data for gas consumption in the Birmingham, Cambridge and Chichester offices was not available and so a government benchmark was used. In the case of Liverpool, gas data was only available for the whole building and had to be adjusted pro rata to give estimated figures for the space occupied by Rathbones. Most electricity data comes from primary sources and is complete. Travel data quality has improved significantly from last year; approximately 5% of train journeys were estimated based on cost (2008/09: 40%). The waste data from Aberdeen, Birmingham, Chichester, Jersey and Kendal was estimated based on office samples. London paper data from last year has been recalculated based on a miscalculation discovered in the dataset. Paper consumption was based on paper purchased and printing records

Ben Murray
Director
Carbon Smart Limited

Louise Quarrell
Director
Carbon Smart Limited

16 February 2011

Clients

The fair treatment of our clients is central to our culture. We provide a personal service with a clear charging structure and aim to report to clients in a clear and understandable way. Each FSA regulated subsidiary has a director who is responsible for ensuring our adherence to the FSA's Treating Customers Fairly (TCF) principles or outcomes. Management information is produced and monitored at Board level. This covers staff training, client complaints, account closures and any TCF issues raised during internal peer reviews of client files.

During 2009, we undertook a telephone survey of a sample of clients. Feedback was generally positive. Lessons learned were that most clients really valued the personal contact from an Investment Manager. Many wanted less paper and more electronic communication. Our procedures for new clients have been simplified and revised with the introduction of a client guide to the process whilst our terms of business have been re-written. Our client web portal is increasingly used by clients to access their investment portfolio.

Investments

Asset allocation and stock selection form part of the Rathbone Investment Process from which all our Investment Managers draw guidance and investment ideas whilst retaining the necessary flexibility to ensure that their clients' individual needs are met.

Clients are not invested in pre-determined model portfolios but benefit from a structured portfolio construction process that encompasses the full range of assets that you would expect from a professional investment management firm, including equities, funds, gilts and corporate bonds, fund of hedge funds, structured products and so on.

To support this approach, Rathbones produces in-house strategic and tactical asset allocation models for its Investment Managers to assist them in constructing portfolios suitable for individual clients. Recommended lists are also produced in order to help our Investment Managers select individual holdings.

Internal performance monitoring and risk control processes ensure that the appropriate quality of service and fulfilment of client objectives are achieved.

Responsible investment

Although general investment activities are not covered by a formal responsible investment policy, social, environmental and ethical (SEE) considerations are taken into account for specific mandates throughout the Group, but particularly by our specialist ethical investment service, Rathbone Greenbank Investments. As at 31 December 2010, Rathbone Greenbank Investments had £434.5 million of funds under management, representing some 3% of the total funds managed by Rathbone Investment Management.

Media coverage and consumer awareness of SEE issues (especially climate change) continue to raise the profile of ethical or socially responsible investing. However, while coverage of socially responsible investment products (such as unit or investment trusts), ethical banking and ethical mortgages tends to be quite widespread, less attention is given to the opportunities for private investors to invest directly in companies addressing social and environmental challenges through bespoke portfolio management.

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

Affiliations

Rathbone Brothers Plc has been a signatory to the Carbon Disclosure Project since 2006 and became a signatory to the UN Principles for Responsible Investment in September 2009. In addition, Rathbone Greenbank Investments is a long-standing member of influential groups such as the UK Sustainable and Investment Finance association (UKSIF) and the Ecumenical Council for Corporate Responsibility (ECCR), as well as being a founding endorser of the Forest Footprint Disclosure Project.

Voting

During 2010, the Group continued to implement its policy on proxy voting, which covers 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.

As part of ongoing efforts to enhance the Group's governance and voting policy and ensure that we meet the key principles of the UK Stewardship Code (as published by the Financial Reporting Council in July 2010), we are appointing a proxy voting consultant to assist in this process.

Investments continued

Engagement

Engagement with companies on environmental, social or governance (ESG) matters is largely undertaken by Rathbone Greenbank Investments' ethical research team. This ranges from low level contact with companies on issues relating to ESG disclosure to participation in co-filing and voting on shareholder resolutions at company AGMs. These activities may occur as a result of fundamental analysis of companies' ESG data, or it may come about because of collaborative efforts initiated by interest groups such as UKSIF or the UN PRI's Clearinghouse project.

Employees

As with all professional services firms, Rathbones' greatest asset is its people. Their health, well-being, development, remuneration and involvement are all vital to the continuing success of the business.

Health and welfare

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

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

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 and practice 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 and adjustments are made to continue their employment and training. Should this not be possible we provide support in the form of a permanent health insurance scheme which pays a monthly income in lieu of salary and pays pension contributions on behalf of the employer and employee.

Work-life balance

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

Maternity benefits remain in excess of those required under statutory provisions. Career breaks of up to two years are also available for those with childcare responsibilities. Flexible working policies are offered with a high number of successful applications, particularly from parents with young children. On completion of five years' service, employees have the opportunity to take up to three months' unpaid leave once in every ten years without any loss of service-related benefits such as pension or death in service cover.

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

Code of conduct

FSA registered staff are required to adhere to FSA rules and to the Rathbones compliance manual. The manual includes the Rathbone code of business conduct and a number of policy documents including policies on dealing, gifts and business benefits and bribery and conflicts of interest.

Employees continued

Training and development

We are very much a people business and therefore training and development continues to be a high priority. In September we were successful in gaining accreditation from the Chartered Institute of Securities and Investment (CISI) for our continuous professional development scheme. This required us to demonstrate how our training measured up to the rigorous standards expected by the institute. The CISI were particularly impressed by the support for training and development from senior managers and the use of business sponsors to ensure that content of training is absolutely tailored and relevant to the needs of the business.

A number of successful initiatives continue to gain momentum with excellent feedback from participants, some of which are covered below.

Qualifications

Rathbones continues to support its staff to gain qualifications relevant to their roles. During 2010, 136 staff studied towards appropriate qualifications. The table below shows the variety of qualifications taken.

Qualification	Number of staff studying
CISI Investment Administration Qualification	38
Management Qualifications	23
CISI Private Client Investment Advice and Management Certificate	17
IT Qualifications	11
Chartered Financial Analyst	6
CISI Diploma and Masters in Wealth Management	6
Chartered Institute of Management Accountants	4
CISI Investment Advice Diploma	4
Project Management	4
Other	23
Total	**136**

Financial training

Following on from a 2009 course which focused on the use of financial ratios in stock selection, a number of portfolio construction technique courses were held in 2010 which 164 investment management staff attended.

Senior Investment Management Programme

Using a similar format to the Rathbone Development Programmes of previous years this course was targeted at 19 Investment Directors from around the Group. The aim was to engage them in the business to improve their understanding of the strategic issues faced by the business and to gain their input to challenges coming up in the future. The feedback was very positive and we plan to hold a similar programme next year which will include staff from the support departments with a view to increasing their business awareness.

CISI Chartered Membership

Following the granting of the Royal Charter to the CISI, 147 Investment Managers have upgraded their membership to become individually chartered members and in doing so are demonstrating a commitment to maintaining the highest standards of professional development and ethical behaviour.

Secretarial training

The secretarial training and networking programme has continued to grow with the aim of engaging secretaries in the business. It is designed to ensure that secretarial staff are aware of business changes that will affect them, for example, the introduction of a new client relationship management system and an online travel booking system. This initiative contributed to our success as being a runner up in the employer of the year category at the 2010 Executive PA magazine awards.

Management and leadership development

The development of good leadership and management skills within the Company is vital and we continue to run long term programmes that are linked to nationally recognised qualifications provided by the Chartered Management Institute. The training is very practical and concentrates on developing skills that can be immediately used back at the workplace. The delegates have the opportunity to share their experiences and constantly learn from each other.

IT skills

Our IT systems are fundamental to our business and the IT training team offer training that is completely bespoke. The great advantage of having in-house trainers, in addition to their knowledge of the business, is that they can personalise courses for small groups or use one to one sessions to ensure that staff can learn in a way suitable to them and which enables them to maximise the potential of our IT systems.

Employees continued

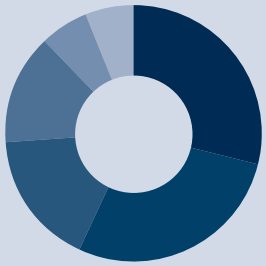
Coaching

We strive to provide a range of development opportunities to all staff across the Group and have recently increased the amount of coaching that is available for one to one performance enhancement. We have been able to do this because we now have qualified coaches within the training team.

Investment

Rathbones continues to invest in training, in 2010 we spent £393,000 on development (2009: £327,000). This equates to an average of £562 per person (2009: £480) and 2.2 days (2009: 2.3 days).

Chart 2. Expenditure by type of training



	%
Qualifications	29
Continuous professional development	28
Soft skills	17
Coaching	14
IT	6
Other	6

Challenges for the future

The FSA's Retail Distribution Review (RDR) has increased the focus on professional standards. We are reviewing the gaps between the new standards and the qualifications gained by staff and are supporting them with the training needed to refresh areas of knowledge. This is an opportunity for the business to provide some highly relevant and inspiring courses.

We have recently reviewed our examination requirements for Investment Managers in light of the new upgraded qualifications now available. The decision has been made that we will continue to encourage staff to complete qualifications over and above the minimum regulatory requirements.

Communities

Donations and fundraising

During the year, the Group made total charitable donations of £162,000, representing 0.54% of continuing Group pre-tax profits (2009: £174,098, representing 0.59% of continuing Group pre-tax profits).

Employees are encouraged to donate to charity in a tax efficient manner through the Give As You Earn (GAYE) payroll giving scheme. In 2010, Rathbone employees made payments totalling £107,000 (2009: £384,000) through this scheme, which is administered by the Charities Aid Foundation. The Company matched staff donations of up to £200 per month made through GAYE and in 2010 donated £85,000 (2009: £81,000) to causes chosen by employees through this method.

In 2010, Children with Leukaemia and The Anthony Nolan Trust were selected by an employee ballot as the charities we would support for 2010 and 2011. During 2010, £8,000 has been raised by employees for these two charities.

During the year, Rathbone employees have undertaken a wide variety of community and fundraising events.

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

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Disclosure of information to auditor

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

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

We confirm that to the best of our knowledge:

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

By Order of the Board

A D Pomfret
Chief Executive

16 February 2011

Consolidated financial statements

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

We have audited the financial statements of Rathbone Brothers Plc for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated and Company statement of comprehensive income, consolidated and Company statement of changes in equity, consolidated and Company statement of financial position, consolidated and Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement in respect of the report and accounts set out on page 60, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at:

www.frc.org.uk/apb/scope/UKP.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate governance report set out on page 32 with internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 60, in relation to going concern;
- the part of the Corporate governance report on page 32, relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

15 Canada Square, London E14 5GL

16 February 2011

Consolidated income statement

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Interest and similar income		**10,274**	21,502
Interest expense and similar charges		**(1,445)**	(3,006)
Net interest income	4	**8,829**	18,496
Fee and commission income		**124,432**	103,735
Fee and commission expense		**(7,762)**	(7,351)
Net fee and commission income	5	**116,670**	96,384
Dividend income	6	**90**	80
Net trading income	6	**226**	358
Other operating income	6	**1,369**	1,439
Operating income		**127,184**	116,757
Levies for the Financial Services Compensation Scheme	7	**(3,575)**	(229)
Amortisation of client relationships	20	**(4,845)**	(1,967)
Transaction costs	7	**–**	(782)
Other operating expenses		**(88,681)**	(84,311)
Operating expenses	7	**(97,101)**	(87,289)
Profit before tax from continuing operations		**30,083**	29,468
Taxation	9	**(8,531)**	(9,271)
Profit after tax from continuing operations		**21,552**	20,197
Discontinued operations			
Loss before tax from discontinued operations		**–**	(391)
Income tax credit on loss before tax from discontinued operations		**–**	33
Loss recognised on re-measurement of assets of the disposal group		**–**	(211)
Net loss from discontinued operations	10	**–**	(569)
Profit for the period attributable to equity holders of the Company		**21,552**	19,628
Dividends paid and proposed for the year per ordinary share	11	**44.00p**	42.00p
Dividends paid and proposed for the year		**19,067**	18,159
Earnings per share for the period attributable to equity holders of the Company:	12		
– basic		**49.76p**	45.55p
– diluted		**49.35p**	45.53p
Earnings per share from profit from continuing operations for the period attributable to equity holders of the Company:	12		
– basic		**49.76p**	46.87p
– diluted		**49.35p**	46.85p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Profit for the year attributable to equity holders of the Company		**21,552**	19,628
Other comprehensive income:			
Exchange translation differences		**9**	(182)
Net actuarial loss on retirement benefit obligation	25	**(3,005)**	(8,626)
Revaluation of available for sale investment securities:			
– net gain/(loss) from changes in fair value	16	**155**	(59)
Deferred tax relating to components of other comprehensive income:			
– available for sale investment securities		**(13)**	17
– actuarial gains and losses		**782**	2,415
Other comprehensive income for the year, net of tax		**(2,072)**	(6,435)
Total comprehensive income for the year, net of tax attributable to equity holders of the Company		**19,480**	13,193

Consolidated statement of changes in equity

for the year ended 31 December 2010

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Translation reserve £'000	Total other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 January 2009		2,143	28,957	31,835	2,119	786	34,740	118,791	184,631
Profit for the year								19,628	19,628
Exchange translation differences						(182)	(182)		(182)
Net actuarial loss on retirement benefit obligation	25							(8,626)	(8,626)
Revaluation of available for sale investment securities	16				(59)		(59)		(59)
Deferred tax relating to components of other comprehensive income					17		17	2,415	2,432
Dividends paid	11							(18,066)	(18,066)
Issue of share capital	26	22	2,799						2,821
Reclassification of translation reserve on disposal of subsidiaries	10					(359)	(359)	359	–
Share-based payments:									
– value of employee services								1,219	1,219
– transfer to liabilities for cash settled awards								(119)	(119)
– costs of shares issued/purchased	19							(1,096)	(1,096)
– tax on share-based payments								(94)	(94)
At 1 January 2010		**2,165**	**31,756**	**31,835**	**2,077**	**245**	**34,157**	**114,411**	**182,489**
Profit for the year								**21,552**	**21,552**
Exchange translation differences						**9**	**9**		**9**
Net actuarial loss on retirement benefit obligation	25							**(3,005)**	**(3,005)**
Revaluation of available for sale investment securities	16				**155**		**155**		**155**
Deferred tax relating to components of other comprehensive income					**(13)**		**(13)**	**782**	**769**
Dividends paid	11							**(18,167)**	**(18,167)**
Issue of share capital	26	**4**	**732**						**736**
Reclassification of translation reserve on liquidation of subsidiaries	10					**(254)**	**(254)**	**254**	**–**
Share-based payments:									
– value of employee services								**1,054**	**1,054**
– costs of shares issued/purchased								**(569)**	**(569)**
– tax on share-based payments	19							**351**	**351**
At 31 December 2010		**2,169**	**32,488**	**31,835**	**2,219**	**–**	**34,054**	**116,663**	**185,374**

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

Consolidated statement of financial position

as at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Cash and balances at central banks	13	**4**	315
Settlement balances		**18,169**	17,305
Loans and advances to banks	14	**39,565**	92,661
Loans and advances to customers	15	**40,025**	26,745
Investment securities			
– available for sale	16	**42,587**	86,932
– held to maturity	16	**751,085**	694,000
Prepayments, accrued income and other assets	17	**36,368**	29,878
Property, plant and equipment	18	**6,143**	5,676
Deferred tax asset	19	**2,474**	1,603
Intangible assets	20	**91,702**	81,973
Total assets		**1,028,122**	1,037,088
Liabilities			
Deposits by banks	21	**3,304**	7,379
Settlement balances		**23,712**	22,157
Due to customers	22	**762,026**	766,361
Accruals, deferred income, provisions and other liabilities	23	**42,455**	46,875
Current tax liabilities		**4,608**	2,414
Retirement benefit obligations	25	**6,643**	9,413
Total liabilities		**842,748**	854,599
Equity			
Share capital	26	**2,169**	2,165
Share premium	26	**32,488**	31,756
Other reserves		**34,054**	34,157
Retained earnings		**116,663**	114,411
Total equity		**185,374**	182,489
Total liabilities and equity		**1,028,122**	1,037,088

The financial statements were approved by the Board of Directors and authorised for issue on 16 February 2011 and were signed on its behalf by:

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number: 01000403.

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

Consolidated statement of cash flows

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**30,083**	29,468
Net interest income		**(8,829)**	(18,496)
Impairment losses on loans and advances	15	**95**	22
Profit on disposal of plant and equipment		**(37)**	(20)
Depreciation and amortisation		**8,405**	5,340
Defined benefit pension scheme charges	25	**1,510**	1,852
Share-based payment charges	8	**1,729**	1,219
Interest paid		**(1,413)**	(3,889)
Interest received		**11,754**	33,819
		43,297	49,315
Changes in operating assets and liabilities:			
– net decrease/(increase) in loans and advances to banks and customers		**24,572**	(42,557)
– net increase in settlement balance debtors		**(864)**	(1,554)
– net (increase)/decrease in prepayments, accrued income and other assets		**(7,980)**	3,436
– net decrease in amounts due to customers and deposits by banks		**(8,410)**	(265,751)
– net increase in settlement balance creditors		**1,555**	8,109
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**6,598**	(8,723)
Cash generated from/(used in) operations		**58,768**	(257,725)
Defined benefit pension contributions paid	25	**(7,285)**	(6,788)
Tax paid		**(6,089)**	(9,625)
Discontinued operations	10	**–**	(1,522)
Net cash inflow/(outflow) from operating activities		**45,394**	(275,660)
Cash flows from investing activities			
Disposal of businesses, net of cash transferred	32	**–**	(1,341)
Purchase of property, equipment and intangible assets		**(30,417)**	(3,319)
Proceeds from sale of property, plant and equipment		**128**	65
Purchase of investment securities	16	**(1,679,090)**	(1,796,282)
Proceeds from sale and redemption of investment securities	16	**1,622,005**	1,977,261
Discontinued operations	10	**–**	(4)
Net cash (used in)/generated from investing activities		**(87,374)**	176,380
Cash flows from financing activities			
Purchase of shares for share-based schemes		**(286)**	(468)
Issue of ordinary shares	32	**453**	2,193
Dividends paid	11	**(18,167)**	(18,066)
Net cash used in financing activities		**(18,000)**	(16,341)
Net decrease in cash and cash equivalents		**(59,980)**	(115,621)
Cash and cash equivalents at the beginning of the period		**139,044**	255,021
Effect of exchange rate changes on cash and cash equivalents		**5**	(356)
Cash and cash equivalents at the end of the period	32	**79,069**	139,044

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

1 Principal accounting policies

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its Company financial statements in accordance with IFRS for the first time and consequently IFRS 1 'First time adoption of International Financial Reporting Standards' has been applied; the Company financial statements are presented on page 109.

