Rathbone Brothers Plc
Report and accounts 2011

Rathbones
Established 1742

RATHBONE BROTHERS PLC

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

As at 31 December 2011, Rathbones managed £15.85 billion of client funds of which £14.76 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.rathbones.com/ra2011

Highlights of the year

Financial highlights

Funds under management

2011: £15.85bn
2010: £15.63bn

+1.4%

Operating income

2011: £144.5m
2010: £127.2m

+13.6%

Underlying[1] profit before tax

2011: £46.2m
2010: £38.5m

+20.0%

Profit before tax

2011: £39.2m
2010: £30.1m

+30.2%

Underlying[1] earnings per share

2011: 78.79p
2010: 63.76p

+23.6%

Basic earnings per share

2011: 66.72p
2010: 49.76p

+34.1%

Dividends paid and proposed per share

2011: 46.0p
2010: 44.0p

+4.5%

1 Underlying profit before tax and underlying earnings per share exclude exceptional Financial Services Compensation Scheme levies, amortisation of client relationships, head office relocation costs and gains on disposal of financial securities

Operational highlights

Rathbones named 'Discretionary Company of the Year' at the Investment Week Fund Manager of the Year Awards.

See page 12

Mark Nicholls succeeds Mark Powell as chairman.

Paul Chavasse appointed as head of investment management, succeeding Richard Lanyon.

See page 5

Andrew Butcher's appointment as chief operating officer announced.

See page 5

Rathbones' second Annual Charity Symposium hosted by the charity team is held at the Merchant Taylors' Hall.

See page 13

Rathbone Unit Trust Management launches two new funds – the Rathbone Enhanced Growth Portfolio and the Rathbone Strategic Bond Fund.

See page 15

Rathbones migrates its London-based internal servers to a centralised data centre.

See page 30

THE CASE FOR INVESTORS

Rathbones is well placed in a growing wealth market as a stable business with the right skills and qualities to take advantage of future growth opportunities.

MARKET

- Positive demographics in a growing and ageing population.
- Reducing government and employer provision for pension savings drives an increasing need for individual planning.
- Economic need for the UK savings ratio to improve.

THE CASE FOR INVESTING IN RATHBONES

OUR BUSINESS

- A consistent record of growth both organically and through acquisition.
- Cash generation with an ungeared balance sheet.
- Low employee turnover.
- Balanced remuneration structures rewarding both profits and funds growth.
- Stable dividend progression.
- Open and transparent communication to the market.
- Timely recognition of changes to the regulatory environment.

SKILLS AND QUALITIES

- An investment process which harnesses the expertise and insight of our investment managers on asset allocation and stock selection.
- High professional standards for investment managers and financial advisors.
- Quality and cost efficiency of operations in Liverpool.
- Sustained investment in people, investment process and technology, improving client service and providing support to investment managers.

FUTURE OPPORTUNITIES

- Our brand values and client service culture provide a stable platform for future organic growth.
- An attractive place for new investment managers and/or teams.
- Well positioned for the Retail Distribution Review.
- Opportunities for acquisitions that fit our culture.

Chairman's statement

Mark Nicholls
Chairman

I became chairman in May 2011 and feel privileged to be the first chairman to be appointed from outside the firm. I would like to thank my predecessor Mark Powell, who has made the transition very easy for me. In this brief statement I shall outline my areas of focus as a new chairman in the context of Rathbones as I see it today.

I have a background in financial services but not in private client investment management. I have, therefore, spent a considerable amount of time learning about the business. I have found Rathbones to be a robust business which depends on a number of factors: the high quality of our investment managers; the strong relationship between those investment managers and their clients; the value of our central investment process and systems; and finally our collegiate culture and embedded compliance practices. All of these factors together represent a solid platform which has enabled us to build an enviable reputation. It is this we strive to preserve.

Strategy review

Last October we held our annual strategy meeting involving the Board and senior management where we focused our discussion on three areas: growing our core investment management business; developing our tax, trust and family office business; and partnering with the IFA community. The analysis and discussion at the meeting will help us develop our plans further and enhance the value of what we have built up over time.

Risk

We have had several detailed discussions on risk at the Board. We regard the greatest risks to Rathbones as threats to our reputation, regulatory intervention in our sector and the counterparty risk inherent in being a bank. We have added two non-executive directors to our risk management committee (which also consists of the heads of all our major departments) and have recently taken the decision to appoint a non-executive director as chairman. I am delighted that Kathryn Matthews has agreed to take on this important role from 1 March 2012. Her wide experience of the investment management industry will be of great benefit to us.

Governance, Board and senior management

As chairman, I have to ensure that we have the best possible Board to give leadership to the business and that, through our non-executive directors, we can provide appropriate challenge to management. My main priorities here have been to streamline the working of the Board and to prepare for the departure from an executive role of Richard Lanyon, our long-standing and highly regarded head of investment management. I have been working closely with Andy Pomfret and my other Board colleagues on all these areas. The first decision we made was to appoint Paul Chavasse as successor to Richard Lanyon, which was announced on 1 July 2011. Our decision came after a rigorous review of our management within the Group. This review has, in turn, laid the foundations for a more structured development programme for our senior management, which is essential for good succession planning.

As a business in the financial sector in 2012 we must maintain high standards of governance. The Board has recently undertaken an evaluation of its own performance, of its committees and individual directors. Although the evaluation was generally positive, a number of improvements have been suggested and these will be implemented. I am delighted to say the discussions we have had as part of this important process have been refreshingly open and constructive.

Our performance evaluation also concluded that we had an appropriate balance of skills on the Board. The Board continues to believe that, whilst the best qualified candidate should be appointed to any role, a range of backgrounds, skills and experience is desirable. Gender diversity plays an important part in this.

In accordance with best practice, all directors will be seeking re-election at the AGM.

Shareholder engagement

We have a tradition at Rathbones of close engagement with our investors and, although this is largely carried out by Andy Pomfret and Paul Stockton, I have been delighted to meet some of our largest shareholders to discuss our mutual aspirations. I look forward to a continuing dialogue with shareholders on the many issues that arise out of the challenges and opportunities we face.

As you will see from Andy Pomfret's report, we produced a solid performance in 2011 in difficult circumstances. I hope you will find this year's annual report provides a clear account of how we run our business and what we have achieved during the year.

Mark Nicholls
Chairman

20 February 2012

Chief Executive's statement

Andy Pomfret
Chief Executive

Results and financial highlights

In spite of often difficult market conditions, our profit before tax for the year to 31 December 2011 was up 30.2% to £39.2 million compared to £30.1 million in 2010, and basic earnings per share of 66.72p were up 34.1% on 49.76p in 2010. These results include some £3.0 million of costs incurred in respect of the planned relocation of our London head office in 2012. We thankfully did not see a repeat of last year's £3.6 million exceptional Financial Services Compensation Scheme levy largely caused by the failure of Keydata Investment Services.

Underlying profit before tax (which excludes client relationship amortisation charges and exceptional income and expense items as defined on page 17) was £46.2 million, up 20.0% compared to £38.5 million in 2010. Underlying earnings per share were 78.79p, up 23.6% on the 63.76p earned in 2010. We increased the number of Rathbone Investment Management clients to 38,380 at 31 December 2011 from 37,400 one year ago, attracting net new funds of £1.10 billion in the year (2010: £1.24 billion).

Notwithstanding current economic uncertainties, the Board is recommending a final dividend of 29.0p per share, making a total dividend per share of 46.0p for the year; up 4.5% from the 44.0p in 2010. The final dividend will be paid on 17 May 2012. In this economic climate it is important to report that our balance sheet at 31 December 2011 is now ungeared as external borrowings of £3.1 million at 31 December 2010 were repaid in the year. Our Group Tier 1 capital ratio was 26.9% at 31 December 2011 (2010: 28.3%) on a Basel III basis, which gives an indication of the strength of our capital base.