Developments in reporting Standards and Interpretations

Standards affecting the financial statements
In the current year, there have been no new or revised Standards and Interpretations that have been adopted and have affected the amounts reported in these financial statements.

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

- IFRS 3, 'Business Combinations (revised 2008)'
- IAS 27, 'Consolidated and Separate Financial Statements (revised 2008)'
- IFRIC 17, 'Distributions of Non-cash Assets to Owners'
- Amendments to IFRS 2, 'Share-based Payments: Vesting Conditions and Cancellations & Group Cash-settled Share-based Payment Transactions'

The following amendments were made as part of 'Improvements to IFRS (2009)':

- Amendments to IAS 38 'Intangible Assets'
- Amendments to IFRS 8 'Operating Segments'
- Amendments to IAS 7 'Statement of Cash Flows'
- Amendments to IAS 36 'Impairment of Assets'

New Standards and Interpretations

A number of new standards, amendments to Standards and Interpretations, are effective for annual periods beginning after 1 January 2010, and therefore have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant affect on the consolidated financial statements of the Group, except for IFRS 9 'Financial Instruments', which is not yet adopted by the EU and is expected to become mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

Basis of consolidation

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

Subsidiaries are all entities in which the Company has a controlling interest, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity is a subsidiary of the Company. 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 results of subsidiaries are included in the consolidated financial statements up to the date that control ceases.

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. 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.

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

1 Principal accounting policies continued

Basis of preparation

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

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the business review on page 23.

Net interest income

Interest income and expense are recognised as earned in the income statement for all instruments measured at amortised cost and for available for sale debt instruments using the effective interest method. Dividends receivable from money market funds are 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 received.

Operating leases

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

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 evenly 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 to their estimated residual value over their estimated useful lives, using the straight line method, on the following bases:

Leasehold property:	over the lease term
Plant, equipment and computer hardware:	over three to ten years

The assets' residual lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

1 Principal accounting policies continued

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

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

b Computer software and software development costs

Acquired computer software licences 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 that are directly associated with the production of identifiable and unique software products controlled by the Group are recognised as intangible assets when the recognition requirements of IAS 38 are met. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

Costs associated with developing or maintaining computer software programs that are not recognised as assets are recognised as an expense as incurred.

c Client relationships

Client relationships acquired are initially recognised at 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 (ten to fifteen years). When client relationships are lost the full amount of unamortised cost is recognised immediately and the intangible asset is derecognised.

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. Financial assets are initially recognised at fair value.

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, which are categorised as fair value through profit or loss, are reported within other assets or other liabilities.

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. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

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. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

1 Principal accounting policies continued

d Available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are those intended to be held for an indefinite period of time, 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 liabilities 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 in the statement of other comprehensive income and presented in the available for sale reserve in equity, 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.

Impairment

Goodwill and other intangible assets with indefinite useful lives are tested for impairment annually, and when there is an indication of impairment.

Financial assets and other assets with finite useful lives are assessed at the reporting date or if there is objective evidence of impairment during the accounting period. 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). Held to maturity investment securities and loans and receivables are considered individually for impairment.

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. Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment of available for sale securities is calculated as the cumulative loss that has been previously recognised directly in equity at the time that objective evidence of impairment is identified.

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 subsequently reverses, the carrying amount of any asset, except for goodwill, equity instruments or cash generating units, is increased to the revised estimate of its recoverable amount, which is no greater than 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 investment security or loans and receivables is reversed only if the value 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.

1 Principal accounting policies continued

Deposits and borrowings

All deposits and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, deposits 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 discounts or premia on settlement. Borrowing costs are recognised as an expense in the period in which they are incurred.

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 are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised within interest expense.

Foreign currencies

The Company's functional and the Group's presentational currency is Sterling. Transactions in currencies other than the relevant Group entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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.

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 statement of financial position 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 transferred to equity 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 obligations

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 statement of financial position date. Actuarial gains and losses are recognised in full in the period in which they occur, in the statement of comprehensive income.

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 statement of financial position 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.

Death in service benefits are provided to all employees through the pension schemes. The amount recognised in the statement of financial position for death in service benefits represents the present value of the estimated obligation, reduced by the extent to which any future liabilities will be met by insurance policies.

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

1 Principal accounting policies continued
Taxation continued

Deferred tax is accounted for using the statement of financial position 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 for which amortisation is not deductible for tax purposes; or
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination.

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 the Group's intention not to reverse the temporary difference in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each statement of financial position 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 determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the 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 in hand and demand deposits which may be accessed without penalty.

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

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

Share-based payments

The Group engages in share-based payment transactions in respect of services received from certain employees. In relation to equity settled share-based payments, 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, with a corresponding credit to equity.

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, with a corresponding adjustment to equity. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met. Shares purchased and issued are charged directly to equity.

For cash settled share-based payments, a liability is recognised for the services received, measured initially at the fair value of the liability. At the date on which the liability is settled, and at each statement of financial position date between grant date and settlement, the fair value of the liability is remeasured with any changes in fair value recognised in profit or loss for the year.

Segmental reporting

The Group determines and presents operating segments based on the information that is provided internally to the Group Executive Committee, which is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and

1 Principal accounting policies continued
Segmental reporting continued

expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Executive Committee to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are organised around the services provided to clients, a description of the services provided by each segment is given in Rathbones at a glance on page 6. No operating segments have been aggregated in the Group's financial statements. Transactions between operating segments are reported within the income or expenses for those segments. Indirect costs are allocated between segments in proportion to the principal cost driver for each category of indirect costs that is generated by each segment.

Fiduciary activities

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

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 amounts due to clients are not shown on the face of the statement of financial position as the Group is not beneficially entitled thereto.

Financial guarantees

The Group provides a limited number of financial guarantees which are fully backed by assets in clients' portfolios. Financial guarantees are initially recognised in the statement of financial position 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.

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.

Client relationship intangibles

The Group makes estimates about the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and management's expectations for the future. During the year client relationship intangible assets were amortised over a 10 – 15 year period. Amortisation of £4,845,000 was charged during the year. A reduction in the average amortisation period of 1 year would increase the amortisation charge by approximately £410,000.

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

Financial Services Compensation Scheme levies

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

The FSCS announced on 20 January 2011 that it would be raising an interim levy of £326 million, principally to cover the cost of compensating investors from the failure of Keydata Investment Services Limited (Keydata) and other intermediaries. On 24 January 2011 the Group received invoices totalling £3,203,000 for the Keydata and other intermediary failures. This cost has been charged to profit in the financial statements and recognised within accruals.

It is possible that the FSCS will make future recoveries from third parties and from the underlying assets for which compensation is being paid. However, the timing and total amount of these recoveries is uncertain, as is the Group's share of any recoveries made.

The total amount relating to FSCS levies charged to the income statement during 2010 was £3,575,000.

Vendor loan notes

As described in note 15, the Group has issued vendor loan notes (notes) with a nominal value of £5,000,000 to the acquirer of the Group's Jersey trust operations in 2008. The notes are repayable on the occurrence of certain events, principally the refinancing of the operations disposed of.

2 Critical accounting judgements and key sources of estimation and uncertainty continued
Vector loan notes continued

The carrying value of the notes has been calculated as £3,267,000 using a discounted cash flow model based on the estimated repayment date, using a discount rate equal to the initial effective interest rate of the loan. Changing the estimated repayment date of the notes by one year would result in an increase or decrease in their carrying value of approximately £250,000. A 1% increase/decrease in the assumed rate at which interest accrues under the loan would increase/decrease the carrying value of the loan by approximately £96,000.

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 £6,643,000 are given in note 25.

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 and information on the sensitivity of the retirement benefit obligation to changes in underlying estimates is set out in note 25.

3 Segmental information

Operating segments

For management purposes, the Group is currently organised into three operating divisions: Investment Management, Unit Trusts and Trust and Tax Services. The products and services from which each reportable segment derives its revenues are described in Rathbones at a glance on page 6. These segments are the basis on which the Group reports its performance to the Executive Committee. Certain items of income are presented within different categories of operating income in the financial statements compared to the presentation for internal reporting. The information presented in this note follows the presentation for internal reporting to the Group Executive Committee.

31 December 2010	Investment Management £'000	Unit Trusts £'000	Trust and Tax Services £'000	Total £'000
Net fee income	**68,485**	**7,074**	**4,931**	**80,490**
Net commission	**36,180**	**–**	**–**	**36,180**
Net interest and other income	**10,030**	**343**	**141**	**10,514**
Operating income	**114,695**	**7,417**	**5,072**	**127,184**
Staff costs – fixed	**(26,239)**	**(2,161)**	**(2,673)**	**(31,073)**
Staff costs – variable	**(13,756)**	**(1,233)**	**(232)**	**(15,221)**
Total staff costs	**(39,995)**	**(3,394)**	**(2,905)**	**(46,294)**
Other direct expenses	**(11,907)**	**(1,545)**	**(617)**	**(14,069)**
Allocation of indirect expenses	**(25,151)**	**(1,686)**	**(1,481)**	**(28,318)**
Underlying operating expenses	**(77,053)**	**(6,625)**	**(5,003)**	**(88,681)**
Underlying profit before tax	**37,642**	**792**	**69**	**38,503**
Levies for the Financial Services Compensation Scheme	**(3,332)**	**(243)**	**–**	**(3,575)**
Amortisation of client relationships	**(4,845)**	**–**	**–**	**(4,845)**
Transaction costs	**–**	**–**	**–**	**–**
Profit before tax attributable to equity holders of the Company	**29,465**	**549**	**69**	**30,083**
Income tax expense				**(8,531)**
Profit for the year attributable to equity holders of the Company				**21,552**

	Investment Management £'000	Unit Trusts £'000	Trust and Tax Services £'000	Total £'000
Segment total assets	**995,501**	**12,923**	**9,416**	**1,017,840**
Unallocated assets				**10,282**
Total assets				**1,028,122**

3 Segmental information continued
Operating segments continued

31 December 2009	Investment Management £'000	Unit Trusts £'000	Trust and Tax Services £'000	Total £'000
Net fee income	55,784	7,590	4,657	68,031
Net commission	28,740	–	–	28,740
Net interest and other income	19,789	130	67	19,986
Operating income	104,313	7,720	4,724	116,757
Staff costs – fixed	(25,170)	(2,086)	(2,483)	(29,739)
Staff costs – variable	(13,900)	(1,852)	(315)	(16,067)
Total staff costs	(39,070)	(3,938)	(2,798)	(45,806)
Other direct expenses	(9,725)	(2,138)	(465)	(12,328)
Allocation of indirect expenses	(23,406)	(1,479)	(1,292)	(26,177)
Underlying operating expenses	(72,201)	(7,555)	(4,555)	(84,311)
Underlying profit before tax	32,112	165	169	32,446
Levies for the Financial Services Compensation Scheme	(212)	(17)	–	(229)
Amortisation of client relationships	(1,967)	–	–	(1,967)
Transaction costs	(782)	–	–	(782)
Profit before tax from continuing operations	29,151	148	169	29,468
Discontinued operations	–	–	(602)	(602)
Profit/(loss) before tax attributable to equity holders of the Company	29,151	148	(433)	28,866
Income tax expense from continuing operations				(9,271)
Income tax credit from discontinued operations				33
Profit for the year attributable to equity holders of the Company				19,628

	Investment Management £'000	Unit Trusts £'000	Trust and Tax Services £'000	Total £'000
Segment total assets	1,002,284	15,947	9,472	1,027,703
Unallocated assets				9,385
Total assets				1,037,088

Included within Investment Management net fee and commission income is £1,225,000 (31 December 2009: £1,028,000) of fee and commission receivable from Unit Trusts. Included within Trust and Tax Services net fee and commission income is £31,000 (31 December 2009: £86,000) of fees receivable from Investment Management. Intersegment sales are charged at prevailing market prices.

Centrally incurred indirect expenses are allocated to operating segments on the basis of the cost drivers that generate the expenditure.

Geographic analysis
The following table presents operating income analysed by the geographical location of the Group entity providing the service.

Operating income by geographical market (continuing operations)

	2010 £'000	2009 £'000
United Kingdom	**123,119**	113,121
Jersey	**4,065**	3,636
	127,184	116,757

3 Segmental information continued
Geographic analysis continued

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

Non-current assets by geographical location (continuing operations)

	2010 £'000	2009 £'000
United Kingdom	**97,053**	87,645
Jersey	**792**	4
	97,845	87,649

Major clients

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

4 Net interest income

	2010 £'000	2009 £'000
Interest income		
Held to maturity investment securities	**8,083**	16,250
Available for sale investment securities	**555**	1,583
Loans and advances to banks and customers	**1,636**	3,669
	10,274	21,502
Interest expense		
Banks and customers	**(1,445)**	(3,006)
Net interest income	**8,829**	18,496

5 Net fee and commission income

	2010 £'000	2009 £'000
Fee and commission income		
Investment Management	**106,602**	86,577
Unit Trusts	**12,930**	12,587
Trust and Tax Services	**4,900**	4,571
	124,432	103,735
Fee and commission expense		
Investment Management	**(3,131)**	(3,023)
Unit Trusts	**(4,631)**	(4,328)
	(7,762)	(7,351)
Net fee and commission income	**116,670**	96,384

6 Dividend, net trading and other operating income

Dividend income

Dividend income comprises income from available for sale equity securities of £90,000 (2009: £80,000).

Net trading income

Net trading income of £226,000 (2009: £358,000) comprises unit trust net dealing profits.

Other operating income

Other operating income of £1,369,000 (2009: £1,439,000) comprises rental income from sub-leases on certain properties leased by Group companies and sundry income.

7 Operating expenses

	2010 £'000	2009 £'000
Staff costs (note 8)	**58,997**	56,594
Depreciation of property, plant and equipment (note 18)	**2,207**	2,180
Amortisation of internally generated intangible assets included in operating expenses (note 20)	**355**	278
Amortisation of purchased software (note 20)	**998**	915
Auditor's remuneration (see below)	**748**	545
Impairment losses on loans and advances (note 15)	**95**	22
Operating lease rentals	**5,299**	5,039
Other	**19,982**	18,738
Other operating expenses	**88,681**	84,311
Levies for the Financial Services Compensation Scheme[1]	**3,575**	229
Amortisation of client relationship intangible assets (note 20)	**4,845**	1,967
Transaction costs[2]	**–**	782
Total operating expenses	**97,101**	87,289

1 The arrangements put in place by the Financial Services Compensation Scheme (FSCS) to protect depositors of failed institutions resulted in significant FSCS levies on the industry. The failure of Keydata Investment Services Limited (Keydata) and other intermediaries resulted in a considerable increase in the levy made by the FSCS to the Group. The Group has accrued £3,575,000 in 2010 in respect of its share of the cost of FSCS borrowings including a provision for the 2010/2011 levy year, of which £3,203,000 relates to Keydata and other intermediaries (note 23). Recoveries in future years by the FSCS may become available to offset this liability but the amount and timing of these is highly uncertain and no allowance has been made for these in calculating this liability. Further charges for historical failures by financial institutions are likely to be incurred in future years and the ultimate cost remains uncertain (note 30).

2 During 2009, the Group entered into an agreement to acquire certain discretionary investment management assets and operations (note 20). Legal and professional fees and staff incentive payments totalling £782,000 were recognised during 2009 in relation to this. There were no fees in relation to this during 2010.

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

	2010 Total £'000	PwC £'000	KPMG £'000	2009 Total £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**84**	–	85	85
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	**286**	–	203	203
– other services pursuant to legislation	**86**	–	104	104
– tax services	**53**	7	–	7
– other services	**192**	6	62	68
Fees payable to the Company's auditors in respect of the prior year	**47**	78	–	78
Total	**748**	91	454	545

Fees for other services pursuant to legislation include £77,000 for the audit of the Group's regulatory returns and review of the interim statement (2009: £72,000).

8 Staff costs

	2010 £'000	2009 £'000
Wages and salaries	**48,671**	47,063
Social security costs	**5,771**	5,407
Share-based payments	**1,729**	1,219
Pension costs (note 25)		
– defined benefit schemes	**1,510**	1,852
– defined contribution schemes	**1,316**	1,053
	2,826	2,905
	58,997	56,594

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

	2010	2009
Investment Management	**453**	438
Unit Trusts	**24**	24
Trust and Tax Services	**43**	40
Shared Services	**179**	179
Continuing operations	**699**	681

9 Income tax expense

	2010 £'000	2009 £'000
Current tax	**8,200**	5,899
Adjustments in respect of previous years	**82**	154
Deferred tax (note 19)	**249**	3,218
	8,531	9,271

The tax charge on profit from continuing operations for the year is higher (2009: higher) than the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%). The differences are explained below:

	2010 £'000	2009 £'000
Tax on profit from ordinary activities at the standard rate of 28.0% (2009: 28.0%)	**8,423**	8,251
Effects of:		
– disallowable expenses[1]	**340**	566
– share-based payments	**(30)**	30
– tax on overseas earnings	**(77)**	(22)
– (over)/under provision for tax in previous years	**(136)**	446
– other	**(35)**	–
Effect of change in corporation tax rate	**46**	–
	8,531	9,271

1 The tax effect of disallowable expenses in 2009 included £219,000 in respect of the Lloyds Banking Group transaction (note 20).

The UK Government has proposed that the UK corporation tax rate is reduced to 24.0% over the four years from 2011. At 31 December 2010 only the first step of this reduction, to 27.0%, had been substantively enacted. Consequently deferred tax assets and liabilities are calculated at 27.0%.

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 £1,120,000 has been credited directly to equity (2009: £2,338,000).

10 Disposal groups and discontinued operations

On 10 February 2009 the Group disposed of its subsidiary Rathbone Trust Company S.A., on 31 March 2009 the Group disposed of its subsidiaries Rathbone Trust Company (BVI) Limited and Rathbone Trust (Singapore) Pte. Limited and on 17 November 2009 the Group disposed of its subsidiary Rathbone Trust International B.V.

On 12 November 2009, the Group ceased to be represented on the Board of Rathbone International Finance B.V., the Group's trading agreements with that company were terminated and the Group ceased to have effective control over it. The Group ceased to consolidate the results of Rathbone International Finance B.V. with effect from that date.

The voluntary liquidations of Rathbone Trust Company B.V. and Rathbone Bank (BVI) Limited, both of which commenced in 2009, were completed on 6 July 2010 and 5 November 2010 respectively. This completed the final stage of the Group's exit from overseas trust activities.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2010 £'000	2009 £'000
Operating income	**–**	959
Operating expenses	**–**	(1,350)
Loss before tax from discontinued operations	**–**	(391)
Attributable tax credit	**–**	33
Loss after tax from discontinued operations	**–**	(358)
Loss recognised on re-measurement of assets of the disposal group	**–**	(211)
Attributable tax expense	**–**	–
Loss from discontinued operations	**–**	(569)

The operations of these businesses are included within Trust and Tax Services in the segmental analysis in note 3.

Cash flows arising from discontinued operations, which have been included in the consolidated statement of cash flows, were as follows:

	2010 £'000	2009 £'000
Net cash outflow from operating activities	**–**	(1,522)
Net cash used in investing activities	**–**	(4)
Net decrease in cash and cash equivalents	**–**	(1,526)

As a result of the liquidations and disposals of subsidiaries in the year as described above, £254,000 (2009: £359,000) was transferred from the translation reserve to retained earnings.

11 Dividends

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the year:		
– second interim dividend for the year ended 31 December 2009 of 26.0p (final dividend for the year ended 31 December 2008: 26.0p) per share	**11,246**	11,164
– first interim dividend for the year ended 31 December 2010 of 16.0p (2009: 16.0p) per share	**6,921**	6,902
	18,167	18,066
Proposed final dividend for the year ended 31 December 2010 of 28.0p (2009: second interim dividend of 26.0p) per share	**12,146**	11,257

An interim dividend of 16.0p per share was paid on 6 October 2010 to shareholders on the register at the close of business on 17 September 2010 (2009: 16.0p).

A final dividend declared of 28.0p per share is payable on 18 May 2011 to shareholders on the register at the close of business on 3 May 2011. The final dividend is subject to approval by shareholders at the Annual General Meeting on 11 May 2011 and has not been included as a liability in these financial statements.

12 Earnings per share

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

	2010 Pre tax £'000	2010 Taxation £'000	2010 Post tax £'000	2009 Pre tax £'000	2009 Taxation £'000	2009 Post tax £'000
Underlying profit attributable to shareholders	**38,503**	**(10,889)**	**27,614**	32,446	(9,886)	22,560
Levies for the Financial Services Compensation Scheme	**(3,575)**	**1,001**	**(2,574)**	(229)	64	(165)
Amortisation of client relationships	**(4,845)**	**1,357**	**(3,488)**	(1,967)	551	(1,416)
Transaction costs	**–**	**–**	**–**	(782)	–	(782)
Profit from continuing operations	**30,083**	**(8,531)**	**21,552**	29,468	(9,271)	20,197
Loss from discontinued operations	**–**	**–**	**–**	(602)	33	(569)
Profit attributable to shareholders	**30,083**	**(8,531)**	**21,552**	28,866	(9,238)	19,628

Basic earnings per share has been calculated by dividing earnings by the weighted average number of shares in issue throughout the period of 43,307,423 (2009: 43,087,369).

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):

	2010	2009
Weighted average number of ordinary shares in issue during the period – basic	**43,307,423**	43,087,369
Effect of ordinary share options	**76,153**	15,948
Effect of dilutive shares issuable under the Share Incentive Plan	**116,364**	7,977
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**169,580**	–
Diluted ordinary shares	**43,669,520**	43,111,294

Earnings per share from discontinued operations and underlying earnings per share were as follows:

	2010	2009
Earnings per share from discontinued operations for the year attributable to equity holders of the Company:		
– basic	**–**	(1.32)p
– diluted	**–**	(1.32)p
Underlying earnings per share from continuing operations for the year attributable to equity holders of the Company:		
– basic	**63.76p**	52.36p
– diluted	**63.23p**	52.33p

13 Cash and balances at central bank

	2010 £'000	2009 £'000
Cash in hand (note 32)	**4**	5
Mandatory reserve deposits	**–**	310
	4	315

Mandatory reserve deposits, which are held with central banks, 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.

14 Loans and advances to banks

	2010 £'000	2009 £'000
Repayable:		
– on demand or at short notice	**31,305**	52,036
– 3 months or less excluding on demand or at short notice	**8,260**	40,003
– 1 year or less but over 3 months	**–**	622
	39,565	92,661
Amounts include loans with:		
– variable interest rates	**28,084**	51,873
– fixed interest rates	**11,430**	40,625
– non-interest bearing	**51**	163
	39,565	92,661

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 2010 were £39,565,000 (note 32) (2009: £55,039,000).

The Group's exposure to credit risk arising from loans and advances to banks is described in note 28.

15 Loans and advances to customers

	2010 £'000	2009 £'000
Repayable:		
– on demand or at short notice	**4,461**	4,043
– 3 months or less excluding on demand or at short notice	**10,129**	6,670
– 1 year or less but over 3 months	**22,040**	12,016
– 5 years or less but over 1 year	**271**	831
– over 5 years	**3,267**	3,267
Less: allowance for losses on loans and advances	**(143)**	(82)
	40,025	26,745
Amounts include loans with:		
– variable interest rates	**35,182**	21,387
– fixed interest rates	**–**	–
– non-interest bearing	**4,843**	5,358
	40,025	26,745

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

No banking loans and advances to customers were impaired as at 31 December 2010 (2009: none impaired). The allowance for losses on loans and advances 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 2010 amount to £1,062,000 (2009: £850,000).

Included within loans and advances to customers repayable after more than five years are vendor loan notes (notes) carried at amortised cost of £3,267,000 at 31 December 2010 (2009: £3,267,000). The notes have a nominal value of £5,000,000 and were issued by the acquirer of the Group's Jersey trust operations in 2008. The notes are subordinated and unsecured, and are repayable on the occurrence of certain events, principally the refinancing of the operations disposed of.

The notes bear no interest for three years from issue. Interest is then rolled-up into the loan at the Bank of England base rate on half of the notes' nominal value for the following two years. Thereafter, interest is rolled-up on the notes' full nominal value at the Bank of England base rate. The carrying value of the notes has been calculated based on a discounted cash flow model and interest income is recognised over the expected life of the notes under the effective interest rate method. During the year, management's estimate of the interest rate applicable for these notes was reduced in line with current market expectations.

15 Loans and advances to customers continued

Included within loans and advances to customers repayable within five years is a Swiss Franc denominated loan to the acquirer of the Group's Switzerland trust operations with a nominal value equivalent to £565,000 at 31 December 2010 (2009: £831,000). The loan does not bear interest and is repayable in three approximately equal annual instalments ending in February 2012.

Allowance for losses on loans and advances

	2010 £'000	2009 £'000
At 1 January	**82**	175
Exchange rate adjustment	**–**	(3)
Amounts written off	**(34)**	(112)
Charge to the income statement	**95**	22
	143	82

The Group's exposure to credit risk arising from loans and advances to customers is described in note 28.

16 Investment securities

Available for sale securities

	2010 £'000	2009 £'000
Equity securities – at fair value:		
– listed	**2,513**	2,153
– unlisted	**574**	779
Money market funds – at fair value:		
– unlisted	**39,500**	84,000
	42,587	86,932

Held to maturity securities

	2010 £'000	2009 £'000
Debt securities – at amortised cost:		
– unlisted	**751,085**	694,000
	751,085	694,000

Maturity of debt securities

	2010 £'000	2009 £'000
Due within 1 year	**731,085**	654,000
Due after more than 1 year	**20,000**	40,000
	751,085	694,000

Debt securities comprise bank and building society certificates of deposit, which have fixed coupons and treasury bills. In 2009, debt securities only comprise bank and building society certificates of deposit.

The fair value of debt securities at 31 December 2010 was £754,893,000 (2009: £699,881,000). Fair value for held to maturity assets is based on market bid prices.

Available for sale securities include money market funds and direct holdings in equity securities. Equity securities do not bear interest. Money market funds, which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 32).

The Group has not reclassified any financial asset between being measured at amortised cost and being measured 'at fair value through profit and loss' during the year (2009: none reclassified). The Group has not designated at initial recognition any financial asset as 'at fair value through profit and loss'.

The Group continues to hold 300,000 shares in London Stock Exchange Group Plc.

16 Investment securities continued

The movement in investment securities may be summarised as follows:

	Available for sale £'000	Held to maturity £'000	Total £'000
At 1 January 2009	81,991	874,979	956,970
Additions	606,000	1,796,282	2,402,282
Disposal (sales and redemption)	(601,000)	(1,977,261)	(2,578,261)
Loss from changes in fair value	(59)	–	(59)
At 1 January 2010	**86,932**	**694,000**	**780,932**
Additions	**480,500**	**1,679,090**	**2,159,590**
Disposals (sales and redemption)	**(525,000)**	**(1,622,005)**	**(2,147,005)**
Gain from changes in fair value	**155**	**–**	**155**
At 31 December 2010	**42,587**	**751,085**	**793,672**

17 Prepayments, accrued income and other assets

	2010 £'000	2009 £'000
Trust work in progress	**698**	620
Prepayments	**10,606**	6,023
Accrued income	**25,064**	23,235
	36,368	29,878

Prepayments includes £3,100,000 (2009: £nil) of advance payments to Lloyds Banking Group in relation to the transfer of investment management activities (note 20) which was repaid by Lloyds Banking Group on 24 January 2011.

18 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2009	6,637	13,635	20,272
Additions	403	682	1,085
Disposals	–	(453)	(453)
At 1 January 2010	**7,040**	**13,864**	**20,904**
Additions	**867**	**1,898**	**2,765**
Disposals	**(100)**	**(3,990)**	**(4,090)**
At 31 December 2010	**7,807**	**11,772**	**19,579**
Depreciation			
At 1 January 2009	2,921	10,535	13,456
Charge for the year	761	1,419	2,180
Disposals	–	(408)	(408)
At 1 January 2010	**3,682**	**11,546**	**15,228**
Charge for the year	**747**	**1,460**	**2,207**
Disposals	**(100)**	**(3,899)**	**(3,999)**
At 31 December 2010	**4,329**	**9,107**	**13,436**
Carrying amount at 31 December 2010	**3,478**	**2,665**	**6,143**
Carrying amount at 31 December 2009	3,358	2,318	5,676
Carrying amount at 1 January 2009	3,716	3,100	6,816

19 Net deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 27.0% (2009: 28.0%).

The movement on the deferred tax account is as follows:

	2010 £'000	2009 £'000
At 1 January	**1,603**	2,483
Adjustments in respect of prior years:		
– credited/(charged) to the income statement	**218**	(234)
– credited directly to equity	**56**	41
Other movements in deferred tax:		
– amounts charged to the income statement	**(421)**	(2,984)
– actuarial gains and losses	**841**	2,415
– share-based payments	**313**	(135)
– fair value measurement of available for sale securities	**(43)**	17
Effect of change in corporation tax rate on deferred tax:		
– charged to the income statement	**(46)**	–
– charged directly to equity	**(47)**	–
	2,474	1,603

Deferred tax assets

	2010 £'000	2009 £'000
Excess of depreciation	**738**	638
Share-based payments	**919**	298
Pensions	**2,306**	3,434
Deferred income	**72**	188
	4,035	4,558

Deferred tax liabilities

	2010 £'000	2009 £'000
Available for sale securities	**820**	807
Intangible assets	**214**	1,728
Staff related costs	**527**	151
Unremitted overseas earnings	**–**	269
	1,561	2,955

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

	2010 £'000	2009 £'000
Excess of depreciation	**(100)**	71
Share-based payments	**(269)**	266
Staff related costs	**376**	1,778
Pensions	**1,909**	583
Unremitted overseas earnings	**(269)**	(70)
Intangible assets	**(1,514)**	382
Other provisions	**116**	208
	249	3,218

20 Intangible assets

	2010 £'000	2009 £'000
Goodwill	**47,241**	47,241
Other intangible assets	**44,461**	34,732
	91,702	81,973

Goodwill

	2010 £'000	2009 £'000
Cost		
At 1 January	**47,241**	47,023
Additions	**–**	218
At 31 December	**47,241**	47,241
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Net carrying amount of goodwill at 31 December	**47,241**	47,241

Additions to goodwill in 2009 represent an adjustment to the goodwill acquired with Citywall Financial Management Limited in 2008 following determination of the final consideration payment.

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

	2010 £'000	2009 £'000
Investment Management	**45,287**	45,287
Trust and Tax Services	**1,954**	1,954
	47,241	47,241

The recoverable amounts of goodwill allocated to the CGUs are determined from value in use calculations. The 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, covering the forthcoming year based on flat market assumptions and organic growth in line with historical rates. Budgets are extrapolated for up to ten years based on a medium to long term growth rate of 3% for the Investment Management CGU and 2% for the Trust and Tax Services CGU (2009: 3% and 2% respectively) based on management's expectation of future industry growth rates. A ten year extrapolation period is chosen based on management's expectation of the duration of client relationships. The pre tax rate used to discount the forecast cash flows is 10% for Investment Management and 12% for Trust and Tax Services (2009: 10% and 12% respectively) based on a risk adjusted weighted average cost of capital and reflecting the relatively small size of the Trust and Tax Services CGU.

20 Intangible assets continued

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2009	21,168	1,858	10,582	33,608
Internally developed in the year	–	378	–	378
Purchased in the year	15,130	–	1,175	16,305
At 1 January 2010	**36,298**	**2,236**	**11,757**	**50,291**
Internally developed in the year	**–**	**284**	**–**	**284**
Purchased in the year	**14,293**	**–**	**1,350**	**15,643**
Disposals	**(878)**	**–**	**(639)**	**(1,517)**
At 31 December 2010	**49,713**	**2,520**	**12,468**	**64,701**
Amortisation				
At 1 January 2009	2,791	1,147	8,461	12,399
Charge for the year	1,967	278	915	3,160
At 1 January 2010	**4,758**	**1,425**	**9,376**	**15,559**
Charge for the year	**4,845**	**355**	**998**	**6,198**
Disposals	**(878)**	**–**	**(639)**	**(1,517)**
At 31 December 2010	**8,725**	**1,780**	**9,735**	**20,240**
Carrying amount at 31 December 2010	**40,988**	**740**	**2,733**	**44,461**
Carrying amount at 31 December 2009	31,540	811	2,381	34,732
Carrying amount at 1 January 2009	18,377	711	2,121	21,209

On 20 October 2009, the Group agreed terms with Lloyds Banking Group for the transfer of elements of Lloyds TSB's legacy discretionary investment management assets and HBOS's discretionary investment management activities.

Included within client relationships is £4,089,000 of acquired client relationships which have been recognised in the year (2009: £11,683,000) in relation to new relationships with those former Bank of Scotland Portfolio Management Service clients from whom consent to transfer their accounts had been received and portfolio transfer values determined. Consideration payments for Portfolio Management Service clients were made in instalments shortly after 30 June 2010 and 31 December 2010 in proportion to the total value of funds under management for clients who have agreed to transfer to the Group at those dates. A rebate of £468,000 was received on 24 January 2011 and has been included within prepayments (note 17).

In addition £5,750,000 of acquired client relationships have been recognised in the year (2009: £nil) in relation to new relationships with former Lloyds TSB legacy discretionary investment management clients. An initial payment of £8,382,000 was made on 26 February 2010. A final rebate of £2,632,000 was received on 24 January 2011 based on the value of client assets transferred at 31 December 2010 and has been included within prepayments (note 17).

In total, £21,522,000 of client relationships have been recognised as a result of the transaction. £22,849,000 was paid in the year (2009: £197,000) in relation to the transaction, including advance payments to Lloyds Banking Group of £3,100,000 (2009: £nil) (note 17). £1,576,000 has been provided for final payments outstanding at 31 December 2010 in relation to the transaction (2009: £11,486,000) (note 24).

No goodwill has been recognised at 31 December 2010 in relation to the transaction. Transaction costs of £nil (2009: £782,000) have been recognised in the consolidated income statement in connection with the transaction with Lloyds Banking Group.

On 25 September 2009 the Group acquired the trade of Trust Financial Limited for £125,000 in cash consideration. A further £60,000 of consideration was paid on 25 September 2010. Intangible assets for client relationships with a fair value totalling £185,000 have been recognised as a result of the transaction in 2009. No other assets were acquired.

Purchased software with a cost of £7,957,000 (2009: £7,732,000) has been fully amortised but is still in use.

21 Deposits by banks

The Group has drawn down £3,089,000 (2009: £6,155,000) of an unsecured term loan which is repayable in two equal instalments. One of these instalments was paid in January 2011 and the final instalment is payable on 4 April 2011. Interest is payable on the loan at 0.7% above the London Inter-Bank Offer Rate. On 31 December 2010, deposits by banks included overnight overdraft balances of £215,000 (2009: £1,224,000).

The fair value of deposits by banks was not materially different to the carrying value. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be paid using current market rates.

22 Due to customers

	2010 £'000	2009 £'000
Repayable:		
– on demand or at short notice	**718,168**	705,071
– 3 months or less excluding on demand or at short notice	**43,335**	59,736
– 1 year or less but over 3 months	**523**	1,554
	762,026	766,361
Amounts include:		
– variable interest rates	**712,260**	702,705
– fixed interest rates	**44,288**	59,060
– non-interest bearing	**5,478**	4,596
	762,026	766,361

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.

23 Accruals, deferred income, provisions and other liabilities

	2010 £'000	2009 £'000
Creditors	**11,182**	5,601
Accruals and deferred income	**25,083**	23,525
Other provisions (note 24)	**6,190**	17,749
	42,455	46,875

Accruals and deferred income includes £3,575,000 in 2010 in respect of the Group's share of the cost of FSCS levies including a provision for the 2010/11 levy year, of which £3,203,000 relates to Keydata and other intermediaries (note 7).

24 Other provisions

	Other payables £'000	Client compensation £'000	Litigation related and other £'000	Total £'000
At 1 January 2010	16,817	801	131	17,749
Charged to profit or loss	–	530	508	1,038
Unused amount credited to profit or loss	–	(466)	–	(466)
Net charge to profit or loss	–	64	508	572
Other movements	14,294	–	–	14,294
Utilised/paid during the period	(26,019)	(243)	(163)	(26,425)
	5,092	**622**	**476**	**6,190**
Current	1,934	622	476	3,032
Non-current	3,158	–	–	3,158
	5,092	**622**	**476**	**6,190**

24 Other provisions continued

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised and include £1,576,000 (2009: £11,486,000) in relation to the agreement to acquire certain discretionary investment management activities from Lloyds Banking Group (note 20).