Financial markets

Investment markets

2011 was a difficult year overall although it divided into two distinct halves. In the first half, markets rose as investors concluded that there would not be a double-dip recession and that the problems in the eurozone could be resolved. Our first half was therefore positive as markets presented investment managers with some good opportunities for clients and this was evident in first half commission levels of £20.0 million (2010: £18.7 million). Sentiment changed in the second half though as the eurozone crisis led to questions about whether Greece would default, which in turn increased speculation on the future of the Euro and the position of other indebted countries such as Italy and Spain. This sentiment change unsettled markets and reduced trading volumes across the industry.

We expect that asset allocation will continue to be difficult in 2012 as global markets rebalance and, in many developed economies, we see a weak banking sector, inflation uncertainties and continued low interest rates, compounding fears of recession.

Loans and money markets

As Rathbones has a banking licence, the vast majority of cash in client portfolios is held with us as a deposit. We invest this cash in the money markets and therefore have exposure to a number of banks around Europe as part of a well diversified treasury portfolio. In light of developments in the eurozone, the banking committee responded by reallocating monies held with Spanish and Italian banks to UK treasury bills. These UK Government securities represented 9.6% (2010: 0%) of the total treasury assets of £0.91 billion at 31 December 2011. At 31 December 2011, all (2010: all) treasury assets were rated Fitch single A or above. Outstanding loans to clients were £47.8 million at 31 December 2011 (2010: £40.0 million) and continue to be an important part of our relationship with clients.

Our approach

For many years our strategy has been to 'be a leading provider of high-quality, personalised investment and wealth management services...' and in these difficult times our consistency has served us well. We believe that this stability is precisely what clients are looking for in difficult times and this, combined with our independent ownership, has led to high client retention as well as being one of the reasons why many investment managers have chosen to join us with their clients over the last decade.

Our approach continued

Key to the success of the firm is the quality of our staff, and we now employ over 750 people in 12 locations. Although the current economic climate means that it has been difficult to increase levels of pay, profit share and reward to match inflation, we continue to look at additional ways of incentivising staff. For many years we have had in place a Share Incentive Plan and more recently introduced a Save As You Earn scheme, both of which are government-approved ways of encouraging employee share ownership. Over 90% of employees participate in one or both of these schemes.

A new head office

In 2011, considerable time was invested in finding, negotiating, and then fitting-out our new head office in London at 1 Curzon Street. We will be moving all London staff currently located in 159 and 161 New Bond Street into these premises in February 2012. This new space (about one and a third floors of a six storey building) will enable us to put the majority of our staff onto a single open plan floor with the other floor used for internal and external meeting rooms. It will be a significant improvement to get everybody in London into one location and I am sure all will benefit from working in a more open environment which will promote greater internal communication. The location of the new office will also mean there is little change for either staff or clients as Curzon Street is only some 400 yards from our existing offices.

Regulation

Suitability

During the year there has been a great deal of attention placed by the FSA on the industry's approach to ensuring that investment portfolios are suitable for clients. Although the FSA's 2011 thematic review reported serious concerns around whether portfolios were suitable for clients among many of our peer group, we are not – and have not been – subject to any regulatory action in this regard. We continue to believe that our approach to managing suitability is appropriate.

The Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA)

During 2012 the FSA will be moving to parallel running the new 'twin peaks' regulatory structure which is expected to come into effect in 2013 following the passing of the relevant legislation. As Rathbones holds a banking licence, we will be regulated by both the PRA and the FCA. The PRA will be the lead regulator for all banks in the UK and in many ways we see it as acting in a similar way to how the Bank of England has done in the past. Our conduct of business will be regulated and supervised by the FCA.

It will be interesting to see how these two bodies interact and we believe that ensuring that these organisations work well together is in our interests and the interests of the financial services industry as a whole. We are doing all we can to continue to develop and improve our regulatory relationships.

There has been much discussion in the press around resolution planning for banks (living wills) and, given our banking licence, we will be developing plans accordingly. We are supportive of this regulation and consider it a good opportunity to test and improve our current procedures

Board and management changes

It was with great sadness that we said goodbye to Mark Powell at the AGM in 2011. Mark was very much part of Rathbones for more than twenty years and we thanked him at the AGM for his outstanding contribution, both to the Company and to our industry. At the AGM we were pleased to welcome Mark Nicholls as our new non-executive chairman. Mark had been on the Board since December 2010, when he was appointed with the intention of succeeding Mark Powell.

We announced at the half year that Richard Lanyon would be standing down from the Board and his managerial responsibilities as head of investment management during 2012 and that he would be succeeded by Paul Chavasse. Paul will take up this role at the beginning of March 2012 when we have completed our London head office move to 1 Curzon Street.

In December 2011 we announced the appointment of Andrew Butcher as our new chief operating officer, who will join us in March 2012 from Charles Stanley. We very much look forward to working with him.

Outlook

Rathbones is cautiously optimistic about the prospects for 2012 with the UK equity market ending 2011 on a more positive note. There is no doubt that the uncertainties over Europe persist but these are balanced by indications that the world economy continues to grow and some developed economies are showing small signs of improvement, particularly the USA. We are seeing signs of underlying cost inflation but we will continue to invest in and grow our business. We continue to be well positioned to take advantage of opportunities to welcome more investment managers and clients to Rathbones.

Andy Pomfret
Chief Executive

20 February 2012

Our business

Rathbone Brothers Plc is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services, employing over 750 people in 11 UK locations and in Jersey.

Investment Management

Market

We provide investment services to:

- private clients;
- professional intermediaries;
- charities; and
- trustees.

We have an offshore presence in Jersey.

Services

Our discretionary investment management service accounts for nearly all of our business. This service is underpinned by robust systems and a strong investment process which provides guidance to our investment managers. It is defined by four key features:

- a direct relationship with an investment manager rather than relying on relationship managers;
- bespoke investment portfolios that meet individual client requirements rather than model portfolios;
- investments selected from all global markets; and
- transparent fee arrangements.

Our service is complemented by our ability to offer:

- financial planning advice;
- tax and trust advice;
- loans to clients and payment services;
- ethical investment services through Rathbone Greenbank Investments; and
- advisory and execution only services.

Growth

Referrals from existing clients, professional intermediaries and charities are the best source of new business.

We attract investment managers as suitable opportunities arise.

We engage in targeted marketing and business development activity focusing on intermediaries and charities.

Unit Trusts

Market

Our unit trusts are purchased by:

- professional intermediaries;
- institutional investors; and
- private clients.

Services

Our range of actively managed specialist and multi asset unit trusts are designed to meet core investment needs. Our approach is underpinned by a strong investment philosophy and process.

Our unit trusts are managed by established and experienced investment managers who provide a strong breadth and depth of expertise.

Growth

The majority of our growth is achieved through professional intermediaries and institutions.

Our funds are available across all the UK's major wrap and fund supermarket platforms.

Rathbones at a glance

Our market

- £402bn of FUM managed in the UK by private client wealth managers[1]
- The UK market comprises circa 1.6m individuals with liquid assets >£100,000
- Of an estimated 541,000 high net worth individuals with liquid assets >£500,000[2] approximately 300,000 employ an investment manager[3]
- Over 150 companies offer wealth management services in the UK

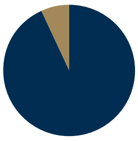
1 The City UK, Fund Management 2010 report
2 MDRC, UK high net worth 2011 report
3 Canaccord Adams Wealth Management report, January 2009

Rathbones in context

- We manage £15.85bn, which equates approximately to a 4% market share
- We provide investment management services to over 38,000 clients
- Our investment management client portfolios range in size from £100,000 to over £100m
- Almost 50% of the money we manage is in client relationships of greater than £1m

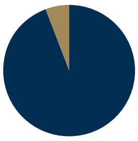
Total Rathbones

Funds under management (FUM)



	2011 £bn	2010 £bn
Investment Management	**14.76**	14.59
Unit Trusts	**1.09**	1.04
	15.85	15.63

Underlying operating income



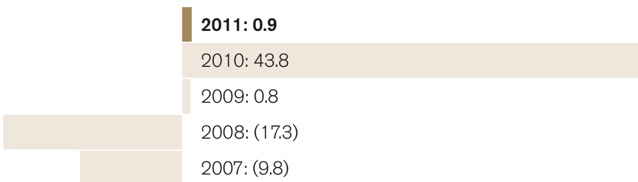
	2011 £m	2010 £m
Investment Management	**135.1**	119.8
Unit Trusts	**8.2**	7.4
	143.3	127.2

Key measures

	2011	2010
Market capitalisation at 31 December (£m)	**461.7**	474.5
Total assets (£m)	**1,183.8**	1,028.1
Total equity (£m)	**190.7**	185.4
Basel III Tier 1 ratio (%)	**26.9**	28.3
Profit before tax (£m)	**39.2**	30.1

Funds under management £bn

Annual total shareholder return %



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 process servicing individual client needs.

Our fees and charges are transparent, and alongside our investment management services we offer a number of banking services including currency, fixed interest term deposits and loans secured against portfolios.

Our charities team advises over 500 charities, with funds under management worth £1.68 billion. In 2011 we held our second Charity Symposium with 248 charities in attendance.

Our ethical service 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.

Rathbone Trust Company provides taxation, probate, trust and family office services.

Principal trading names

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

Direct employees (average full time equivalents)

- 533

Offices

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

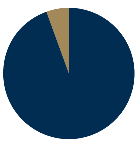
Head of Investment Management

- Richard Lanyon (Paul Chavasse with effect from 1 March 2012)

Websites

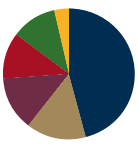
- General – www.rathbones.com
- Ethical investment – www.rathbonegreenbank.com

Funds under management



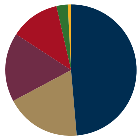
As at December 2011	%
Discretionary	94.5
Non-discretionary	5.5

Account type by funds under management



As at December 2011	%
Private client	46.0
Trust and settlements	14.6
ISAs	13.5
Charities	11.2
Pensions including SIPPs	11.3
Other	3.4

Account size by value



As at December 2011	%
Over £1 million	48.8
£500,000 – £1 million	18.6
£250,000 – £499,999	17.0
£100,000 – £249,999	12.1
£50,000 – £99,999	2.7
Up to £50,000	0.8

Number of Investment Management clients '000

2011: 38.4
2010: 37.4
2009: 31.2
2008: 30.3
2007: 29.2

Top ten UK private client wealth managers (ranked by discretionary assets under management as at 31 December 2010)

Company	Discretionary AUM[2] (£m)	Total AUM (£m)
Coutts & Co	36,933	43,450
HSBC[1]	19,255	32,636
GLG Partners	14,400	14,400
Rathbones	**13,788**	**14,590**
Lloyds TSB Private Banking	10,000	10,000
Investec Wealth & Investment	9,720	12,790
Hargreaves Lansdown Asset Management	8,920	22,300[3]
Goldman Sachs International	8,634	23,700[4]
Cazenove Capital Management	7,900	7,900
Smith & Williamson Investment Management	7,559	10,079

Source: Private Asset Managers directory, 2011
1 Combined data for HSBC Global Asset Managers and HSBC Private Bank
2 Barclays Wealth, St James's Place Wealth Management and Brewin Dolphin (total assets under management: £51.43bn, £27.00bn and £25.00bn respectively) do not provide a breakdown of their discretionary assets under management
3 Includes assets under administration
4 Private Asset Managers directory estimate

Unit Trusts

We offer a range of unit trusts and OEICs which are distributed mainly through independent financial advisers in the UK.

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

The Rathbone Managed Asset Portfolio Service provides a collective solution for private client investment.

Principal trading names

- Rathbone Unit Trust Management

Direct employees (average full time equivalents)

- 29

Offices

- London

Head of Unit Trusts

- Mike Webb

Website

- www.rutm.com

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 creates many opportunities for 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.

How we achieve our aims

- Focus on providing discretionary investment services through a direct relationship with an investment manager.
- Ensure that the price of our services is fair, sustainable and competitive.
- Provide choice to investment managers and clients across the global investment markets.
- Provide timely support to investment managers in making asset allocation and stock selection decisions.
- Invest in people and systems to support client service and breadth of investment choice.

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 consistent quality service to clients, maintaining our strong reputation. We invest to grow and enhance what we offer to clients who have a range of different needs. We are mindful of regulatory developments and endeavour to respond to these in ways that protect long term value. We believe in open and transparent communication to the market and regulators and take regular soundings from investors.

How we achieve our aims

- Pursue acquisition opportunities which will increase shareholder value and, importantly, 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 as markets allow.
- Incrementally invest in infrastructure to drive ongoing cost efficiency and service quality.

Employees

Our aim is to provide staff with an interesting and stimulating career environment, encouraging all staff to share in the equity and profits of Rathbones, and to reward organic growth.

What is important to us

We promote a strong sense of integrity and trust among our staff that reflects how we build relationships with our clients. We invest in a robust investment culture that guides managers and evolves as markets change. 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 encourage appropriate behaviour.
- Benchmark rewards to ensure that awards remain fair, competitive and aligned with shareholder interests.
- Require directors to build up a meaningful shareholding over a five year period.
- Offer share-based incentives to staff across the business.
- Employ a recruitment process that ensures new employees fit our culture.

- Manage functions in-house where we have scale to ensure that risks and services are managed to our high standards.
- Encourage regular feedback from our clients and act upon it.
- Offer unit trust and multi asset funds tailored to meet private client investment needs.
- Provide supporting tax, trust and financial planning services.

Measuring our success

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

Key performance indicators

Net organic growth rates in Investment Management funds under management %

- **2011: 5.4**
- 2010: 5.3
- 2009: 6.7
- 2008: 7.4
- 2007: 7.8

Total funds under management £bn

- **2011: 15.85**
- 2010: 15.63
- 2009: 13.10
- 2008: 10.46
- 2007: 13.12

Unit Trust funds under management £m

- **2011: 1,085**
- 2010: 1,043
- 2009: 935
- 2008: 1,029
- 2007: 1,887

Number of Investment Management clients '000

- **2011: 38.4**
- 2010: 37.4
- 2009: 33.8
- 2008: 31.2
- 2007: 30.3

- Review supplier relationships to ensure we secure value for money.
- Conservatively manage treasury assets within clear risk-based guidelines.
- Provide clear management accountability for operational and business risks.
- Maintain required capital and liquidity levels, having regard to market conditions, regulatory requirements and growth opportunities.

Measuring our success

The simplicity of our business model means that profits, earnings per share and margins are good indicators of success for both investors and employees. We aim for stable dividend growth (with dividend cover typically ranging from 1x to 2x earnings depending on where we are in the economic cycle). Total shareholder return for the last five financial years is shown on page 8.

Key performance indicators

Profit before tax £'000

- **2011: 39,152**
- 2010: 30,083
- 2009: 29,468
- 2008: 42,306
- 2007: 47,302

Operating margin %

- **2011: 27.1**
- 2010: 23.7
- 2009: 25.2
- 2008: 32.3
- 2007: 35.2

Earnings per share p

- **2011: 66.72**
- 2010: 49.76
- 2009: 46.87
- 2008: 67.57
- 2007: 77.79

Dividend per share p

- **2011: 46.0**
- 2010: 44.0
- 2009: 42.0
- 2008: 42.0
- 2007: 41.0

- Provide training for staff, seeking the highest professional and personal standards.
- Share ideas and best practice throughout the organisation through timely consultation and communication.