In the ordinary course of business, the Group can receive 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.

The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties. Non-current provisions are expected to be settled within 27 months of the statement of financial position date.

25 Long term employee benefits

The Group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain Directors and employees. The total of contributions made to this scheme during the year was £1,295,000 (2009: £1,033,000). The Group also operates defined contribution schemes for overseas employees, for which the total contributions were £21,000 (2009: £52,000) of which £nil relates to discontinued operations (2009: £32,000).

The Group operates two funded pension schemes, 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, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the Group.

The trustees of the schemes are required to act in the best interest of the schemes' beneficiaries. The appointment of trustees is determined by the schemes' trust documentation and legislation. The Group has a policy that one third of all trustees should be nominated by members of the schemes.

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002.

The Group provides death in service benefits to all employees through the Rathbone 1987 Scheme. Third party insurance is purchased for the benefits where possible and £519,000 of related insurance premia were expensed to the income statement in the year (2009: £547,000). The estimated present value of the uninsured death in service benefits is included in long term employee benefits liabilities. During the year the Group changed its insurance arrangements and substantially eliminated the uninsured element of this benefit.

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 the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each statement of financial position date in between full valuations. The latest full actuarial valuations were carried out as at the following dates:

Rathbone 1987 Scheme	31 December 2007
Laurence Keen Scheme	31 December 2008

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

	2010 Laurence Keen Scheme %	2009 Laurence Keen Scheme %	**2010 Rathbone 1987 Scheme %**	2009 Rathbone 1987 Scheme %
Rate of increase in salaries	**4.85**	4.85	**4.85**	4.85
Rate of increase of pensions in payment	**3.70**	3.70	**3.50**	3.50
Rate of increase of deferred pensions	**3.60**	3.60	**3.60**	3.60
Discount rate	**5.40**	5.70	**5.40**	5.70
Expected return on scheme assets	**5.90**	6.00	**6.70**	7.00
Inflation[1]	**3.60**	3.60	**3.60**	3.60

1 Inflation assumptions are based on the Retail Prices Index

25 Long term employee benefits continued

The assumed duration of the liabilities for the Laurence Keen Scheme is 18 years (2009: 18 years) and the assumed duration for the Rathbone 1987 Scheme is 24 years (2009: 24 years). The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed below.

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former Directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 from that date following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the PNA00 actuarial tables. The assumed life expectations on retirement were:

	2010 Males	**2010 Females**	2009 Males	2009 Females
Retiring today:				
– aged 60	**26.9**	**29.1**	26.8	29.1
– aged 65	**22.1**	**24.3**	22.0	24.2
Retiring in 20 years:				
– aged 60	**28.6**	**30.4**	28.5	30.3
– aged 65	**23.7**	**25.4**	23.6	25.4

The amount included in the statement of financial position arising from the Group's obligations in respect of the schemes is as follows:

	2010 Laurence Keen Scheme £'000	**2010 Rathbone 1987 Scheme £'000**	**2010 Total £'000**	2009 Laurence Keen Scheme £'000	2009 Rathbone 1987 Scheme £'000	2009 Total £'000
Present value of defined benefit obligations	**(12,041)**	**(89,312)**	**(101,353)**	(11,086)	(74,491)	(85,577)
Fair value of scheme assets	**11,951**	**82,759**	**94,710**	10,299	66,955	77,254
Deficit in schemes	**(90)**	**(6,553)**	**(6,643)**	(787)	(7,536)	(8,323)
Death in service benefit reserve – unfunded	**–**	**–**	**–**	–	(1,090)	(1,090)
Total deficit	**(90)**	**(6,553)**	**(6,643)**	(787)	(8,626)	(9,413)

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

	2010 Laurence Keen Scheme £'000	**2010 Rathbone 1987 Scheme £'000**	**2010 Total £'000**	2009 Laurence Keen Scheme £'000	2009 Rathbone 1987 Scheme £'000	2009 Total £'000
Current service cost	**–**	**2,129**	**2,129**	–	1,740	1,740
Interest cost	**623**	**4,374**	**4,997**	590	3,462	4,052
Expected return on scheme assets	**(631)**	**(4,985)**	**(5,616)**	(463)	(3,477)	(3,940)
	(8)	**1,518**	**1,510**	127	1,725	1,852

Actuarial gains and losses have been reported in the statement of comprehensive income. The actual return on scheme assets was a rise in value of £1,206,000 (2009: £1,403,000 rise) for the Laurence Keen Scheme and a rise in value of £9,084,000 (2009: £9,791,000 rise) for the Rathbone 1987 Scheme.

The cumulative actuarial gains and losses reported in the statement of comprehensive income since the adoption of IFRS is as follows:

	2010 Laurence Keen Scheme £'000	**2010 Rathbone 1987 Scheme £'000**	**2010 Total £'000**	2009 Laurence Keen Scheme £'000	2009 Rathbone 1987 Scheme £'000	2009 Total £'000
At 1 January	**(405)**	**(7,549)**	**(7,954)**	(295)	967	672
Net actuarial loss recognised in year	**(67)**	**(2,938)**	**(3,005)**	(110)	(8,516)	(8,626)
At 31 December	**(472)**	**(10,487)**	**(10,959)**	(405)	(7,549)	(7,954)

25 Long term employee benefits continued

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

	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000	2009 Laurence Keen Scheme £'000	2009 Rathbone 1987 Scheme £'000	2009 Total £'000
At 1 January	**11,086**	**75,581**	**86,667**	9,750	55,284	65,034
Service cost (employer's part)	**–**	**2,129**	**2,129**	–	1,740	1,740
Interest cost	**623**	**4,374**	**4,997**	590	3,462	4,052
Contributions from members	**–**	**1,245**	**1,245**	–	1,245	1,245
Actuarial loss	**642**	**7,037**	**7,679**	1,050	14,830	15,880
Benefits paid	**(310)**	**(1,054)**	**(1,364)**	(304)	(980)	(1,284)
At 31 December	**12,041**	**89,312**	**101,353**	11,086	75,581	86,667

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

	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000	2009 Laurence Keen Scheme £'000	2009 Rathbone 1987 Scheme £'000	2009 Total £'000
At 1 January	**10,299**	**66,955**	**77,254**	8,760	50,551	59,311
Expected return on scheme assets	**631**	**4,985**	**5,616**	463	3,477	3,940
Actuarial gain	**575**	**4,099**	**4,674**	940	6,314	7,254
Contributions from the sponsoring companies	**756**	**6,529**	**7,285**	440	6,348	6,788
Contributions from scheme members	**–**	**1,245**	**1,245**	–	1,245	1,245
Benefits paid	**(310)**	**(1,054)**	**(1,364)**	(304)	(980)	(1,284)
At 31 December	**11,951**	**82,759**	**94,710**	10,299	66,955	77,254

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

Laurence Keen Scheme

	1.1.10 Expected return %	1.1.09 Expected return %	2010 Fair value £'000	2009 Fair value £'000	2010 Current allocation %	2009 Current allocation %
Equity instruments	**7.45**	7.75	**6,082**	5,252	**51**	51
Debt instruments	**4.60**	4.90	**5,538**	4,204	**46**	41
Cash	**0.50**	0.50	**331**	843	**3**	8
At 31 December			**11,951**	10,299		

Rathbone 1987 Scheme

	1.1.10 Expected return %	1.1.09 Expected return %	2010 Fair value £'000	2009 Fair value £'000	2010 Current allocation %	2009 Current allocation %
Equity instruments	**7.45**	7.75	**64,971**	52,219	**79**	78
Debt instruments	**4.60**	4.90	**11,928**	8,843	**14**	13
Interest rate swap funds	**4.20**	4.50	**4,512**	4,537	**5**	7
Cash	**0.50**	0.50	**1,348**	1,356	**2**	2
At 31 December			**82,759**	66,955		

At 31 December 2010 the Rathbone 1987 Scheme held 335 shares (2009: 335) with a nominal value of £4,808,000 (2009: £3,812,000) in an interest rate swap fund. The fund is invested in long dated interest rate swaps, the duration of which is intended to broadly align with the duration of the scheme's liabilities.

The expected return on equities was assumed to be 3.25% above the return on long dated gilts (2009: 3.25% above). 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.

25 Long term employee benefits continued

The statement of investment principles set by the trustees requires that the assets of the schemes are invested in a balanced portfolio in the following sectors and proportions:

	Laurence Keen Scheme	Rathbone 1987 Scheme
UK equities	35% – 55%	43% – 57%
Overseas equities	0% – 20%	21% – 35%
Fixed interest stocks	45% – 65%[2]	14% – 28%
Cash deposits	45% – 65%[2]	0% – 8%

2 The total allocation of assets in the Laurence Keen Scheme to fixed interest stocks and cash deposits is expressed as a combined percentage of the two asset classes in the statement of investment principles

In the Rathbone 1987 Scheme, not more than 80% of the assets may be held in equities. A maximum of 5% of UK equities may be invested in companies outside the FTSE 350 and not more than 5% of the total portfolio can be invested in hedge funds. The trustees have initiated a process of de-risking the portfolio over the next 10 years as the scheme matures.

In the Laurence Keen Scheme, not more than 55% of the assets may be held in equities. A maximum of 15% of UK equities may be invested in companies outside the FTSE 350 and not more than 15% of the assets may be held in alternative assets.

The sensitivities regarding the principal assumptions used to measure the total of the two schemes' liabilities are set out below:

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% change in:		
– discount rate	(11,359)	(11.2)
– rate of inflation	6,844	6.8
– rate of salary growth	4,202	4.1
– 1 year increase to longevity at 60	2,824	2.8

The history of experience adjustments is as follows:

Laurence Keen Scheme

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of defined benefit obligations	**(12,041)**	(11,086)	(9,750)	(10,301)	(10,423)
Fair value of scheme assets	**11,951**	10,299	8,760	9,708	8,996
Deficit in the scheme	**(90)**	(787)	(990)	(593)	(1,427)
Experience adjustments on scheme liabilities:					
– amount	**–**	395	(248)	(104)	1,592
– percentage of scheme liabilities	**0%**	4%	(3%)	(1%)	15%
Experience adjustments on scheme assets:					
– amount	**575**	940	(1,715)	70	85
– percentage of scheme assets	**5%**	9%	20%	1%	1%

Rathbone 1987 Scheme

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of defined benefit obligations	**(89,312)**	(75,581)	(55,284)	(60,274)	(53,982)
Fair value of scheme assets	**82,759**	66,955	50,551	54,415	44,646
Deficit in the scheme	**(6,553)**	(8,626)	(4,733)	(5,859)	(9,336)
Experience adjustments on scheme liabilities:					
– amount	**(635)**	305	2,937	(1,264)	3,038
– percentage of scheme liabilities	**(1%)**	0%	5%	(2%)	6%
Experience adjustments on scheme assets:					
– amount	**4,099**	6,314	(10,677)	(90)	753
– percentage of scheme assets	**5%**	9%	(21%)	0%	2%

The total regular contributions made by the Group to the Rathbone 1987 Scheme during the year were £3,571,000 (2009: £3,598,000) based on 22.6% of pensionable salaries (2009: 22.6%). Additional lump sum contributions of £2,958,000 were paid in 2010 (2009: £2,750,000) and the Group has committed to make additional annual contributions to the scheme of £2,750,000 until 30 June 2017. 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.

25 Long term employee benefits continued

The total contributions made by the Group to the Laurence Keen Scheme during the year were £756,000 (2009: £420,000). No additional lump sum contributions were paid in 2010 (2009: £20,000). Annual contributions of £756,000 will continue to be made to the Laurence Keen Scheme until April 2013. Thereafter, annual contributions of £336,000 will be made until December 2017. As the scheme was closed to new entrants with effect from 1 October 1999, the current pension cost will increase as the members of the scheme approach retirement.

26 Share capital

The following movements in share capital occurred during the period:

	Number of shares	Exercise price p	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2009	42,858,196		2,143	28,957	31,100
Shares issued:					
– to Share Incentive Plan	165,800	795.0 – 796.0	8	1,311	1,319
– on exercise of options	272,334	415.0 – 852.0	14	1,488	1,502
At 1 January 2010	**43,296,330**		**2,165**	**31,756**	**33,921**
Shares issued:					
– to Share Incentive Plan	**68,851**	**926.5**	**3**	**635**	**638**
– to Save As You Earn scheme	**359**	**696.0**	**–**	**2**	**2**
– on exercise of options	**11,250**	**852.0**	**1**	**95**	**96**
At 31 December 2010	**43,376,790**		**2,169**	**32,488**	**34,657**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. The ordinary shareholders are entitled to any residual assets on the winding up of the Company.

Unvested shares in the Employee Benefit Trust (note 27) are treasury shares. At 31 December 2010 the trust held 380,285 (2009: 383,831) unvested shares with an aggregate cost of £1,665,000 (2009: £2,232,000) which is included in retained earnings.

27 Share-based payments

Share Incentive Plan

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

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

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

As at 31 December 2010, the trustees of the SIP held 1,316,557 (2009: 1,356,417) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £14,403,000 (2009: £10,851,000). No dividends on these shares have been waived. Of the total number of shares held by the trustees 267,592 (2009: 341,138) have been conditionally gifted to employees.

Long Term Incentive Plan

Rathbone Brothers Plc shares are held by Investec Trust (Jersey) Limited as trustee of the Rathbone Brothers Plc Settlement for both the Long Term Incentive Plan (LTIP) and deferred profit share awards. Details of the general terms of these plans are set out in the Remuneration report on page 38. The total shareholder return based performance criteria have been treated as market-based vesting conditions.

In March 2009, the Group elected to settle substantially all of the 2006/08 LTIP award in cash as an alternative to shares. As a consequence of this, the Group changed the basis of accounting for the awards under the LTIP to treat them as cash settled rather than equity settled with effect from 31 March 2009. At the year end, a liability of £795,000 (2009: £119,000) has been recognised for the estimated fair value of future awards.

At 31 December 2010, the trustees held 112,693 (2009: 42,693) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £1,233,000 (2009: £342,000). Dividends on these shares have been waived by the trustees.

Savings related share option or Save As You Earn (SAYE) plan

Under the plan, employees can contribute up to £250 per month to acquire shares at the end of the three year savings period. At the end of the savings period, employees can elect to acquire shares or receive their savings, including interest, in cash. Further information on the scheme is given in the Remuneration report on page 38.

Options with an aggregate estimated fair value of £323,000, determined using a binomial valuation model including expected dividends, were granted on 23 December 2009 to Directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2009, as at the date of issue, were as follows:

	2010	2009
Share price (pence)	**–**	803
Exercise price (pence)	**–**	696
Expected volatility	**–**	32.0%
Risk free rate	**–**	2.1%
Expected dividend yield	**–**	5.3%

The number of share options outstanding for the SAYE plan at the end of the year, the period in which they were granted and the date on which they may be exercised are given below:

Year of grant	Exercise price p	Exercise period	**2010 Number**	2009 Number
2009	696.00	2013	**184,988**	193,585

Share option scheme

Under the share option scheme approved by shareholders in 2000, certain employees hold options to subscribe for shares in the Company at prices ranging from 415p to 1,172p. Options are conditional on the employee completing three years' service (the vesting period) and are exercisable three years from grant date. The options have a contractual option term of seven years from the date they become exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

Year of grant	Exercise price p	Exercise period	**2010 Number**	2009 Number
2000	932.50	2003–2010	**–**	101,810
2001	985.00	2004–2011	**22,500**	22,500
2001	827.50	2004–2011	**66,184**	66,184
2001	915.80	2004–2011	**38,110**	38,110
2002	810.00	2005–2012	**64,851**	66,351
2003	415.00	2006–2013	**9,622**	9,622
2004	743.50	2007–2014	**61,956**	61,956
2005	852.00	2008–2015	**144,648**	161,148
2006	1,172.00	2009–2016	**15,948**	15,948
2006	1,116.00	2009–2016	**10,000**	10,000
2008	813.50	2011–2018	**30,000**	30,000
Exercisable			**463,819**	583,629

Movements in the number of share options outstanding for both the SAYE plan and the share option scheme were as follows:

	2010 Number of share options	**2010 Weighted average exercise price £**	2009 Number of share options	2009 Weighted average exercise price £
At 1 January	**777,214**	**8.19**	906,963	7.74
Granted in the year	**–**	**–**	193,585	6.96
Lapsed in the year	**(116,798)**	**9.11**	(51,000)	9.71
Exercised in the year	**(11,609)**	**8.47**	(272,334)	5.52
At 31 December	**648,807**	**8.02**	777,214	8.19

27 Share-based payments continued
Share option scheme continued

The weighted average share price at the dates of exercise for share options exercised during the year was £10.04 (2009: £7.93). The options outstanding at 31 December 2010 had a weighted average contractual life of 3.5 years (2009: 3.3 years). Options exercisable at 31 December 2010 had a weighted average exercise price of £7.71 (2009: £7.53). No options were granted during the year.

The Group recognised total expenses of £1,729,000 in relation to equity-settled share-based payment transactions in 2010 (2009: £1,219,000).

28 Financial risk management

The Group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the Corporate governance report's Risk management and internal control section on page 34. The Group categorises its financial risks into three areas:

(i) credit risk (which includes counterparty default risk);

(ii) liquidity risk; and

(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk).

The sections below outline the Group's risk appetite and explain how it defines and manages each category of financial risk. The Group's risk management policies are designed to identify and analyse the risks that the Group faces, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in the business, counterparties, markets and the range of financial instruments that it utilises.

The Group's overall strategy and policies for monitoring and management of financial risk are set by the Board of Directors (the Board). The Board has embedded risk management within the business through the boards of directors of the Group's operating subsidiaries and certain of the Board's standing committees. The principal committees that have responsibility for the identification, mitigation and management of risks are the Executive Committee, the Audit Committee, the Risk Management Committee and the Banking Committee, which is a standing committee of the Board of Directors of Rathbone Investment Management.

The Treasury Department, reporting through the Banking Committee, has principal responsibility for monitoring exposure to credit risk, liquidity risk and market risk. Procedures and delegated authorities are documented in a Group treasury manual and policy documents are in place to cover the management and monitoring of each type of risk. The primary objective of the Group's treasury policy is to manage short term liquidity requirements whilst maintaining an appropriate level of exposure to other financial risks in accordance with the Group's risk appetite.