Measuring our success

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

Key performance indicators

Staff costs as a percentage of operating expenses %

- **2011: 61.3**
- 2010: 60.8
- 2009: 64.8
- 2008: 65.1
- 2007: 68.2

Number of shares held by SIP participants

- **2011: 1,394,076**
- 2010: 1,316,557
- 2009: 1,346,948
- 2008: 1,290,392
- 2007: 1,270,641

Average full time equivalent employees

- **2011: 746**
- 2010: 699
- 2009: 681
- 2008: 675
- 2007: 644

Staff turnover %

- **2011: 5**
- 2010: 6
- 2009: 3
- 2008: 6
- 2007: 8

Investment Management

The Investment Management division principally provides discretionary investment management services delivered by Rathbone Investment Management to private investors and charities. Divisional results, however, also include those of closely related pension advisory services and, from 2011, taxation, trust and family office services which were previously reported as a separate segment. Comparative figures for 2010 have been restated to reflect this new presentation.

Year to year changes in the division's key performance indicators are shown in table 1 below.

Table 1. Investment Management – key performance indicators

	2011	2010
Funds under management at 31 December[1]	**£14.76bn**	£14.59bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**5.4%**	5.3%
Underlying rate of total net growth in Investment Management funds under management[1]	**7.5%**	10.2%
Average net operating basis point return[2]	**84bps**	83bps

1 See table 2
2 See table 5

Despite the difficult economic and investment conditions during 2011 Investment Management has continued to attract funds at a healthy rate throughout the year, both organically and from acquired growth. Organic inflows of funds under management represent the value of funds introduced during the year by new or existing clients to existing investment managers. Acquired growth represents new funds either from acquisitions or introduced by investment managers who have joined us recently.

Table 2. Investment Management – funds under management

	2011 £bn	2010 £bn
As at 1 January	**14.59**	12.16
Inflows[1]	**1.97**	2.06
– organic	**1.66**	1.46
– acquired	**0.31**	0.60
Outflows[1]	**(0.87)**	(0.82)
Market adjustment[2]	**(0.93)**	1.19
As at 31 December	**14.76**	14.59
Net organic new business[3]	**0.79**	0.64
Underlying rate of net organic growth[4]	**5.4%**	5.3%
Underlying rate of total net growth[5]	**7.5%**	10.2%

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

Gross organic inflows of £1.66 billion in 2011 represent 11.4% of funds under management at the start of the year (2010: 12.0%) and have remained at consistently high levels throughout the year. Net organic growth (stated after outflows) was also stable at 5.4% of opening funds under management (2010: 5.3%). Outflows of funds principally arise as clients withdraw capital and/or income from portfolios to meet other financial requirements or close their accounts. Outflows have continued at historical rates.

We continue to see growth across all parts of our business, largely as a result of referral from existing clients but with an increasing contribution from business referred to us by professional intermediaries.

- Charity funds under management of £1.68 billion at 31 December 2011 are up 3.1% from £1.63 billion at 31 December 2010.
- The value of funds managed for clients introduced by provider panel relationships increased by 6.2% to £1.38 billion at 31 December 2011 from £1.30 billion at the start of the year.
- Rathbone SIPP funds were £343 million at 31 December 2011, an increase of 2.7% from £334 million at the start of the year.

Investment Week 'Discretionary Company of the Year' award

Rathbones was named 'Discretionary Company of the Year' at the Investment Week Fund Manager of the Year Awards, held in July 2011. The award recognises the depth of research of our collectives research teams as voted for by all fund managers who themselves were short-listed for an award at the event.

Acquired funds under management totalled £305 million in 2011, representing clients introduced by investment managers who have recently joined Rathbones. Acquired growth in 2010 of £600 million included £421 million of funds resulting from our transaction with Lloyds Banking Group plc in 2009.

Total net organic and acquired growth has added £1.10 billion of funds under management in 2011 representing a growth rate of 7.5% (2010: 10.2%). Funds under management of £14.76 billion at 31 December 2011 were 1.2% higher than at the start of the year. The FTSE 100 Index and the FTSE APCIMS Balanced Index dropped by 5.6% and 2.8% respectively over the same period.

Investment Management continued

Overall, 2011 was a difficult year across the market for performance as benchmarks tended to smooth out what were volatile movements at stock and fund level. Many Investment Management Association members underperformed benchmarks in the UK, USA and Europe and we also saw these trends in our own composite performance against the FTSE APCIMS Balanced Index, particularly in the fourth quarter.

The financial performance in the division is driven to a large extent by the total volume of funds under management and the net growth in new funds that the business manages to attract. Income is derived from:

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

Table 3. Investment Management – financial performance

	2011 £m	2010[1] £m
Net fee income[2]	**80.1**	66.5
Commission	**36.2**	35.7
Interest and other income[3]	**11.2**	10.2
Fees from advisory services[4]	**7.6**	7.4
Underlying net operating income	**135.1**	119.8
Underlying operating expenses[5]	**(89.7)**	(82.1)
Underlying profit before tax	**45.4**	37.7
Underlying operating % margin[6]	**33.6%**	31.5%

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

Charity Symposium

Rathbones' second Annual Charity Symposium was held at the Merchant Taylors' Hall in September. Charity trustees, advisers and charity investment managers came together to discuss the future of the charity sector with talks by guest speakers from the charity finance world and beyond.

Net fee income increased by 20.5% from £66.5 million in 2010 to £80.1 million in 2011, benefiting from continuing growth, increased charges (introduced from the end of the first quarter of 2011) and market movements.

One change to our charges was the introduction of a new per account charge which we believe better reflects the costs of maintaining individual accounts and goes some way to paying for the increasing regulatory costs which we face. We believe that our charges are reasonable overall, taking into account our long-held stance on trail commission, which passes to clients the benefit of Rathbones being able to purchase collectives at institutional rates. Trail commission on collectives where institutional units were not available was £2.4 million in the year ended 31 December 2011 (2010: £2.7 million), representing 1.8% of underlying net operating income.

Net fee income is calculated based on the value of funds at our four quarterly valuation dates and is therefore also influenced by market movements. Average funds under management on these billing dates in 2011 were £14.76 billion, up 10.1% from 2010 (reflecting market movements, investment performance and net new funds). The average FTSE 100 Index (measured on the same dates) was 5663 in 2011 compared with an average of 5528 in 2010; an increase of 2.4% whilst the average FTSE APCIMS Balanced Index increased 2.6%.

Table 4. Investment Management – average funds under management

	2011 £bn	2010 £bn
Valuation dates for billing		
– 5 April	**14.98**	13.02
– 30 June	**15.27**	12.41
– 30 September	**14.04**	13.59
– 31 December	**14.76**	14.59
Average	**14.76**	13.40
Average FTSE 100 Index	**5663**	5528

Whilst market conditions in the first half were favourable for commission income, the change in market sentiment in the second half of 2011 reduced transaction volumes. Full year commission income of £36.2 million was 1.4% higher than in 2010.

Interest and other income of £11.2 million rose by 9.8% compared to £10.2 million in 2010 largely as a result of higher yields on treasury assets offset by a 4.4% reduction in average liquidity to £904 million over 2011. All of the above factors are reflected in the change to total revenue margin shown in table 5, which reports a return on average funds under management of 84 bps compared to 83 bps in 2010.

Investment Management continued

Table 5. Investment Management – revenue margins

	2011 bps	2010[1] bps
Basis point return[2]		
– fee income	54	51
– commission	25	26
– interest[3]	5	6
Basis point return on funds under management	84	83

1 Comparatives restated due to re-presentation of segmental information (see note 1 to the consolidated financial statements)
2 Underlying net operating income (see table 3) excluding interest on own reserves divided by the average funds under management on the quarterly billing dates (see table 4)
3 Excluding fees from advisory services and interest on own reserves

Fees from advisory services of £7.6 million were 2.7% higher than in 2010 reflecting both higher fund-based charges and more chargeable hours worked.

Table 6. Investment Management – underlying operating expenses

	2011 £m	2010[1] £m
Staff costs[2]		
– fixed	31.6	28.9
– variable	15.8	14.0
Total staff costs[2]	47.4	42.9
Other operating expenses	42.3	39.2
Underlying operating expenses	89.7	82.1
Underlying cost/income ratio[3]	66.4%	68.5%

1 Comparatives restated due to re-presentation of segmental information (see note 1 to the consolidated financial statements)
2 Represents the costs of investment managers and teams directly involved in client facing activities
3 Underlying operating expenses divided by underlying net operating income (see table 3)

Underlying operating expenses in Investment Management for 2011 were £89.7 million, compared to £82.1 million in 2010, an increase of 9.3%.

Fixed staff costs of £31.6 million increased by 9.3% year on year, principally reflecting the addition of new revenue generating staff and salary inflation. Higher profits resulted in higher variable staff costs year on year.

Average full time equivalent headcount of investment managers and teams involved in client facing activities was 533 in 2011 compared to 496 in 2010.

Other operating expenses of £42.3 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £3.1 million (7.9%) largely reflects higher marketing spend, a busy project agenda, and investment in IT. We have also invested in revising and improving over 200 pieces of client documentation during the last year. In addition to our new brochures, account opening packs and updates to our terms of business, we have improved the quality and content of our investment literature and publications to charities and professional intermediaries, all of which have received very positive feedback from both clients and investment managers.

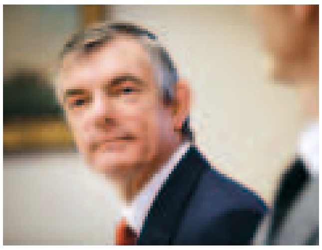
Unit Trusts

This division manages a range of unit trusts and OEICs which are distributed mainly through independent financial advisers (IFAs), fund supermarkets and other platforms in the UK. IFAs have a strong focus on investment performance and investors have a high propensity to switch funds if comparative investment performance falls.

Our range of directly invested funds is well established and the specialist focus creates a concentrated, active range of investment options which is highly attractive to investors seeking to add component parts to their own portfolios. Unit Trusts also runs the Rathbone Managed Asset Portfolio Service, which aims to provide an effective private client investment portfolio on a collective basis for clients with fewer investable assets. The managed portfolio service, also distributed principally via IFAs, consists of three unitised funds with a range of risk mandates. It presents a solution to the trend of outsourcing by IFAs in the lead-up to the Retail Distribution Review, especially when combined with Rathbone Investment Management's discretionary services, providing advisers with solutions for investors from £1,000 to larger institutional and private client accounts.

Appointment of Chief Operating Officer

In December Rathbones announced the appointment of Andrew Butcher (right) to the post of chief operating officer. He takes over from Paul Chavasse (below right), who becomes Rathbones' head of investment management in March 2012.



Unit Trusts continued

Table 7. Unit Trusts – key performance indicators

	2011	2010
Funds under management at 31 December	**£1.09bn**	£1.04bn
Underlying rate of net growth in funds under management[1]	**9.6%**	(3.2%)

1 See table 8

The retail asset management sector continued to recover in the first half of 2011, although net retail sales of £18.0 billion in 2011 (as reported by the Investment Management Association) were down 38.6% on 2010. The global uncertainty during the summer caused industry sales to drop significantly as investors sought safer havens for their assets. Despite this general aversion to risk assets, and in contrast with some other unit trust managers, Rathbone Unit Trust Management saw positive monthly net sales of its funds throughout 2011.

Table 8. Unit Trusts – funds under management

	2011 £bn	2010 £bn
As at 1 January	**1.04**	0.94
Net inflows/(outflows)	**0.10**	(0.03)
– inflows[1]	**0.24**	0.15
– outflows[1]	**(0.14)**	(0.18)
Market adjustments[2]	**(0.05)**	0.13
As at 31 December	**1.09**	1.04
Underlying rate of net growth[3]	**9.6%**	(3.2%)

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

Net inflows of funds under management in 2011 were £97 million, compared to a net outflow of £30 million in 2010. As a result, funds under management increased 4.8% to £1.09 billion at 31 December 2011 from £1.04 billion at the start of the year. At 31 December the value of assets managed in each fund was as follows:

Table 9. Unit Trusts – fund assets

	2011 £m	2010 £m
Rathbone Income Fund	**453**	483
Rathbone Global Opportunities Fund	**136**	105
Rathbone Blue Chip Income and Growth Fund	**60**	59
Rathbone Ethical Bond Fund	**79**	54
Rathbone Recovery Fund	**62**	69
Rathbone Multi Asset Portfolios	**100**	74
Other	**195**	199
	1,085	1,043

In contrast to recent years, Unit Trusts maintained net sales throughout the year as the improvements in fund performance during 2010 were consolidated during 2011 and this was reflected in the funds' three year track records (see table 10). In particular the Rathbone Income Fund moved from third quartile to first, measured over three years, as its longer term investment strategy bore fruit. The Rathbone Global Opportunities Fund remained first quartile over both one and three years. This is important as many major fund buyers and rating agencies place specific focus on this time period. The Rathbone Ethical Bond Fund underperformed in 2011 as its ethical mandate does not permit it to invest in UK Gilts, which were the best performing asset class held by competing funds in the sector.

Table 10. Unit Trusts – fund performance

Quartile ranking over:	1 year	3 years	5 years
Blue Chip Income and Growth Fund	3	2	3
Ethical Bond Fund	4	1	3
Global Opportunities Fund	1	1	1
Income Fund	2	1	3
Recovery Fund[1]	3	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; performance data for the Rathbone Strategic Bond Fund is not yet available as the fund was launched on 3 October 2011

In 2011 we extended our range of funds with the launch of two new products. The Rathbone Enhanced Growth Portfolio, which sits within the Rathbone Multi Asset Portfolio Service, was launched on 1 August 2011. The fund completes our offering in the multi asset space as we are now able to tailor investments across a range of investor risk profiles. By the end of 2011, the Rathbone Enhanced Growth Portfolio had added £7.0 million to the value of funds under management. The Rathbone Strategic Bond Fund was soft-launched on 3 October 2011, seeded with £10.3 million of funds from the portfolios of existing private clients who are looking for a more strategic exposure to fixed interest securities. By 31 December 2011, the fund managed £14.5 million of assets.

Unit Trusts fund launches

In 2011 Rathbone Unit Trust Management added the Rathbone Enhanced Growth Portfolio, managed by David Coombs (right), to its range of multi asset funds and launched the Rathbone Strategic Bond Fund managed by Bryn Jones (left).

Unit Trusts continued

Table 11. Unit Trusts – financial performance

	2011 £m	2010 £m
Initial charges net of discounts	**0.5**	0.5
Annual management charges	**13.9**	12.5
Net dealing profits	**0.5**	0.2
Interest and other income	**0.2**	0.1
	15.1	13.3
Rebates and trail commission payable	**(6.9)**	(5.9)
Net operating income	**8.2**	7.4
Underlying operating expenses	**(7.4)**	(6.6)
Underlying profit before tax	**0.8**	0.8
Operating % margin[1]	**9.8%**	10.8%

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

Annual management charges (calculated based on the daily value of the funds under management) increased 11.2% from £12.5 million in 2010 to £13.9 million in 2011, largely driven by a rise in average funds under management. Annual management charges as a percentage of average funds under management remained consistent at 1.3% (2010: 1.3%). Rebates and trail commission payable as a percentage of annual management charge income increased to 49.6% compared to 47.2% in 2010 as a consequence of the continued negotiating power of distributors, in particular the national platforms and fund supermarkets.