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its banking, treasury, trust and pensions advisory activities. The principal source of credit risk arises from placing funds with other banks and holding interest bearing securities. The Group also has exposure to credit risk through its loan books, guarantees given on clients' behalf and loans made to the acquirers of the Group's Jersey and Switzerland operations in 2008 and 2009.

It is the Group's policy to place funds generated internally and from deposits by 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 secured against clients' assets that are held and managed by Group companies.

Exposure to credit risk is managed through setting appropriate ratings requirements and lending limits. Limits are reviewed regularly, taking into account the ability of borrowers and potential borrowers to meet repayment obligations.

The Group categorises its exposures based on the long term ratings awarded to counterparties by Fitch Ratings Ltd ('Fitch') or Moody's Corporation ('Moody's'). Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the Banking Committee also utilises market intelligence information to assist its ongoing monitoring.

Settlement balances
Settlement risk arises in any situation where a payment in cash or transfer of a security is made in the expectation of a corresponding delivery of a security or receipt of cash. The majority of transactions are carried out on a delivery versus payment basis, which results in securities and cash being exchanged within a very close timeframe. Settlement balances outside standard terms are monitored on a daily basis.

The Investment Management and Unit Trust businesses have exposure to market counterparties in the settlement of trades. Settlement balances arising in the Investment Management segment are primarily in relation to client trades and risk of non-settlement is borne by clients.

Loans and advances to banks and debt and other securities
The Group has exposures to a wide range of financial institutions through its treasury portfolio which includes bank deposits, certificates of deposit, money market funds and government bonds. These exposures principally arise from the placement of surplus investment management client cash, which is held under a banking relationship, and the Group's own reserves.

The Group's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long term rating of 'A' by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis and reviewed by the Banking Committee on a monthly basis. The Banking Committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers
The Group provides loans to clients through its Investment Management operations (the Investment Management loan book). The Group is also exposed to credit risk on trade debtors arising from the Trust and Tax and Pensions Advisory businesses (trust and pension debtors).

(a) Overdrafts
Overdrafts on clients' investment management accounts arise from time to time due to short term timing differences between the purchase and sale of assets on a clients' behalf. Overdrafts are actively monitored and reported to the Banking Committee on a monthly basis.

(b) Investment Management loan book
Loans and short term overdrafts are provided as a service to Investment Management clients who are generally asset rich but have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name and are advanced for a maximum of one year. Extensions to the initial loan period may be granted subject to credit criteria.

The Banking Committee reviews all loans on a monthly basis and approves all loan extensions. Where necessary, repayment plans are established with clients before loans become overdue or uncovered.

At 31 December, the total lending exposure limit for the Investment Management loan book was £45,000,000 (2009: £30,000,000) of which £31,957,000 had been advanced (2009: £18,712,000) and a further £7,724,000 had been committed (2009: £5,260,000).

(c) Trust and pension debtors
Trust and pension debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and pension debtors are reviewed on a monthly basis by the Management Committees of the Group's Trust and Pension Advisory companies. Impairment provisions are made for any debts which are considered to be doubtful for collection.

(d) Other debtors
Other loans and advances to customers are constituted by loans made to the acquirers of the Group's Jersey trust operations in 2008 and its Switzerland trust operations in 2009 (note 15).

Impairment and provisioning policies
Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the statement of financial position date on a case by case basis. The assessment considers, where applicable, the value of any collateral held, any changes to the external credit rating and the anticipated receipts for each individual exposure.

Impairment provisions for credit risk, which relate solely to trust and pension debtors, are set out in note 15. No other impairment losses arose during the year (2009: none).

Maximum exposure to credit risk

	2010 £'000	2009 £'000
Credit risk relating to on-balance sheet exposures:		
Settlement balances	**18,169**	17,305
Loans and advances to banks	**39,565**	92,661
Loans and advances to customers		
– Overdrafts	**3,306**	3,167
– Investment Management loan book	**31,957**	18,712
– Trust and pension debtors	**1,073**	850
– Other debtors	**5,822**	6,018
Debt securities		
– Unlisted debt securities and money market funds	**790,585**	778,000
Other financial assets	**30,265**	22,663
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**7,724**	5,260
Financial guarantees	**583**	5
	929,049	944,641

The above table represents the gross credit risk exposure to the Group at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

8.8% of the total maximum exposure is derived from loans and advances to banks and customers (2009: 12.9%) and 85.1% represents investments in debt securities (2009: 82.4%).

Settlement balances

Settlement balances are summarised as follows:

	2010 £'000	2009 £'000
Neither past due nor impaired	**13,267**	12,300
Past due but not impaired < 90 days	**4,877**	4,980
Past due but not impaired > 90 days	**25**	25
Impaired	**–**	–
Gross carrying value	**18,169**	17,305
Less allowance for impairment	–	–
Net carrying value	**18,169**	17,305

Loans and advances

Loans and advances are summarised as follows:

	2010 Loans and advances to banks £'000	2010 Loans and advances to customers £'000	2009 Loans and advances to banks £'000	2009 Loans and advances to customers £'000
Neither past due nor impaired	**39,565**	**39,318**	92,661	26,235
Past due but not impaired	**–**	**708**	–	510
Impaired	**–**	**143**	–	82
Gross carrying value	**39,565**	**40,169**	92,661	26,827
Less allowance for impairment (note 15)	**–**	**(143)**	–	(82)
Net carrying value	**39,565**	**40,026**	92,661	26,745

No loans and advances have been renegotiated (2009: nil).

28 Financial risk management continued

(i) Credit risk continued

(a) Neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired at 31 December 2010, which are all externally unrated, is analysed below between those loans that remain within the standard lending criteria required at the inception of the loan, which are described on page 96, and those loans that no longer meet the initial lending criteria. An exposure is reported as past due when the contractual due date for settlement has passed and the balance has not been repaid, except in the case of trust and pension debtors where a normal settlement period of seven days is expected.

At 31 December 2010	**Overdrafts £'000**	**Investment Management loan book £'000**	**Trust and pension debtors £'000**	**Other debtors £'000**	**Total loans and advances to customers £'000**
Standard lending criteria	**3,306**	**31,957**	**223**	**–**	**35,486**
Outside standard lending criteria	**–**	**–**	**–**	**3,832**	**3,832**
	3,306	**31,957**	**223**	**3,832**	**39,318**

At 31 December 2009	Overdrafts £'000	Investment Management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	3,167	18,712	258	–	22,137
Outside standard lending criteria	–	–	–	4,098	4,098
	3,167	18,712	258	4,098	26,235

The credit quality of loans and advances to banks that were neither past due nor impaired at 31 December 2010 is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the statement of financial position date.

	2010 £'000	2009 £'000
AA- to AA+	**39,565**	92,661

(b) Past due but not impaired

Loans and advances that are past due are assessed for impairment and provided against where considered appropriate. The gross amount of loans and advances by class to customers that were past due but not impaired at 31 December 2010 were:

At 31 December 2010	**Overdrafts £'000**	**Investment Management loan book £'000**	**Trust and pension debtors £'000**	**Other debtors £'000**	**Total loans and advances to customers £'000**
< 90 days overdue	**–**	**–**	**255**	**–**	**255**
90 –180 days overdue	**–**	**–**	**141**	**–**	**141**
180 – 270 days overdue	**–**	**–**	**184**	**–**	**184**
270 – 365 days overdue	**–**	**–**	**43**	**–**	**43**
> 365 days overdue	**–**	**–**	**85**	**–**	**85**
	–	**–**	**708**	**–**	**708**

At 31 December 2009	Overdrafts £'000	Investment Management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
< 90 days overdue	–	–	201	–	201
90 –180 days overdue	–	–	120	–	120
180 – 270 days overdue	–	–	91	–	91
270 – 365 days overdue	–	–	40	–	40
> 365 days overdue	–	–	58	–	58
	–	–	510	–	510

(c) Impaired

Allowance has been made for individually impaired trust and pension debtors. The balance of individually impaired trust and pension debtors is £143,000 (2009: £82,000). There were no other impaired credit exposures at 31 December 2010 (2009: £nil).

Debt securities

The table below presents an analysis of debt securities by rating agency designation, as at 31 December 2010, based on Fitch or Moody's long term rating designation.

	2010 Government securities £'000	**2010 Money market funds £'000**	**2010 Certificates of deposit £'000**	**2010 Total £'000**	2009 Government securities £'000	2009 Money market funds £'000	2009 Certificates of deposit £'000	2009 Total £'000
AAA	**–**	**39,500**	**–**	**39,500**	–	84,000	–	84,000
AA – to AA +	**–**	**–**	**448,000**	**448,000**	–	–	431,000	431,000
A to A +	**–**	**–**	**303,085**	**303,085**	–	–	263,000	263,000
	–	**39,500**	**751,085**	**790,585**	–	84,000	694,000	778,000

Concentration of credit risk

The Group has counterparty concentration risk within its treasury assets in that exposure is to a number of similar credit institutions. The Banking Committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal Fitch or Moody's rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

(a) Geographical sectors

The following table analyses the Group's credit exposures, at their carrying amounts, by geographical region as at the statement of financial position date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2010	**United Kingdom £'000**	**Jersey £'000**	**Rest of the World £'000**	**Total £'000**
Settlement balances	**16,953**	**–**	**1,216**	**18,169**
Loans and advances to banks	**25,562**	**–**	**14,003**	**39,565**
Loans and advances to customers				
– Overdrafts	**2,775**	**131**	**400**	**3,306**
– Investment Management loan book	**30,462**	**251**	**1,244**	**31,957**
– Trust and pension debtors	**930**	**–**	**–**	**930**
– Other debtors	**–**	**3,267**	**565**	**3,832**
Debt securities				
– Unlisted debt securities and money market funds	**305,000**	**–**	**485,585**	**790,585**
Other financial assets	**27,706**	**48**	**2,511**	**30,265**
	409,388	**3,697**	**505,524**	**918,609**

At 31 December 2009	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Settlement balances	15,621	–	1,684	17,305
Loans and advances to banks	40,892	289	51,480	92,661
Loans and advances to customers				
– Overdrafts	2,303	497	367	3,167
– Investment Management loan book	17,975	–	737	18,712
– Trust and pension debtors	768	–	–	768
– Other debtors	–	3,267	831	4,098
Debt securities				
– Unlisted debt securities and money market funds	314,000	–	464,000	778,000
Other financial assets	19,168	162	3,333	22,663
	410,727	4,215	522,432	937,374

(b) Industry sectors

The Group's credit exposures at the statement of financial position date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2010	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	**–**	**18,169**	**–**	**18,169**
Loans and advances to banks	**–**	**39,565**	**–**	**39,565**
Loans and advances to customers				
– Overdrafts	**–**	**–**	**3,306**	**3,306**
– Investment Management loan book	**–**	**–**	**31,957**	**31,957**
– Trust and pension debtors	**–**	**–**	**930**	**930**
– Other debtors	**–**	**–**	**3,832**	**3,832**
Debt securities				
– Unlisted debt securities and money market funds	**–**	**790,585**	**–**	**790,585**
Other financial assets	**–**	**6,764**	**23,501**	**30,265**
	–	**855,083**	**63,526**	**918,609**

At 31 December 2009	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	–	17,305	–	17,305
Loans and advances to banks	–	92,661	–	92,661
Loans and advances to customers				
– Overdrafts	–	–	3,167	3,167
– Investment Management loan book	–	–	18,712	18,712
– Trust and pension debtors	–	–	768	768
– Other debtors	–	–	4,098	4,098
Debt securities				
– Unlisted debt securities and money market funds	–	778,000	–	778,000
Other financial assets	–	5,973	16,690	22,663
	–	893,939	43,435	937,374

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The primary objective of the Group's treasury policy is to manage short to medium term liquidity requirements. Rathbone Investment Management (the bank) also has a regulatory requirement to maintain adequate liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The controls and policies that ensure these requirements are met are now documented in an Internal Liquidity Adequacy Assessment (ILAA) in response to additional regulatory requirements applicable to the 2010 financial year. This assessment process was implemented in 2010 and is expected to be reviewed by the Financial Services Authority in 2011.

Liquidity risk is primarily managed by holding cash and marketable instruments that are realisable at short notice. The Group operates a strict set of criteria for counterparties to ensure that investments are liquid and placed with high quality counterparties.

The Group does not rely on external funding for its activities.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the statement of financial position date.

At 31 December 2010	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial assets						
Cash and balances at central banks	**4**	**–**	**–**	**–**	**–**	**4**
Settlement balances	**–**	**18,169**	**–**	**–**	**–**	**18,169**
Loans and advances to banks	**31,306**	**8,264**	**–**	**–**	**–**	**39,570**
Loans and advances to customers	**3,393**	**11,159**	**22,793**	**5,229**	**–**	**42,574**
Debt securities and money market funds	**39,522**	**371,307**	**366,369**	**20,454**	**–**	**797,652**
Other financial assets	**1,483**	**25,369**	**10**	**94**	**–**	**26,956**
Cash flows arising from financial assets	**75,708**	**434,268**	**389,172**	**25,777**	**–**	**924,925**
Cash flows arising from financial liabilities						
Deposits by banks	**215**	**1,545**	**1,562**	**–**	**–**	**3,322**
Settlement balances	**–**	**23,712**	**–**	**–**	**–**	**23,712**
Due to customers	**718,171**	**43,353**	**525**	**–**	**–**	**762,049**
Other financial liabilities	**131**	**23,642**	**1,888**	**7,871**	**–**	**33,532**
Cash flows arising from financial liabilities	**718,517**	**92,252**	**3,975**	**7,871**	**–**	**822,615**
Net liquidity gap	**(642,809)**	**342,016**	**385,197**	**17,906**	**–**	**102,310**

At 31 December 2009	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial assets						
Cash and balances at central banks	5	310	–	–	–	315
Settlement balances	–	17,305	–	–	–	17,305
Loans and advances to banks	52,036	40,109	628	–	–	92,773
Loans and advances to customers	3,198	8,050	12,151	6,250	–	29,649
Debt securities and money market funds	101,166	368,257	272,960	40,301	–	782,684
Other financial assets	22	17,829	6	15	–	17,872
Cash flows arising from financial assets	156,427	451,860	285,745	46,566	–	940,598
Cash flows arising from financial liabilities						
Deposits by banks	1,224	1,533	1,574	3,104	–	7,435
Settlement balances	–	22,157	–	–	–	22,157
Due to customers	710,972	55,185	1,562	–	–	767,719
Other financial liabilities	2	22,447	1,898	6,772	–	31,119
Cash flows arising from financial liabilities	712,198	101,322	5,034	9,876	–	828,430
Net liquidity gap	(555,771)	350,538	280,711	36,690	–	112,168

Included within the amounts due to customers due on demand disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

Derivative cash flows (derivatives settled on a net basis)

The Group did not hold any derivative instruments at 31 December 2010 (2009: £nil).

Off-balance sheet items

Cash flows arising from the Group's off-balance sheet financial liabilities (note 30) are summarised in the table below.

The contractual value of the Group's commitments to extend credit to clients and maximum potential value of financial guarantees are analysed by the duration of the commitment. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates. Capital commitments are summarised by the earliest expected date of payment.

At 31 December 2010	**Not more than 3 months £'000**	**After 3 months but not more than 1 year £'000**	**After 1 year but not more than 5 years £'000**	**After 5 years £'000**	**Total £'000**
Loan commitments	**7,724**	**–**	**–**	**–**	**7,724**
Financial guarantees	**5**	**–**	**578**	**–**	**583**
Operating lease commitments	**1,305**	**3,910**	**11,206**	**7,749**	**24,170**
Capital commitments	**594**	**–**	**–**	**–**	**594**
Total off-balance sheet items	**9,628**	**3,910**	**11,784**	**7,749**	**33,071**

At 31 December 2009	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	5,260	–	–	–	5,260
Financial guarantees	5	–	–	–	5
Operating lease commitments	1,245	3,634	13,065	8,655	26,599
Capital commitments	14,002	–	–	–	14,002
Total off-balance sheet items	20,512	3,634	13,065	8,655	45,866

Total liquidity requirement

At 31 December 2010	**On demand £'000**	**Not more than 3 months £'000**	**After 3 months but not more than 1 year £'000**	**After 1 year but not more than 5 years £'000**	**After 5 years £'000**	**Total £'000**
Cash flows arising from financial liabilities	**718,517**	**92,252**	**3,975**	**7,871**	**–**	**822,615**
Total off-balance sheet items	**–**	**9,628**	**3,910**	**11,784**	**7,749**	**33,071**
	718,517	**101,880**	**7,885**	**19,655**	**7,749**	**855,686**

At 31 December 2009	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	712,198	101,322	5,034	9,876	–	828,430
Total off-balance sheet items	–	20,512	3,634	13,065	8,655	45,866
	712,198	121,834	8,668	22,941	8,655	874,296

(iii) Market risk

Interest rate risk

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

The Group's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities. In particular, customer accounts and loan balances are repriced very shortly after changes in base rates, whereas the yield on the Group's interest-bearing assets is correlated to the future expectation of base rates and varies depending on the maturity profile of the Group's treasury portfolio. The average maturity mismatch is controlled by the Banking Committee, which generally lengthens the mismatch when the yield curve is expected to rise and shortens it when the yield curve is expected to fall.