Net dealing profits increased to £0.5 million in 2011 from £0.2 million in the previous year as a consequence of the increase in sales. Net operating income as a percentage of average funds under management was 0.8% in 2011 compared to 0.7% in 2010.

As a consequence of the Retail Distribution Review, we are planning to issue 'institutional' share classes in all of our funds in 2012. The institutional units will carry lower annual management charges but will also not incur any rebate. Taking into account the current level of rebates paid, it is not expected that these units will have a material impact on Unit Trusts' performance.

Table 12. Unit Trusts – underlying operating expenses

	2011 £m	2010 £m
Staff costs		
– fixed	**2.5**	2.2
– variable	**1.1**	1.2
Total staff costs	**3.6**	3.4
Other operating expenses	**3.8**	3.2
Underlying operating expenses	**7.4**	6.6
Underlying cost/income ratio[1]	**90.2%**	89.2%

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

Fixed staff costs of £2.5 million for year ended 31 December 2011 were 13.6% higher than the previous year due to salary inflation and an increase in the average full time equivalent headcount over the year to 29. The rise in headcount was driven by the full year impact of recruitment in 2010 to strengthen the sales team.

Variable staff costs of £1.1 million were down 8.3% on 2010 as the impact of spreading higher profit share awards in 2007 and 2008 fell out of the division's results in 2011. Table 13 demonstrates the impact of deferred profit share awards on 2011 variable costs.

Table 13. Unit Trusts – variable staff costs

	2011 £m	2010 £m
Total variable staff costs	**1.1**	1.2
Deferred profit share adjustment	**–**	(0.3)
Variable awards for the financial year	**1.1**	0.9
Share of profit allocated to variable rewards[1]	**57.9%**	45.0%

1 Variable staff costs excluding deferred profit share as a % of underlying profit before tax and total variable staff costs

Other operating expenses have increased by 18.8% to £3.8 million, principally as a result of the larger sales team increasing marketing and travel costs during the year. The share of central overheads absorbed by the division has increased in line with the growth in headcount compared to 2010.

Charity trustee training

Throughout February and March 2011, Alex Dow (left) from our charity team and Liz Savage (right) from our research team presented eight successful training sessions to a number of charity trustees.

Consolidated statement of comprehensive income

Table 14. Extracts from the consolidated statement of comprehensive income

	2011 £m (unless stated)	2010 £m (unless stated)
Operating income	144.5	127.2
Underlying profit before tax[1]	46.2	38.5
Underlying operating % margin[2]	32.2%	30.3%
Profit before tax	39.2	30.1
Effective tax rate	26.7%	28.4%
Taxation	(10.4)	(8.5)
Profit after tax	28.7	21.6
Earnings per share	66.72p	49.76p
Dividend per share[3]	46.0p	44.0p

1 Profit before tax excluding gains on disposal of financial securities, exceptional levies to the Financial Services Compensation Scheme, amortisation of acquired client relationship intangibles and head office relocation costs
2 Underlying profit before tax as a % of operating income, excluding gains on disposal of financial securities
3 The total interim and final dividend proposed for the financial year

Operating income

The Group's operating income has increased 13.6% to £144.5 million in 2011, driven mainly by higher fee and commission income from steadily growing funds under management. Operating income in 2011 includes £1.1 million of gains on disposal of financial securities which are excluded from underlying results (see below).

Underlying profit before tax/operating margin

Segment performance in the business review is presented on an underlying basis, as it is considered to be a better reflection of the core performance of the Group's activities. Adjusted measures such as 'underlying profit before tax' and 'underlying earnings per share' are followed by research analysts covering the Group. Consolidated underlying profit before tax increased 20.0% in the year to £46.2 million, up from £38.5 million in 2010.

Items of income and expense falling in the categories explained below are excluded from the Group's underlying results. Whilst such items continue to represent a material impact on the Group's results, we consider it appropriate to disclose their impact and focus our financial review of the year on an underlying basis. A full reconciliation between underlying profit and profit attributable to shareholders is provided in note 12 to the consolidated financial statements.

Gains on disposal of financial securities

Included within operating income in 2011 is a non-recurring gain of £1.1 million from the sale of certain financial assets that were previously held in nominee accounts. Time has demonstrated that any claims against these assets had been exhausted and they have been recognised with FSA approval. No such gains were recognised in 2010.

Exceptional levies to the Financial Services Compensation Scheme (FSCS)

The global financial crisis in 2008 precipitated the failure of a number of financial services businesses, which in turn placed demands on the 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. The element of these levies that relates to the normal costs of the FSCS is reported within other operating expenses as it is a recurring cost of doing business in the financial services sector. However, to the extent that significant additional levies arise from the failure of businesses not associated with Rathbones, they are excluded from underlying results.

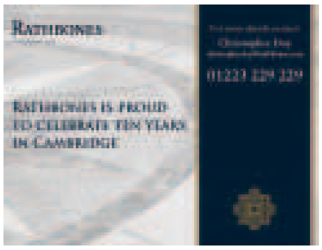
In 2010, an exceptional levy of £3.6 million was incurred, largely as a result of the failure of Keydata Investment Services Limited and other intermediaries. No additional levies have been made by the FSCS in 2011 and the full cost of the 2011 levies has accordingly been recognised within underlying performance.

Amortisation of client relationships

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 which represents largely cash-based earnings. Charges for amortisation of client relationship intangibles in the year ended 31 December 2011 were £5.1 million (2010: £4.8 million).

10 years of Rathbones in Cambridge

2011 marked the Rathbones Cambridge office's tenth year of business in the city.



Underlying profit before tax/operating margin continued

Relocation costs of the London head office

In February 2012, the Group is relocating its London head office to 1 Curzon Street, taking advantage of the opportunity to bring its 295 people based in London together, with most sitting on the same floor of a single building. Charges of £3.0 million associated with this move have been separately highlighted and excluded from underlying profit due to their material and non-recurring nature. A full analysis of the elements of this cost is provided in note 8 to the consolidated financial statements.

We expect that approximately £1.1 million of further costs in relation to this will be recognised in 2012 as we complete the move.

The Group's underlying operating margin, which is calculated as the ratio of underlying profit before tax to operating income excluding gains from the disposal of financial securities, improved to 32.2% in 2011. The increase from 30.3% in 2010 is largely due to the realisation of full income benefits from recent acquisitions, higher charges and continued cost control.

Taxation

The tax charge for 2011 was £10.4 million (2010: £8.5 million), which represents an effective tax rate of 26.7% of profit before income tax (2010: 28.4%).

The effective tax rate has fallen since 2010 primarily due to a reduction in the UK corporation tax rate for the current year and an over-provision for tax in the prior year compared to final tax computations. These effects have been offset in part by the fall in value of deferred tax assets due to lower future years' corporation tax rates in the UK. The effective tax rate is slightly higher than the derived UK standard rate of corporation tax of 26.5% as the impact of disallowable expenses has been largely offset by the impact of over-provision in 2010. A full reconciliation of the income tax expense is provided in note 10 to the consolidated financial statements.

Earnings per share and dividends

Basic earnings per share for the year ended 31 December 2011 were 66.72p, up 34.1% on 49.76p in 2010. This increase reflects the growth in the Group's profitability, compounded by the reduction in the effective tax rate. On an underlying basis the Group's earnings per share increased by 23.6% to 78.79p in 2011 (see note 12 to the consolidated financial statements).

In light of the results for the year, the Board have proposed an increased final dividend for 2011 of 29p. This results in a full year dividend of 46p, 2p higher than 2010. The proposed dividend is covered 1.45 times by basic earnings and 1.71 times by underlying earnings.

Brand refresh

Rathbones undertook a brand realignment over the course of 2011 which included the redesign and repurposing of our marketing materials, all of our websites and the investment management client account opening documentation.

Consolidated balance sheet and capital resources

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

	2011 £m	2010 £m
Capital resources		
– Total equity	**190.7**	185.4
– Tier 1 capital ratio[1]	**26.9%**	28.3%
Other resources		
– Treasury assets[2]	**909.6**	790.6
– Intangible assets from acquired growth[3]	**88.8**	88.2
– Tangible assets[4]	**14.7**	9.6
– Total assets	**1,183.8**	1,028.1
Liabilities		
– Deposits by banks (short term debt financing)	**0.5**	3.3
– Client deposits (cash in banking-client portfolios)[5]	**908.7**	762.0
– Retirement benefit obligations	**7.3**	6.6

1 Tier 1 capital as a proportion of total risk weighted assets, calculated on a Basel III basis
2 Investment securities, excluding available for sale equity investments
3 Net book value of acquired client relationships and goodwill
4 Net book value of property, plant and equipment and computer software
5 Total amounts due to customers

Capital resources

The Group's balance sheet remains healthy with total equity of £190.7 million at 31 December 2011, up 2.9% from £185.4 million at the end of 2010. Rathbones is strongly capitalised and does not rely on wholesale markets to fund its operations. In April 2011 the Group's term loan was fully repaid and the only debt remaining on the consolidated balance sheet is £0.5 million of overnight cash-book overdraft balances.

Total assets at 31 December 2011 were £1,184 million (2010: £1,028 million), of which £909 million (2010: £762 million) represents the cash held in banking-client portfolios.

Regulatory capital

Rathbones is classified as a banking group under the Capital Requirements Directive and is required to operate within a wide range of restrictions on capital resources and banking exposures that are prescribed by the prudential rules of the Financial Services Authority (FSA). The Group's Pillar III disclosures are published annually on our website (www.rathbones.com/investor-relations/financial-analysis/pillar-3-disclosures) and provide further details about regulatory capital resources and requirements.

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

The Group's Tier 1 capital ratio, calculated on a Basel III basis, of 26.9% is much higher than the industry norm and reflects the low risk nature of the Group's banking activity and the lack of debt financing. The Tier 1 ratio has fallen from 28.3% at the previous year end, mainly due to the downgrading of certain treasury counterparties' credit ratings by the rating agencies, which has increased total risk weighted assets.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds the Group's surplus liquidity on its balance sheet together with clients' cash held on a banking basis. Cash in client portfolios of £908.7 million, including amounts held in client money accounts, represented 5.7% of total investment management funds at 31 December 2011 compared to 4.9% and £762.0 million at the end of 2010.

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 securities issued by a relatively large number of counterparties. Counterparties must be 'A' rated or higher by Fitch and are regularly reviewed by the banking committee to ensure ratings remain appropriate.

Treasury assets continued

In 2011 we saw increased demand for client loans, which we see as an important part of building our relationship with clients. We operate very conservative lending policies whereby loans are generally secured against the value of the portfolio that we manage. Outstanding loans to clients totalled £47.8 million at the end of 2011 (£40.0 million at the end of 2010).

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2011, the total value of intangible assets arising from acquired growth was £88.8 million (2010: £88.2 million). During the year, client relationship intangible assets of £5.7 million were capitalised (2010: £14.3 million, including £9.8 million resulting from the transaction with Lloyds Banking Group plc). No goodwill was acquired during 2010 or 2011. Further details on the Group's intangible assets are provided in note 19 to the consolidated financial statements.

Goodwill is not amortised, but is subject to a test for impairment at least annually. No goodwill was found to be impaired during 2010 or 2011. Client relationship intangibles are amortised over the estimated life of the client relationship, generally over a period of ten to fifteen years. When client relationships are lost, any related intangible is derecognised in the year. The total amortisation charge for client relationships, including the impact of lost relationships, in 2011 was £5.1 million (2010: £4.8 million).

At the end of June 2011, we made the final consideration payment for the Lloyds transaction that was completed in December 2009. This transaction has introduced some 3,100 new clients to Rathbones, for whom we managed £755 million of funds at 31 December 2011. The total consideration for the transaction of £20.7 million represents 2.7% of the value of these acquired funds.

London office move

Rathbones' London head office moves to new premises at 1 Curzon Street in the heart of Mayfair in February 2012.

Capital expenditure

We have continued to invest for future growth during 2011, with capitalised expenditure on our premises and systems totalling £9.0 million (2010: £4.4 million). We continue to work at improving the efficiency of our systems and our back office and the investment in new systems continues at a steady pace. Although some of this is driven by regulatory change, much is driven by our desire to serve our clients to the best of our ability and give our investment managers the tools they need to manage portfolios more easily. We continue to develop our investment process and during the year there have been significant improvements to the information available to investment managers via the internal network and also the publication on a quarterly basis of the Rathbones research pack which highlights the preferred investments in a large number of asset classes.

We are also implementing a system which will ultimately replace paper files and facilitates more efficient management of email and written correspondence both to and from clients.

As part of the continuing improvement of our IT infrastructure, we moved our London data centre to a site in North London which not only secured us some cost savings, but also gave us much greater flexibility and resilience around our IT infrastructure. This was a very significant effort as it relocated some critical equipment from our London office into a dedicated and controlled site provided by a third party.

Capital expenditure on property has increased significantly in 2011 as a result of the relocation of our London head office in February 2012. In total, £4.8 million of fit-out and related costs have been capitalised on the new property and a further £3.0 million of related costs have been charged against profit in 2011. Additional detail on the costs incurred in 2011 is given in note 8 to the consolidated financial statements.

In 2012, we plan to continue to invest to improve our Rhymesight operating platform to improve workflow and make more tools available to investment managers. In addition we will seek to significantly upgrade our client and advisor internet connectivity through the development of a web portal.

Pensions

The Group operates two defined benefit pension schemes, both of which are closed to new members, and contributes to other post retirement benefit plans for its staff.

During 2011, we undertook the actuarial funding valuations of both defined benefit schemes as at 31 December 2010, bringing forward the valuation for the Laurence Keen Scheme to harmonise the valuation dates. As a result of the funding valuations, we have increased our assumptions for longevity of scheme members in line with the latest data available on mortality.

Given the volatility of the market and these updated assumptions, it is no surprise that our pension scheme deficits have also been volatile in 2011. At 31 December 2011, the combined accounting deficit on the two defined benefit schemes was £7.3 million (2010: £6.6 million). This increase is mainly due to a reduction in the long term interest rate used to discount the schemes' future liabilities and the extension of longevity expectations noted above. Full details of the assumptions underlying the accounting valuation and associated sensitivities are included in note 24 to the consolidated financial statements.

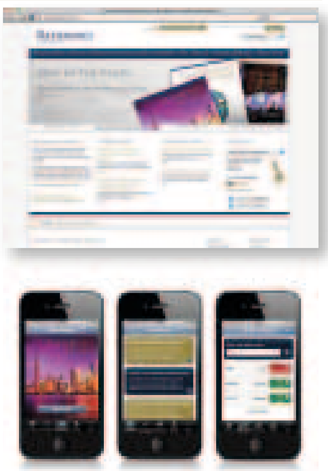
Funding valuations are required to be more prudent than valuations used for financial reporting, which must be based on management's best estimate of the schemes' position. Based on the updated funding valuations, we have agreed to maintain the existing schedule of deficit reduction contributions, subject to the schemes remaining in deficit.