28 Financial risk management continued
(iii) Market risk continued

The table below shows the consolidated repricing profile of the Group's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2010	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	–	–	–	–	–	4	4
Settlement balances	–	–	–	–	–	18,169	18,169
Loans and advances to banks	39,536	–	–	–	–	29	39,565
Loans and advances to customers	35,190	–	3,267	–	–	1,568	40,025
Investment securities							
– equity securities	–	–	–	–	–	3,087	3,087
– debt securities and money market funds	408,585	217,000	145,000	20,000	–	–	790,585
Other financial assets	–	–	–	–	–	30,265	30,265
Total financial assets	483,311	217,000	148,267	20,000	–	53,122	921,700
Liabilities							
Deposits by banks	3,304	–	–	–	–	–	3,304
Settlement balances	–	–	–	–	–	23,712	23,712
Due to customers	756,025	150	373	–	–	5,478	762,026
Other financial liabilities	125	–	–	–	–	32,130	32,255
Total financial liabilities	759,454	150	373	–	–	61,320	821,297
Interest rate repricing gap	(276,143)	216,850	147,894	20,000	–	(8,198)	100,403

At 31 December 2009	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	310	–	–	–	–	5	315
Settlement balances	–	–	–	–	–	17,305	17,305
Loans and advances to banks	91,876	–	622	–	–	163	92,661
Loans and advances to customers	21,418	–	–	3,267	–	2,060	26,745
Investment securities							
– equity securities	–	–	–	–	–	2,932	2,932
– debt securities and money market funds	467,000	139,000	132,000	40,000	–	–	778,000
Other financial assets	–	–	–	–	–	22,663	22,663
Total financial assets	580,604	139,000	132,622	43,267	–	45,128	940,621
Liabilities							
Deposits by banks	7,379	–	–	–	–	–	7,379
Settlement balances	–	–	–	–	–	22,157	22,157
Due to customers	760,211	932	622	–	–	4,596	766,361
Other financial liabilities	–	–	–	–	–	31,181	31,181
Total financial liabilities	767,590	932	622	–	–	57,934	827,078
Interest rate repricing gap	(186,986)	138,068	132,000	43,267	–	(12,806)	113,543

The Banking Committee has set an overall pre-tax interest rate exposure limit of £5,000,000 (2009: £5,000,000) for the total profit or loss resulting from an unexpected immediate and sustained 2% movement in Sterling interest rates for the bank, the principal operating subsidiary. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest bearing liabilities compared with the period to repricing on a corresponding amount of interest bearing assets.

At 31 December 2010, the bank had £734.2 million (2009: £738.5 million) of Sterling interest bearing liabilities averaging two days (2009: two days) to repricing which were matched by Sterling assets averaging 89 days (2009: 74 days) to repricing, creating an exposure of 87 days (2009: 72 days). The total potential impact on profit after tax and equity was £2,542,000 (2009: £2,088,000) at the statement of financial position date for a 2% decrease or increase in interest rates. The Group held no forward rate agreements at 31 December 2010 (2009: none).

Foreign exchange 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, from time to time, so as to reduce any currency exposure to a minimal amount. The Group's structural currency exposure was substantially eliminated on the disposal of its Switzerland, Singapore, British Virgin Islands and Dutch operations during 2009 and 2010 (note 10).

The Group does not have any material exposure to transactional foreign exchange risk. The table below summarises the Group's exposure to foreign currency translation risk at 31 December 2010. Included in the table are the Group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2010	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	**4**	**–**	**–**	**–**	**4**
Settlement balances	**14,662**	**1,252**	**1,831**	**424**	**18,169**
Loans and advances to banks	**16,758**	**16,450**	**3,633**	**2,724**	**39,565**
Loans and advances to customers	**38,421**	**288**	**747**	**569**	**40,025**
Investment securities					
– equity securities	**2,518**	**–**	**569**	**–**	**3,087**
– debt securities and money market funds	**790,585**	**–**	**–**	**–**	**790,585**
Other financial assets	**28,606**	**13**	**115**	**1,531**	**30,265**
Total financial assets	**891,554**	**18,003**	**6,895**	**5,248**	**921,700**
Liabilities					
Deposits by banks	**3,089**	**–**	**–**	**215**	**3,304**
Settlement balances	**22,582**	**789**	**146**	**195**	**23,712**
Due to customers	**738,751**	**16,439**	**4,224**	**2,612**	**762,026**
Other financial liabilities	**28,941**	**193**	**1,348**	**1,773**	**32,255**
Total financial liabilities	**793,363**	**17,421**	**5,718**	**4,795**	**821,297**
Net on-balance sheet position	**98,191**	**582**	**1,177**	**453**	**100,403**
Loan commitments	**7,724**	**–**	**–**	**–**	**7,724**

At 31 December 2009	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	5	310	–	–	315
Settlement balances	15,564	833	686	222	17,305
Loans and advances to banks	66,853	9,353	13,198	3,257	92,661
Loans and advances to customers	26,060	165	520	–	26,745
Investment securities					
– equity securities	2,158	–	774	–	2,932
– debt securities and money market funds	778,000	–	–	–	778,000
Other financial assets	22,647	10	6	–	22,663
Total financial assets	911,287	10,671	15,184	3,479	940,621
Liabilities					
Deposits by banks	7,379	–	–	–	7,379
Settlement balances	19,376	1,671	1,070	40	22,157
Due to customers	742,557	7,684	13,060	3,060	766,361
Other financial liabilities	29,512	834	649	186	31,181
Total financial liabilities	798,824	10,189	14,779	3,286	827,078
Net on-balance sheet position	112,463	482	405	193	113,543
Loan commitments	5,260	–	–	–	5,260

A 10% weakening of the US Dollar or Euro against the Pound Sterling, occurring on 31 December 2010, would have reduced equity and profit after tax by £42,000 or £85,000 respectively (2009: £35,000 and £29,000 respectively). A 10% strengthening of the US Dollar or Euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Group is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 16).

At 31 December 2010, the fair value of equity securities recognised on the statement of financial position was £3,087,000 (2009: £2,932,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £309,000 (2009: £293,000); there would be no impact on profit after tax. A 10% rise in global markets would have an equal and opposite effect.

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values, with the exception of held to maturity investment securities (note 16).

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2010	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Available for sale securities				
– equity securities	**2,513**	**574**	**–**	**3,087**
– money market funds	**–**	**39,500**	**–**	**39,500**
Total financial assets	**2,513**	**40,074**	**–**	**42,587**

At 31 December 2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities				
– equity securities	2,153	779	–	2,932
– money market funds	–	84,000	–	84,000
Total financial assets	2,153	84,779	–	86,932

The fair value of unlisted equity securities is calculated by reference to net asset values with a liquidity discount applied. The fair value of money market funds is their daily redemption value.

There have been no transfers between levels during the year. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value.

29 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as the total of share capital, share premium, retained earnings and other reserves. As at 31 December 2010 this totalled £185,374,000 (2009: £182,489,000). The Company has external borrowings of £3,089,000 at 31 December 2010 (2009: £6,155,000) (note 21) which are not considered to be part of accounting capital given their very short maturity.

The Group's objectives when managing capital are to:

- safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- maintain a strong capital base to be able to support the development of the business when required;
- optimise the distribution of capital across Group companies reflecting the requirements of each business;
- strive to make capital freely transferable across the Group where possible; and
- comply with regulatory requirements at all times.

Rathbones is classified under the Capital Requirements Directive (CRD) as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP) which is presented to the FSA on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with CRD rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the CRD's Pillar I and Pillar II methodology. The Group has adopted the standardised approach to calculating its Pillar I credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both Group and entity level.

At 31 December 2010 the Group's regulatory capital resources, including retained earnings for 2010, were £85,250,000 (2009: £94,462,000). The reduction is principally due to the increase in intangible assets during 2010.

In addition to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecasted on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions. Regular exercises are also run to ensure that the Group structures remain optimal.

Regulatory capital requirements have been met throughout the financial year ended 31 December 2009 and 2010.

30 Contingent liabilities and commitments

(a) Indemnities are provided to a number of directors and employees in our Trust and Tax Services division in connection with them acting as directors on client structures in the normal course of business. No indemnities were required during the year (2009: no indemnities).

(b) Capital expenditure authorised and contracted for at 31 December 2010 but not provided in the financial statements amounted to £594,000 (2009: £592,000).

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

	2010 £'000	2009 £'000
Guarantees	**583**	5
Undrawn commitments to lend of 1 year or less	**7,724**	5,260
	8,307	5,265

The fair value of the guarantees is £nil (2009: £nil).

(d) The Group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future minimum lease payments under non-cancellable operating leases were as follows:

	2010 £'000	2009 £'000
No later than 1 year	**5,215**	4,879
Later than 1 year and no later than 5 years	**11,206**	13,064
Later than 5 years	**7,749**	8,656
	24,170	26,599

(e) In addition to the Financial Services Compensation Scheme levies accrued in the year (note 7) further levy charges may be incurred in future years although the ultimate cost remains uncertain.

31 Related party transactions

The remuneration of the key management personnel of the Group, who are defined as the Company's Directors, is set out in the audited part of the Remuneration report on page 38. At 31 December 2010 key management and their close family members had gross outstanding deposits of £904,000 (2009: £1,178,000) and gross outstanding loans of £490,000 (2009: £193,000), of which £490,000 (2009: £193,000) 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.

One of the Group's Non-executive Directors is an executive director of Novae Group Plc, a related entity of which underwrites part of the Group's professional indemnity insurance policy.

The Group's transactions with the pension funds are described in note 25. At 31 December 2010 £4,000 was due from the pension schemes (2009: £3,000).

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

32 Consolidated statement of cash flows

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

	2010 £'000	2009 £'000
Cash and balances at central banks (note 13)	**4**	5
Loans and advances to banks (note 14)	**39,565**	55,039
Available for sale investment securities (note 16)	**39,500**	84,000
	79,069	139,044

Available for sale investment securities are amounts invested in money market funds which are realisable on demand.

Cash flows arising from issue of ordinary shares comprise:

	2010 £'000	2009 £'000
Share capital issued (note 26)	**4**	22
Share premium on shares issued (note 26)	**732**	2,799
Shares issued in relation to share-based schemes for which no cash consideration was received	**(283)**	(628)
	453	2,193

The aggregate net assets of entities disposed of during the year (note 10) at the dates of disposal were as follows:

	2010 £'000	2009 £'000
Cash and balances at central banks	**–**	35
Loans and advances to banks	**–**	1,638
Loans and advances to customers	**–**	17,374
Property, plant and equipment	**–**	123
Prepayments, accrued income and other assets	**–**	1,721
Due to customers	**–**	(15,744)
Accruals, deferred income, provisions and other liabilities	**–**	(4,623)
	–	524
Loss on disposal	**–**	(211)
Total consideration receivable	**–**	313
Satisfied by:		
Cash and cash equivalents	**–**	313
Net cash flow arising on disposal:		
Consideration received in cash and cash equivalents	**–**	313
Cash and cash equivalents disposed of	**–**	(1,654)
	–	(1,341)

33 Events after the statement of financial position date

There have been no material events occurring between the statement of financial position date and the date of signing this report.



Company financial statements

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Company statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Profit for the year		**39,192**	20,922
Other comprehensive income:			
Net actuarial loss on retirement benefit obligation	44	**(3,005)**	(8,626)
Revaluation of available for sale investment securities:			
– net gain/(loss) from changes in fair value	16	**155**	(59)
Deferred tax relating to components of other comprehensive income:			
– available for sale investment securities		**(13)**	17
– actuarial gains and losses		**782**	2,415
Other comprehensive income for the year, net of tax		**(2,081)**	(6,253)
Total comprehensive income for the year, net of tax attributable to equity holders of the Company		**37,111**	14,669

Company statement of changes in equity
for the year ended 31 December 2010

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2009		2,143	28,957	2,119	11,693	44,912
Profit for the year					20,922	20,922
Net actuarial loss on retirement benefit obligation					(8,626)	(8,626)
Revaluation of available for sale investment securities				(59)		(59)
Deferred tax relating to components of other comprehensive income				17	2,415	2,432
Dividends paid	11				(18,066)	(18,066)
Issue of share capital	26	22	2,799			2,821
Share-based payments:						
– value of employee services					1,219	1,219
– transfer to liabilities for cash settled awards					(119)	(119)
– costs of shares issued/purchased					(1,096)	(1,096)
– tax on share-based payments					(94)	(94)
At 1 January 2010		**2,165**	**31,756**	**2,077**	**8,248**	**44,246**
Profit for the year					**39,192**	**39,192**
Net actuarial loss on retirement benefit obligation					**(3,005)**	**(3,005)**
Revaluation of available for sale investment securities				**155**		**155**
Deferred tax relating to components of other comprehensive income				**(13)**	**782**	**769**
Dividends paid	11				**(18,167)**	**(18,167)**
Issue of share capital	26	**4**	**732**			**736**
Share-based payments:						
– value of employee services					**1,054**	**1,054**
– costs of shares issued/purchased					**(569)**	**(569)**
– tax on share-based payments					**351**	**351**
At 31 December 2010		**2,169**	**32,488**	**2,219**	**27,886**	**64,762**

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

Company statement of financial position

as at 31 December 2010

	Note	2010 £'000	2009 £'000	2008 £'000
Non-current assets				
Investment in subsidiaries	38	**37,975**	22,999	22,562
Other investments	39	**3,087**	2,932	2,991
Trade and other receivables	40	**3,538**	4,098	3,268
Deferred tax	41	**2,405**	2,925	1,436
		47,005	32,954	30,257
Current assets				
Trade and other receivables	40	**29,380**	27,746	30,944
Current tax asset		**469**	323	40
Cash and cash equivalents		**410**	185	135
		30,259	28,254	31,119
Total assets		**77,264**	61,208	61,376
Current liabilities				
Borrowings	42	**(3,089)**	(6,155)	(9,201)
Trade and other payables	43	**(2,770)**	(1,394)	(1,540)
		(5,859)	(7,549)	(10,741)
Net current assets		**24,400**	20,705	20,378
Non-current liabilities				
Employee benefits	44	**(6,643)**	(9,413)	(5,723)
Total liabilities		**(12,502)**	(16,962)	(16,464)
Net assets		**64,762**	44,246	44,912
Equity				
Share capital	45	**2,169**	2,165	2,143
Share premium account	45	**32,488**	31,756	28,957
Available for sale reserve		**2,219**	2,077	2,119
Retained earnings		**27,886**	8,248	11,693
Equity shareholders' funds		**64,762**	44,246	44,912

The financial statements were approved by the Board of Directors and authorised for issue on 16 February 2011 and were signed on its behalf by:

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number: 01000403.

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

Company statement of cash flows

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**39,877**	21,393
Investment revenues		**(39,984)**	(21,572)
Finance costs		**67**	186
Defined benefit pension scheme charges	8	**1,510**	1,852
Share-based payment charges	8	**1,729**	1,219
Interest paid		**(75)**	(314)
		3,124	2,764
Changes in operating assets and liabilities:			
– net decrease/(increase) in trade debtors		**266**	(831)
– net (increase)/decrease in prepayments, accrued income and other assets		**(1,360)**	3,095
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**728**	(33)
Cash generated from operations		**2,758**	4,995
Defined benefit pension scheme contributions paid	25	**(7,285)**	(6,788)
Tax received		**809**	96
Net cash used in operating activities		**(3,718)**	(1,697)
Cash flows from investing activities			
Interest received		**114**	3
Intercompany dividends received		**39,781**	21,488
Other dividends received		**90**	80
Liquidation of subsidiary, net of cash transferred		**274**	13
Investment in subsidiaries	38	**(15,250)**	(450)
Net cash generated from investing activities		**25,009**	21,134
Cash flows from financing activities			
Purchase of shares for share-based payments		**(286)**	(468)
Issue of ordinary shares	32	**453**	2,193
Repayments of borrowings	42	**(3,066)**	(3,046)
Dividends paid	11	**(18,167)**	(18,066)
Net cash used in financing activities		**(21,066)**	(19,387)
Net increase in cash and cash equivalents		**225**	50
Cash and cash equivalents at the beginning of the period		**185**	135
Cash and cash equivalents at the end of the period	50	**410**	185

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

34 Significant accounting policies

Statement of compliance

The individual financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 'First time adoption of International Financial Reporting Standards' has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 51.

On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Developments in reporting standards and interpretations

Developments in reporting standards and interpretations are the same as those set out in note 1 to the consolidated financial statements. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are as set out below:

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

Management charges

Intra-group management charges arise in relation to staff costs and other administrative expenses that are initially borne by the Company and then recharged to other Group companies, when incurred.

Accounting policies in relation to: impairment, interest income, dividend income, operating leases, borrowings, foreign currency, retirement obligations, taxation, cash and cash equivalents and share-based payments are the same as the accounting policies set out in note 1 to the consolidated financial statements.

35 Critical accounting judgements and key sources of estimation and uncertainty

The critical accounting judgements and key sources of estimation and uncertainty arise from the Company's defined benefit pension schemes and loan notes issued to former subsidiaries. These are described in note 2 to the consolidated financial statements.

36 Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own income statement for the year. Rathbone Brothers Plc reported a profit after tax for the financial year ended 31 December 2010 of £39,192,000 (2009: £20,922,000).

Auditor's remuneration for audit and other services to the Company are set out in note 7 to the consolidated financial statements.

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

	2010	2009
Investment Management	**443**	428
Unit Trusts	**24**	24
Trust and Tax Services	**43**	40
Shared Services	**179**	179
	689	671

37 Dividends

Details of the Company's dividends paid and proposed for approval at the Annual General Meeting are set out in note 11 to the consolidated financial statements.

38 Investment in subsidiaries

	Subordinated loans to Group undertakings £'000	Equities £'000	Total £'000
At 1 January 2009	–	22,562	22,562
Additions	250	200	450
Disposals	–	(13)	(13)
At 1 January 2010	**250**	**22,749**	**22,999**
Additions	**15,000**	**250**	**15,250**
Disposals	**–**	**(274)**	**(274)**
At 31 December 2010	**15,250**	**22,725**	**37,975**

Equities

The Company completed the voluntary liquidation of its wholly owned subsidiaries Rathbone Trust Company B.V. on 6 July 2010, Rathbone Bank (BVI) Limited (held indirectly) on 5 November 2010 and Rathbone Insurance Limited on 30 December 2010. The Company applied for its wholly owned subsidiaries Rathbone Bros & Co (UK) Limited and Rathbones Limited to be struck off on 14 September 2010 and on 22 September 2010 respectively. This process was completed on 11 January 2011 for Rathbone Bros & Co (UK) Limited and on 18 January 2011 for Rathbones Limited. The disposal of these companies is included in the results for 2010.

On 19 July 2010, the Company acquired 250,000 non-voting redeemable preference shares of £1 each (issued at par) in Harlequin Insurance PCC Limited Cell RAT36, which represents the entire share capital of that cell, for cash consideration. Harlequin Insurance PCC Limited Cell RAT36's year end is 31 March 2011.

On 25 September 2009 the Company acquired a further 200,000 shares (with nominal value of £1 each) in its wholly owned subsidiary Rathbone Pension & Advisory Services Limited for cash consideration.

On 17 November 2009 the Company disposed of its subsidiary Rathbone Trust International B.V. for cash consideration of £13,000.

At 31 December 2010 the principal subsidiary undertakings were as follows:

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management Limited	England & Wales	Investment management and banking services
Rathbone Investment Management International Limited[1]	Jersey	Investment management
Rathbone Trust Company Limited	England & Wales	Trust services
Rathbone Unit Trust Management Limited[1]	England & Wales	Unit trust management
Rathbone Pension & Advisory Services Limited	England & Wales	Pension advisory services

1 held by subsidiary undertaking

The Company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiaries. A full list of the Company's subsidiaries will be included in the Company's annual return to Companies House.

Subordinated loans to Group undertakings

The amounts subject to subordinated loan agreements are shown below:

Counterparty	Repayment date	Interest rate	2010 £'000	2009 £'000	2008 £'000
Rathbone Investment Management Limited	None	Bank of England base rate plus 2.50% to a maximum of 5%	**15,000**	–	–
Rathbone Pension & Advisory Services Limited	None	Bank of England base rate plus 2.50% to a maximum of 5%	**250**	250	–
			15,250	250	–

The fair value of the subordinated loans is not materially different to their carrying amount.

During 2010 the Company issued a £15,000,000 (2009: £250,000) subordinated loan to a subsidiary as part of the Group's capital management activities. Interest is paid monthly in arrears. No repayment of the loan shall be made in whole, or part, earlier than five years from the date the loan was made, or five years from the date on which the Company gives written notice to the subsidiary undertaking and the FSA. The FSA has the right under the agreement to refuse consent to the repayment.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated loans during the period.

39 Other investments

Available for sale securities	2010 £'000	2009 £'000	2008 £'000
Equity securities – at fair value			
– listed	**2,513**	2,153	1,529
– unlisted	**574**	779	1,462
	3,087	2,932	2,991

40 Trade and other receivables

	2010 £'000	2009 £'000	2008 £'000
Loans issued	**3,832**	4,098	3,268
Prepayments and other receivables	**479**	686	841
Amounts owed by Group undertakings	**28,607**	27,060	30,103
	32,918	31,844	34,212
Current	**29,380**	27,746	30,944
Non-current	**3,538**	4,098	3,268
	32,918	31,844	34,212

Included within loans issued are Vendor loan notes (notes) with a nominal value of £5,000,000 that were issued to the acquirer of the Group's Jersey trust operations in 2008. The notes are repayable on the occurrence of certain events, principally the refinancing of the operations disposed of.

The notes bear no interest for three years from issue. Interest is then rolled-up into the loan at the Bank of England base rate on half of the notes' nominal value for the following two years. Thereafter, interest is rolled-up on the notes' full nominal value at the Bank of England base rate. The carrying value of the notes has been discounted to £3,267,000 at 31 December 2010 (2009: £3,267,000; 2008: £3,268,000) and interest income is recognised over the expected life of the notes under the effective interest rate method. During the year the forecast interest rate attaching to these notes was reviewed and reduced in line with the Directors' revised expectations for the Bank of England base rate in the medium term.

Included within loans issued is a Swiss Franc denominated loan to the acquirer of the Group's Switzerland trust operations with a nominal value equivalent to £565,000 at 31 December 2010 (2009: £831,000; 2008: £nil). The loan does not bear interest and is repayable in three approximately equal annual instalments ending in February 2012.

41 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 27.0% (2009: 28.0%; 2008: 28.0%).

The movement on the deferred tax account is as follows:

	2010 £'000	2009 £'000	2008 £'000
At 1 January	**2,925**	1,436	2,414
Adjustments in respect of prior years:			
– to the income statement	**(64)**	(59)	(32)
– directly to equity	**56**	41	(418)
Other movements in deferred tax:			
– amounts charged to the income statement	**(1,534)**	(790)	(1,551)
– actuarial gains and losses	**841**	2,415	12
– share-based payments	**313**	(135)	(97)
– fair value measurement of available for sale securities	**(43)**	17	1,108
Effect of change in corporation tax rate on deferred tax:			
– charged to the income statement	**(42)**	–	–
– credited directly to equity	**(47)**	–	–
	2,405	2,925	1,436

41 Deferred tax continued

Deferred tax assets

	2010 £'000	2009 £'000	2008 £'000
Share-based payments	**919**	298	658
Pensions	**2,306**	3,434	1,602
	3,225	3,732	2,260

Deferred tax liabilities

	2010 £'000	2009 £'000	2008 £'000
Available for sale securities	**820**	807	824

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

	2010 £'000	2009 £'000	2008 £'000
Share-based payments	**(269)**	266	661
Pensions	**1,909**	583	217
Accelerated capital allowances	**–**	–	705
	1,640	849	1,583

Deferred income tax liabilities of £448,000 (2009: £648,000; 2008: £684,000) have not been recognised in respect of unremitted earnings of certain subsidiaries as such amounts are not expected to be remitted to the UK. Unremitted earnings totalled £2,492,000 at 31 December 2010 (2009: £3,601,000; 2008: £3,804,000).

42 Borrowings

The Company has drawn down £3,089,000 (2009: £6,155,000; 2008: £9,201,000) of an unsecured term loan which is repayable in two equal instalments. One of these instalments was paid in January 2011 and the final instalment is payable on 4 April 2011. Interest is payable on the loan at 0.7% above the London Inter-Bank Offer Rate.

43 Trade and other payables

	2010 £'000	2009 £'000	2008 £'000
Accruals, deferred income and other creditors	**1,209**	421	452
Amounts owed to Group undertakings	**58**	78	182
Other taxes and social security costs	**1,503**	895	906
	2,770	1,394	1,540

The fair value of trade and other payables is not materially different to their carrying amount.

All amounts owed to Group undertakings are repayable on demand and are non-interest bearing.

44 Employee benefits

Details of the defined benefit pension schemes operated by the Company are provided in note 25 to the consolidated 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 by the liability, may not necessarily be borne out in practice. The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	2010 %	2009 %	2008 %
Rate of increase in salaries	**4.85**	4.85	4.05
Rate of increase of pensions in payment			
– Laurence Keen Scheme	**3.70**	3.70	3.40
– Rathbone 1987 Scheme	**3.50**	3.50	2.80
Rate of increase of deferred pensions	**3.60**	3.60	2.80
Discount rate	**5.40**	5.70	6.15
Expected return on scheme assets	**6.60**	6.87	6.24
Inflation[1]	**3.60**	3.60	2.80

1 Inflation assumptions are based on the Retail Prices Index, in accordance with the schemes' rules and related documentation

44 Employee benefits continued

The assumed duration of the liabilities for the Laurence Keen Scheme is 18 years (2009: 18 years; 2008: 25 years) and the assumed duration for the Rathbone 1987 Scheme is 24 years (2009: 24 years; 2008: 25 years). The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed in note 25 to the consolidated financial statements.

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 from that date following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the PNA00 actuarial tables. The assumed life expectations on retirement were:

		2010 Males	**2010 Females**	2009 Males	2009 Females	2008 Males	2008 Females
Retiring today	– aged 60	**26.9**	**29.1**	26.8	29.1	26.7	29.0
	– aged 65	**22.1**	**24.3**	22.0	24.2	21.9	24.1
Retiring in 20 years	– aged 60	**28.6**	**30.4**	28.5	30.3	28.4	30.3
	– aged 65	**23.7**	**25.4**	23.6	25.4	23.5	25.3

The amount included in the statement of financial position arising from the Company's obligations in respect of the schemes is as follows:

	2010 £'000	2009 £'000	2008 £'000
Present value of defined benefit obligations	**(101,353)**	(85,577)	(63,993)
Fair value of scheme assets	**94,710**	77,254	59,311
Deficit in schemes	**(6,643)**	(8,323)	(4,682)
Death in service benefit reserve – unfunded	**–**	(1,090)	(1,041)
Total deficit	**(6,643)**	(9,413)	(5,723)

Actuarial gains and losses have been reported in the statement of comprehensive income. The actual return on scheme assets was a rise in value of £10,290,000 (2009: £11,194,000 rise; 2008: £7,764,000 rise).

The cumulative actuarial gains and losses reported in the statement of comprehensive income since the adoption of IFRS is as follows:

	2010 £'000	2009 £'000	2008 £'000
At 1 January	**(7,954)**	672	716
Net actuarial losses recognised in year	**(3,005)**	(8,626)	(44)
At 31 December	**(10,959)**	(7,954)	672

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

	2010 £'000	2009 £'000	2008 £'000
At 1 January	**86,667**	65,034	70,575
Service cost (employer's part)	**2,129**	1,740	2,556
Interest cost	**4,997**	4,052	4,014
Contributions from members	**1,245**	1,245	1,267
Actuarial losses/(gains)	**7,679**	15,880	(12,348)
Benefits paid	**(1,364)**	(1,284)	(1,030)
At 31 December	**101,353**	86,667	65,034

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

	2010 £'000	2009 £'000	2008 £'000
At 1 January	**77,254**	59,311	64,123
Expected return on scheme assets	**5,616**	3,940	4,628
Actuarial gains/(losses)	**4,674**	7,254	(12,392)
Contributions from the sponsoring companies	**7,285**	6,788	2,715
Contributions from scheme members	**1,245**	1,245	1,267
Benefits paid	**(1,364)**	(1,284)	(1,030)
At 31 December	**94,710**	77,254	59,311

44 Employee benefits continued

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

	1.1.10 Expected return %	1.1.09 Expected return %	1.1.08 Expected return %	**2010 Fair value £'000**	2009 Fair value £'000	2008 Fair value £'000	**2010 Current allocation %**	2009 Current allocation %	2008 Current allocation %
Equity instruments	**7.45**	7.75	7.35	**71,053**	57,471	36,726	**75**	74	62
Debt instruments	**4.60**	4.90	6.15	**17,466**	13,047	10,125	**18**	17	17
Interest rate swap funds	**4.20**	4.50	4.10	**4,512**	4,537	9,135	**5**	6	15
Cash	**0.50**	0.50	2.00	**1,679**	2,199	3,325	**2**	3	6
At 31 December				**94,710**	77,254	59,311			

At 31 December 2010 the Rathbone 1987 Scheme held 335 shares (2009: 335; 2008: 496) with a nominal value of £4,808,000 (2009: £3,812,000; 2008: £5,000,000) in an interest rate swap fund. The fund is invested in long dated interest rate swaps, the duration of which is intended to broadly align with the duration of the scheme's liabilities. The expected return on equities was assumed to be 3.25% above the return on long dated gilts (2009: 3.25%; 2008: 3.25% above).

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.

45 Share capital and share-based payments

Details of the share capital of the Company together with changes thereto are provided in note 26 to the consolidated financial statements. Details of options on the Company's shares and share-based payments are set out in note 27 to the consolidated financial statements.

46 Financial instruments

The Company's risk management policies and procedures are integrated with the wider Rathbone Group's risk management process. The Rathbone Group has identified the risks arising from all of its activities, including those of the Company, and has established policies and procedures to manage these items in accordance with its risk appetite. The Company categorises its financial risks into three areas:

(i) credit risk;

(ii) liquidity risk; and

(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk).

The sections below outline the Group risk appetite, as applicable to the Company, and explain how the Company defines and manages each category of financial risk.

The Company's risk management policies are designed to identify and analyse the risks that the Company faces, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in the business and the wider industry.

The Company's overall strategy and policies for monitoring and management of financial risk are set by the Board of Directors (the Board). The Board has embedded risk management within the business through the Executive Committee and senior management.

46 Financial instruments continued

(i) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its trading activities. The principal sources of credit risk arise from depositing funds with banks and through providing long term and working capital financing for subsidiaries. The Company also took on credit exposure through the provision of loans as part of the disposal of its subsidiaries in Jersey and Switzerland in 2008 and 2009.

The Company places surplus funds with its banking subsidiary, which operates under the Group's credit risk management policies. Group policy requires that funds are placed with a range of high quality financial institutions. Investments are spread to avoid excessive exposure to any individual counterparty.

For the purposes of financial reporting the Company categorises its exposures based on the long term ratings awarded to counterparties by Fitch Ratings Ltd (Fitch) or Moody's Corporation (Moody's).

Cash equivalents (balances at banks)
The Company has exposure to financial institutions through its bank deposits (reported within cash equivalents). These exposures principally arise from the placement of the Company's own reserves.

Trade and other receivables
Trade and other receivables relate to amounts placed with subsidiaries and loans provided to subsidiaries and former subsidiaries. The collection and ageing of trade and other receivables are reviewed on a periodic basis by management. Impairment provisions are made for any debts which are considered to be doubtful for collection.

Impairment and provisioning policies
Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at statement of financial position date on a case by case basis.

No impairment losses arose during the year (2009 and 2008: none).

Maximum exposure to credit risk

	2010 £'000	2009 £'000	2008 £'000
Trade and other receivables			
– Loans issued	**5,822**	6,018	5,000
– Amounts owed by Group undertakings	**28,607**	27,060	30,103
– Other financial assets	**135**	–	–
Balances at banks	**410**	185	135
	34,974	33,263	35,238

The above table represents the gross credit risk exposure of the Company at 31 December 2010, 2009 and 2008, without taking account of any collateral held or other credit enhancements attached.

All trade and other receivables are neither past due nor impaired and are within normal terms and conditions of lending at the statement of financial position date (2009 and 2008: all within normal terms of trade).

The terms attached to loans issued are set out in note 40. Amounts owed to Group undertakings do not have specific repayment dates and are paid down periodically as trading requires.

Balances at banks
All balances at banks were neither past due nor impaired. The credit quality of these balances is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the statement of financial position date.

	2010 £'000	2009 £'000	2008 £'000
AA – to AA +	**410**	185	135

46 Financial instruments continued
(i) Credit risk continued

Concentration of credit risk

The Company has counterparty concentration risk within its balances at banks in that the principal exposure is to its banking subsidiary. The Board sets and monitors the Group policy for the management of Group funds, which include the placement of funds with a range of high rated financial insitutions.

(a) Geographical sectors

The following table analyses the Company's credit exposures, at their carrying amounts, by geographical region as at the statement of financial position date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2010	**United Kingdom £'000**	**Jersey £'000**	**Rest of the World £'000**	**Total £'000**
Trade and other receivables				
– Loans issued	**–**	**3,267**	**565**	**3,832**
– Amounts owed by Group undertakings	**28,485**	**122**	**–**	**28,607**
– Other financial assets	**28**	**–**	**107**	**135**
Balances at banks	**410**	**–**	**–**	**410**
	28,923	**3,389**	**672**	**32,984**

At 31 December 2009	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Trade and other receivables				
– Loans issued	–	3,267	831	4,098
– Amounts owed by Group undertakings	26,961	99	–	27,060
– Other financial assets	–	–	–	–
Balances at banks	185	–	–	185
	27,146	3,366	831	31,343

At 31 December 2008	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Trade and other receivables				
– Loans issued	–	3,268	–	3,268
– Amounts owed by Group undertakings	28,523	–	1,580	30,103
– Other financial assets	–	–	–	–
– Balances at banks	135	–	–	135
	28,658	3,268	1,580	33,506

(b) Industry sectors

The Company's credit exposures at the statement of financial position date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2010	**Financial institutions £'000**	**Subsidiaries and other companies £'000**	**Total £'000**
Trade and other receivables			
– Loans issued	**–**	**3,832**	**3,832**
– Amounts owed by Group undertakings	**24,911**	**3,696**	**28,607**
– Other financial assets	**–**	**135**	**135**
Balances at banks	**410**	**–**	**410**
	25,321	**7,663**	**32,984**

At 31 December 2009	Financial institutions £'000	Subsidiaries and other companies £'000	Total £'000
Trade and other receivables			
– Loans issued	–	4,098	4,098
– Amounts owed by Group undertakings	24,337	2,723	27,060
– Other financial assets	–	–	–
Balances at banks	185	–	185
	24,522	6,821	31,343

46 Financial instruments continued

(i) Credit risk continued

At 31 December 2008	Financial institutions £'000	Subsidiaries and other companies £'000	Total £'000
Trade and other receivables			
– Loans issued	–	3,268	3,268
– Amounts owed by Group undertakings	23,794	6,309	30,103
– Other financial assets	–	–	–
Balances at banks	135	–	135
	23,929	9,577	33,506

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company places its funds in short term or demand facilities with financial institutions to ensure liquidity. The Company has a bank loan of £3,089,000 which is due to be repaid in April 2011, but does not rely on external funding for its activities.

The table below presents the undiscounted cash flows receivable and payable by the Company on its financial assets and liabilities by remaining contractual maturities at the statement of financial position date.

At 31 December 2010	**On demand £'000**	**Not more than 3 months £'000**	**After 3 months but not more than 1 year £'000**	**After 1 year but not more than 5 years £'000**	**After 5 years £'000**	**Total £'000**
Cash flows arising from financial assets						
Trade and other receivables						
– Loans issued	**–**	**355**	**360**	**5,229**	**–**	**5,944**
– Amounts owed by Group undertakings	**28,607**	**–**	**–**	**–**	**–**	**28,607**
– Other financial assets	**11**	**38**	**4**	**82**	**–**	**135**
Balances at banks	**410**	**–**	**–**	**–**	**–**	**410**
Cash flows arising from financial assets	**29,028**	**393**	**364**	**5,311**	**–**	**35,096**
Cash flows arising from financial liabilities						
Borrowings	**–**	**1,545**	**1,562**	**–**	**–**	**3,107**
Trade and other payables						
– Amounts owed to Group undertakings	**58**	**–**	**–**	**–**	**–**	**58**
– Other financial liabilities	**125**	**–**	**–**	**–**	**–**	**125**
Cash flows arising from financial liabilities	**183**	**1,545**	**1,562**	**–**	**–**	**3,290**
Net liquidity gap	**28,845**	**(1,152)**	**(1,198)**	**5,311**	**–**	**31,806**

At 31 December 2009	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial assets						
Trade and other receivables						
– Loans issued	–	500	–	6,250	–	6,750
– Amounts owed by Group undertakings	27,060	–	–	–	–	27,060
– Other financial assets	–	–	–	–	–	–
Balances at banks	185	–	–	–	–	185
Cash flows arising from financial assets	27,245	500	–	6,250	–	33,995
Cash flows arising from financial liabilities						
Borrowings	–	1,533	1,574	3,104	–	6,211
Trade and other payables						
– Amounts owed to Group undertakings	78	–	–	–	–	78
– Other financial liabilities	–	–	–	119	–	119
Cash flows arising from financial liabilities	78	1,533	1,574	3,223	–	6,408
Net liquidity gap	27,167	(1,033)	(1,574)	3,027	–	27,587

46 Financial instruments continued

(ii) Liquidity risk continued

At 31 December 2008	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial assets						
Trade and other receivables						
– Loans issued	–	–	–	5,199	–	5,199
– Amounts owed by Group undertakings	30,103	–	–	–	–	30,103
– Other financial assets	–	–	–	–	–	–
Balances at banks	135	–	–	–	–	135
Cash flows arising from financial assets	30,238	–	–	5,199	–	35,437
Cash flows arising from financial liabilities						
Borrowings	–	1,533	1,901	6,516	–	9,950
Trade and other payables						
– Amounts owed to Group undertakings	182	–	–	–	–	182
– Other financial liabilities	–	–	–	–	–	–
Cash flows arising from financial liabilities	182	1,533	1,901	6,516	–	10,132
Net liquidity gap	30,056	(1,533)	(1,901)	(1,317)	–	25,305

Included within the amounts due to trade creditors disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

Off-balance sheet items

Cash flows arising from the Company's off-balance sheet financial liabilities arise solely from operating loans (note 48) and are summarised in the table below. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates.

Operating lease commitments	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2010	**168**	**505**	**2,692**	**3,694**	**7,059**
At 31 December 2009	168	505	2,692	4,367	7,732
At 31 December 2008	168	505	2,692	5,040	8,405

Total liquidity requirement

At 31 December 2010	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	**183**	**1,545**	**1,562**	**–**	**–**	**3,290**
Total off-balance sheet items	**–**	**168**	**505**	**2,692**	**3,694**	**7,059**
	183	**1,713**	**2,067**	**2,692**	**3,694**	**10,349**

At 31 December 2009	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	78	1,533	1,574	3,223	–	6,408
Total off-balance sheet items	–	168	505	2,692	4,367	7,732
	78	1,701	2,079	5,915	4,367	14,140

At 31 December 2008	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	182	1,533	1,901	6,516	–	10,132
Total off-balance sheet items	–	168	505	2,692	5,040	8,405
	182	1,701	2,406	9,208	5,040	18,537

(iii) Market risk

Interest rate risk

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

The Company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities.

The table below shows the repricing profile of the Company's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2010	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Investments	–	–	–	–	–	3,087	3,087
Trade and other receivables							
– Loans issued	–	–	3,267	–	–	565	3,832
– Amounts owed by Group undertakings	–	–	–	–	–	28,607	28,607
– Other financial assets	–	–	–	–	–	135	135
Balances at banks	404	–	–	–	–	6	410
Total financial assets	404	–	3,267	–	–	32,400	36,071
Liabilities							
Borrowings	3,089	–	–	–	–	–	3,089
Trade and other payables							
– Amounts owed to Group undertakings	–	–	–	–	–	58	58
– Other financial liabilities	125	–	–	–	–	–	125
Total financial liabilities	3,214	–	–	–	–	58	3,272
Interest rate repricing gap	(2,810)	–	3,267	–	–	32,342	32,799

At 31 December 2009	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Investments	–	–	–	–	–	2,932	2,932
Trade and other receivables							
– Loans issued	–	–	–	3,267	–	831	4,098
– Amounts owed by Group undertakings	–	–	–	–	–	27,060	27,060
– Other financial assets	–	–	–	–	–	–	–
Balances at banks	179	–	–	–	–	6	185
Total financial assets	179	–	–	3,267	–	30,829	34,275
Liabilities							
Borrowings	6,155	–	–	–	–	–	6,155
Trade and other payables							
– Amounts owed to Group undertakings	–	–	–	–	–	78	78
– Other financial liabilities	–	–	–	–	–	119	119
Total financial liabilities	6,155	–	–	–	–	197	6,352
Interest rate repricing gap	(5,976)	–	–	3,267	–	30,632	27,923

46 Financial instruments continued
(iii) Market risk continued

At 31 December 2008	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Investments	–	–	–	–	–	2,991	2,991
Trade and other receivables							
– Loans issued	–	–	–	3,268	–	–	3,268
– Amounts owed by Group undertakings	–	–	–	–	–	30,103	30,103
– Other financial assets	–	–	–	–	–	–	–
Balances at banks	129	–	–	–	–	6	135
Total financial assets	129	–	–	3,268	–	33,100	36,497
Liabilities							
Borrowings	9,201	–	–	–	–	–	9,201
Trade and other payables							
– Amounts owed to Group undertakings	–	–	–	–	–	182	182
– Other financial liabilities	–	–	–	–	–	–	–
Total financial liabilities	9,201	–	–	–	–	182	9,383
Interest rate repricing gap	(9,072)	–	–	3,268	–	32,918	27,114

A 1% parallel increase / decrease in the Sterling yield curve would result in an increase / decrease in profit after tax and equity of £70,000 (2009: £69,000; 2008: £25,000).

Foreign exchange risk

The Company does not have any material exposure to transactional foreign exchange risk. The table below summarises the Company's exposure to foreign currency translation risk at 31 December 2010. Included in the table are the Company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2010	Sterling £'000	Euro £'000	Other £'000	Total £'000
Assets				
Investments	**2,518**	**569**	**–**	**3,087**
Trade and other receivables				
– Loans issued	**3,267**	**–**	**565**	**3,832**
– Amounts owed by Group undertakings	**28,607**	**–**	**–**	**28,607**
– Other financial assets	**28**	**107**	**–**	**135**
Balances at banks	**410**	**–**	**–**	**410**
Total financial assets	**34,830**	**676**	**565**	**36,071**
Liabilities				
Borrowings	**3,089**	**–**	**–**	**3,089**
Trade and other payables				
– Amounts owed to Group undertakings	**58**	**–**	**–**	**58**
– Other financial liabilities	**125**	**–**	**–**	**125**
Total financial liabilities	**3,272**	**–**	**–**	**3,272**
Net on-balance sheet position	**31,558**	**676**	**565**	**32,799**

46 Financial instruments continued
(iii) Market risk continued

At 31 December 2009	Sterling £'000	Euro £'000	Other £'000	Total £'000
Assets				
Investments	2,158	774	–	2,932
Trade and other receivables				
– Loans issued	3,267	–	831	4,098
– Amounts owed by Group undertakings	27,060	–	–	27,060
– Other financial assets	–	–	–	–
Balances at banks	185	–	–	185
Total financial assets	32,670	774	831	34,275
Liabilities				
Borrowings	6,155	–	–	6,155
Trade and other payables				
– Amounts owed to Group undertakings	78	–	–	78
– Other financial liabilities	119	–	–	119
Total financial liabilities	6,352	–	–	6,352
Net on-balance sheet position	26,318	774	831	27,923

At 31 December 2008	Sterling £'000	Euro £'000	Other £'000	Total £'000
Assets				
Investments	1,534	1,457	–	2,991
Trade and other receivables				
– Loans issued	3,268	–	–	3,268
– Amounts owed by Group undertakings	30,103	–	–	30,103
– Other financial assets	–	–	–	–
Balances at banks	135	–	–	135
Total financial assets	35,040	1,457	–	36,497
Liabilities				
Borrowings	9,201	–	–	9,201
Trade and other payables				
– Amounts owed to Group undertakings	182	–	–	182
– Other financial liabilities	–	–	–	–
Total financial liabilities	9,383	–	–	9,383
Net on-balance sheet position	25,657	1,457	–	27,114

A 10% weakening of the Euro against the Pound Sterling, occurring on 31 December 2010, would have reduced equity and profit after tax by £49,000 (2009: £56,000; 2008: £105,000). A 10% strengthening of the Euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Company is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 39).

At 31 December 2010, the fair value of equity securities recognised on the statement of financial position was £3,087,000 (2009: £2,932,000; 2008: £2,991,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £309,000 (2009: £293,000; 2008: £299,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

46 Financial instruments continued
(iii) Market risk continued

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries which are carried at historical cost (note 38).

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2010	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Available for sale equity securities	**2,513**	**574**	**–**	**3,087**
Total financial assets	**2,513**	**574**	**–**	**3,087**

At 31 December 2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Available for sale equity securities	2,153	779	–	2,932
Total financial assets	2,153	779	–	2,932

At 31 December 2008	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Available for sale equity securities	1,529	1,462	–	2,991
Total financial assets	1,529	1,462	–	2,991

There have been no transfers between levels during the year.

47 Capital management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

For monitoring purposes, the Company defines capital as equity shareholders' funds. Management monitor the level of distributable reserves on a monthly basis and compare this to forecast dividends. Capital is distributed to the Company from operating subsidiaries on a timely basis to ensure sufficient capital is maintained. The Board of Directors considers the level of capital held in relation to forecast performance, dividend payments and wider plans for the business, although formal quantitative targets are not set. The Company's total capital at the 31 December 2010, together with movements during the year then ended, is set out in the Company statement of changes in equity.

There were no changes in the Company's approach to capital management during the year.

48 Contingent liabilities and commitments

The Company leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future minimum lease payments under non-cancellable operating leases were as follows:

	2010 £'000	2009 £'000	2008 £'000
No later than 1 year	**673**	673	673
Later than 1 year and no later than 5 years	**2,692**	2,692	2,692
Later than 5 years	**3,694**	4,367	5,040
	7,059	7,732	8,405

49 Related party transactions

(i) Transactions with key management personnel

Key management personnel are defined as those persons having responsibility and authority for planning, directing and controlling the operations of the Company. The Company's key management personnel are its directors.

Full details of the remuneration of the Company's directors are given in the Remuneration report on page 38.

(ii) Other related party transactions

During the year, the Company entered into the following transactions with fellow subsidiaries:

	2010 Receivable £'000	**2010 Payable £'000**	2009 Receivable £'000	2009 Payable £'000
Interest	**113**	**–**	3	–
Charges for management services	**3,374**	**–**	3,197	–
	3,487	**–**	3,200	–

The Company's balances with fellow Group companies at 31 December 2010 are set out in notes 40 and 43.

All transactions and outstanding balances with fellow Group companies are priced on an arm's length basis and are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts for any amounts due from fellow Group companies.

50 Statement of cash flows

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

	2010 £'000	2009 £'000	2008 £'000
Cash and cash equivalents	**410**	185	135

51 Explanation of transition to IFRS

As stated in note 34, these are the Company's first set of financial statements prepared in accordance with IFRS.

The accounting policies set out in note 34 have been applied in preparing the financial statements for the year ended 31 December 2010, the comparative information presented in these financial statements for the year ended 31 December 2009 and in preparation of an opening IFRS statement of financial position at 31 December 2008 (the opening position on 1 January 2009, the date of the Company's transition to IFRS).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK generally accepted accounting principles (UK GAAP). An explanation of how the transition from previous UK GAAP to IFRS has affected the Company's reported financial position, financial performance and cash flows is set out in the following notes and tables.

Transitional arrangements

IFRS 1 'First Time Adoption of International Financial Reporting Standards' permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Company's application of the optional exemptions is as follows:

Assets and liabilities measured at the Group's transition date to IFRS
The Company has taken advantage of the option given in IFRS 1 to measure its assets and liabilities at the carrying amounts that were included in the Group's consolidated financial statements, based on the Group's transition to IFRS on 1 January 2004.

Employee benefits
The Company has chosen to recognise all cumulative actuarial gains and losses associated with its defined benefit pension schemes since the date of transition in other comprehensive income.

Investments in subsidiaries
The Company has elected to recognise its investments in subsidiaries at their deemed cost, which was the historical carrying value under UK GAAP.

Other investments
The Company has elected to classify equity instruments with a previous carrying value of £2,932,000 as available for sale investments.

51 Explanation of transition to IFRS continued

Key impacts of IFRS

The significant differences between UK GAAP and IFRS which impact on the Company's reported financial position, financial performance and cash flows are set out below:

IAS 1 and IAS 39 – Presentation of Financial Statements and Financial Instruments: Recognition and Measurement
The statement of financial position and applicable notes have been amended to reflect the presentational disclosures required by IAS 1 and IAS 39.

IAS 39 – Financial Instruments: Recognition and Measurement
In accordance with IAS 39, the Company has recognised gains or losses on revaluation of available for sale equity securities in other comprehensive income.

IAS 12 – Income Taxes
IAS 12 requires that deferred tax on equity items is recognised directly in equity. UK GAAP requires that all such deferred tax is recognised in profit or loss. In addition, deferred tax is recognised on available for sale assets under IAS 12. No such deferred tax is recognised under UK GAAP. Reported profit after tax for the year ended 31 December 2009 has consequently been increased by £2,321,000. Statement of financial position equity at 31 December 2008 was increased by £824,000 and statement of financial position equity at 31 December 2009 was increased by £807,000.

IAS 19 – Employee Benefits
Under UK GAAP, the deficit on defined benefit pension schemes is shown net of related deferred tax. Under IFRS, the deferred tax is shown with other deferred tax assets or liabilities. Accordingly a deferred tax asset of £3,434,000 (2008: £1,602,000) was reclassified on transition to IFRS.

IAS 7 – Statement of Cash Flows
The Company has prepared its statement of cash flows in accordance with IAS 7. Under IAS 7, the statement of cash flows shows the movement in cash and cash equivalents, being defined as cash in hand, demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Under UK GAAP, the Company was exempt from the requirement to prepare a statement of cash flows.

51 Explanation of transition to IFRS continued

Reconciliation of the statement of financial position at 1 January 2009 (date of transition to IFRS)

	UK GAAP 1.1.09 £'000	Presentation of financial statements (IAS 1 & IAS 39) £'000	Income taxes (IAS 12) £'000	IFRS 1.1.09 £'000
Non-current assets				
Investments in subsidiaries	22,562	–	–	22,562
Other investments	–	2,991	–	2,991
Available for sale equity securities	2,991	(2,991)	–	–
Trade and other receivables	–	3,268	–	3,268
Deferred tax asset	–	658	778	1,436
	25,553	3,926	778	30,257
Current assets				
Amounts owed by Group undertakings	30,103	(30,103)	–	–
Other debtors	3,966	(3,966)	–	–
Prepayments and deferred income	841	(841)	–	–
Trade and other receivables	–	30,944	–	30,944
Current tax assets	–	40	–	40
Cash and cash equivalents	13	122	–	135
	34,923	(3,804)	–	31,119
Total assets	**60,476**	**122**	**778**	**61,376**
Current liabilities				
Borrowings	(9,201)	–	–	(9,201)
Amounts owed to Group undertakings	(182)	182	–	–
Other taxes and social security costs	(906)	906	–	–
Accruals and deferred income	(330)	330	–	–
Trade and other payables	–	(1,540)	–	(1,540)
	(10,619)	(122)	–	(10,741)
Net current assets	**24,304**	**(3,926)**	**–**	**20,378**
Non-current liabilities				
Pension liability	(4,121)	4,121	–	–
Employee benefits	–	(4,121)	(1,602)	(5,723)
	(4,121)	–	(1,602)	(5,723)
Total liabilities	**(14,740)**	**(122)**	**(1,602)**	**(16,464)**
Net assets	**45,736**	**–**	**(824)**	**44,912**
Equity				
Share capital	2,143	–	–	2,143
Share premium	28,957	–	–	28,957
Available for sale reserve	2,943	–	(824)	2,119
Profit and loss account	11,693	(11,693)	–	–
Retained earnings	–	11,693	–	11,693
Total equity	**45,736**	**–**	**(824)**	**44,912**

51 Explanation of transition to IFRS continued

Reconciliation of the statement of financial position at 31 December 2009
(date of most recent UK GAAP financial statements)

	UK GAAP 31.12.09 £'000	Presentation of financial statements (IAS 1 & IAS 39) £'000	Income taxes (IAS 12) £'000	IFRS 31.12.09 £'000
Non-current assets				
Investments in subsidiaries	22,749	250	–	22,999
Other investments	–	2,932	–	2,932
Available for sale equity securities	2,932	(2,932)	–	–
Trade and other receivables	–	4,098	–	4,098
Deferred tax asset	–	298	2,627	2,925
	25,681	4,646	2,627	32,954
Current assets				
Amounts owed by Group undertakings	27,310	(27,310)	–	–
Other debtors	4,719	(4,719)	–	–
Prepayments and deferred income	686	(686)	–	–
Trade and other receivables	–	27,746	–	27,746
Current tax assets	–	323	–	323
Cash and cash equivalents	68	117	–	185
	32,783	(4,529)	–	28,254
Total assets	**58,464**	**117**	**2,627**	**61,208**
Current liabilities				
Borrowings	(6,155)	–	–	(6,155)
Amounts owed to Group undertakings	(78)	78	–	–
Other taxes and social security costs	(895)	895	–	–
Accruals and deferred income	(304)	304	–	–
Trade and other payables	–	(1,394)	–	(1,394)
	(7,432)	(117)	–	(7,549)
Net current assets	**25,351**	**(4,646)**	**–**	**20,705**
Non-current liabilities				
Pension liability	(5,979)	5,979	–	–
Employee benefits	–	(5,979)	(3,434)	(9,413)
	(5,979)	–	(3,434)	(9,413)
Total liabilities	**(13,411)**	**(117)**	**(3,434)**	**(16,962)**
Net assets	**45,053**	**–**	**(807)**	**44,246**
Equity				
Share capital	2,165	–	–	2,165
Share premium	31,756	–	–	31,756
Available for sale reserve	2,884	–	(807)	2,077
Profit and loss account	8,248	(8,248)	–	–
Retained earnings	–	8,248	–	8,248
Total equity	**45,053**	**–**	**(807)**	**44,246**

Five year record

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Operating income	**127,184**	116,757	131,166	134,480	133,686
Underlying operating profit	**38,503**	32,446	45,020	47,302	44,720
Exceptional items	**(8,420)**	(2,978)	(2,714)	–	–
Profit before tax	**30,083**	29,468	42,306	47,302	44,720
Tax	**(8,531)**	(9,271)	(13,421)	(14,212)	(12,582)
Profit after tax	**21,552**	20,197	28,885	33,090	32,138
Equity dividends paid and proposed	**19,067**	18,159	17,984	17,479	14,786
Basic earnings per share	**49.76p**	46.87p	67.57p	77.79p	76.62p
Diluted earnings per share	**49.35p**	46.85p	67.02p	76.54p	74.71p
Net dividends per ordinary share	**44.0p**	42.0p	42.0p	41.0p	35.0p
Equity shareholders' funds	**185,374**	182,489	184,631	184,750	159,149
Total funds under management	**£15.63bn**	£13.10bn	£10.46bn	£13.12bn	£12.24bn

The amounts disclosed for 2006 include the results of operations that were discontinued in 2008 and 2009. The amounts disclosed for 2007 include the results of operations that were discontinued in 2009.

Corporate information

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Established 1742