Regular annual contributions to the schemes for ongoing service by scheme members have been reduced from £3.7 million to £2.5 million, principally as a result of the changes made to the scheme rules in 2010 linking members' pensions for future service to career average earnings rather than final salary.

Digital strategy

The digital marketing strategy for Rathbones was developed in 2011, resulting in a new website written and built from scratch, a smartphone app and a social media strategy.

www.rathbones.com



Liquidity and cash flow

Table 16. Extracts from the consolidated statement of cash flows

	2011 £m	2010 £m
Cash and cash equivalents at the end of the year	**129.9**	79.1
Net cash inflow from operating activities	**177.3**	45.4
Net increase/(decrease) in cash and cash equivalents	**50.8**	(60.0)

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

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits which had an original maturity of less than three months. This definition represents only a portion of the Group's treasury assets.

Net cash flows from operating activities include the effect of changes in banking-client deposits, which increased by £146.6 million during 2011. The cash inflow from these deposits, less the net £92.9 million used to purchase investment securities, principally comprises the net increase in cash and cash equivalents during the year.

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

- Outflows relating to the payment of dividends of £19.5 million (2010: £18.2 million).
- £6.9 million of capital expenditure on property, plant and equipment (2010: £2.7 million), including £4.8 million paid in relation to the relocation of the London head office.
- Outflows relating to intangible asset additions of £5.8 million (2010: £27.7 million, of which £22.8 million was paid in respect of the Lloyds Banking Group plc transaction).

Going concern

Details of the Group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's statement, strategy and business performance, business review, financial review and risk management report. 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 on its website which provide detail about its regulatory capital resources and requirements. Since 6 April 2011, the Group has had no external borrowings and is fully equity financed.

In 2011, the Group has continued to generate organic growth in client funds under management despite the unhelpful market conditions, and this is expected to continue. The directors believe that the Company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook.

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

The chairman's statement, chief executive's statement, strategy and business performance, business review, financial review and risk management report have 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.

They contain 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.

Risk management report

Rathbones has a clear risk management framework, the key objective of which is to identify and manage risk within a Board-approved risk appetite. The Board believes that the most effective way of achieving this is by embedding risk management throughout the organisation. We achieve this by ensuring that all identified risks are owned by specific committees who have responsibility for risk identification and risk management. These committees in turn report to the risk management committee, which takes a more holistic view of risk, identifying trends and correlations and providing guidance to other committees and to the Board. This approach allows for risk decisions to be taken at the most appropriate level and also be subject to robust review and challenge.

Ian Buckley is the executive director with oversight responsibility for risk management. The risk management committee comprises all members of the group executive committee, together with the group heads of personnel, compliance and internal audit. During 2011, two non-executive directors, Oliver Corbett and Kathryn Matthews, became members of the committee and on 1 March 2012 Kathryn Matthews will become chairman of the committee.

The responsibilities of the risk management committee include:

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

The full remit of the committee is detailed within its terms of reference, which is subject to annual review and approval by the Board. The risk management committee meets on a quarterly basis. The risk management framework is broadly unchanged from 2010.

Risk appetite

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

Risk register

A risk register is maintained which is considered the principal tool for monitoring risks. During 2011, for reporting purposes, we completed an exercise to classify each major financial and non-financial risk facing the Group as a financial, business or operational and IT risk. These risks are assessed by management as having a potential material impact on the Company. The 13 major risks are listed below in alphabetical order, grouped within the wider risk categories, together with details of the key mitigators. These are not exhaustive listings.

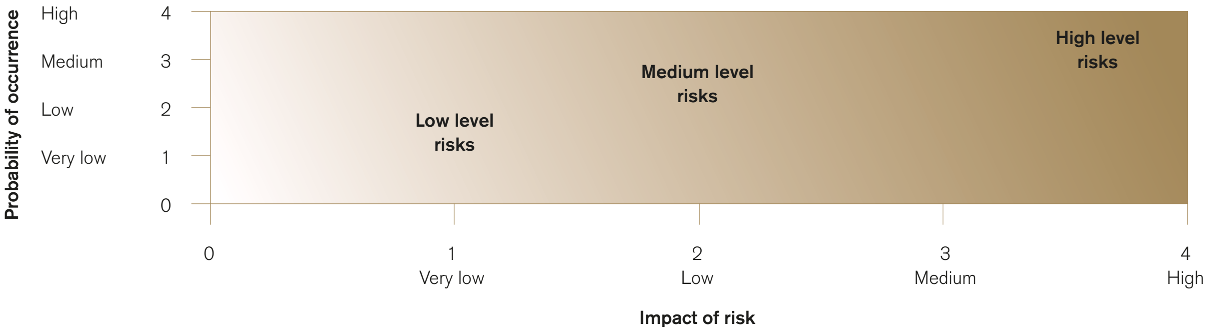
Risk scoring

During 2011 changes were made to the risk scoring methodology adopted by Rathbones, as approved by the risk management committee. Each risk is now assessed using a 1 – 4 scoring system; previously a 1 – 5 approach had been utilised. The rationale for this reduction is to remove the tendency, inadvertent or otherwise, to default to the median.

Each risk is rated by assessing the probability of the risk occurring and its impact if it does occur. The inherent risk is then reduced given an assessment of the internal controls environment or by insurance to give a residual risk score.

	Probability	Score	Impact	Score
High	80% chance of risk being realised in a 5 year period	4	Significant to severe Over £10.0 million	4
Medium	60% chance of risk being realised in a 5 year period	3	Moderate to significant Between £2.5 and £10.0 million	3
Low	40% chance of risk being realised in a 5 year period	2	Low to moderate Between £1.0 and £2.5 million	2
Very low	20% chance of risk being realised in a 5 year period	1	Insignificant Less than £1.0 million	1

Risk scoring continued



Financial risks

Risk	Definition	Key mitigators
Credit	Credit risk is the risk of a market counterparty defaulting on monies deposited with it, or a counterparty failing to fulfil their contractual obligations.	• Robust counterparty limits. • Active monitoring of exposure.
Liquidity	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.	• Annual Individual Liquidity Adequacy Assessment (including stress testing). • Daily reporting to senior management.
Market	Market risk includes interest rate risk, foreign exchange risk and price risk. Market risk is the risk that the Company's earnings or capital will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices.	• Documented policies and procedures. • Daily monitoring. • Robust application of policy and investment limits.

Further detailed discussion of the Group's exposures to financial risks is included in note 28 to the consolidated financial statements.

Business risks

Risk	Definition	Key mitigators
Competition	Competition risk covers material loss of clients, and a reduced ability to grow the business, as well as key staff loss. Key staff loss is the risk of losing either a member of the group executive committee, a key investment professional or a senior manager. This could have a negative effect on either the growth of the business or the retention of existing business.	Business • Regular reviews of pricing structure. • Continued investment in marketing, the investment process and service standards. Staff • Competitive remuneration packages. • Investment in staff training and development. • Contractual clauses with restrictive covenants.
Legal and compliance	Legal and compliance risk includes the risk of potential loss arising from litigation, as a result of a breach of legislative requirements, such as Companies Act requirements, data protection, employment law or health and safety regulations.	• Retained specialist legal advisers. • Compliance department. • Data protection policy. • Documented policies, procedures and practices.
Regulatory	Regulatory risk is the risk that a change in regulation will materially affect the market in which Rathbones operates and increase the risk of non-compliance.	• Comprehensive compliance monitoring. • Awareness of regulatory developments. • Active involvement with representative industry bodies. • Close contact with the regulators.
Reputational	Reputational risk covers the risk that negative publicity will lead to a loss of income for Rathbones or litigation. It also includes investment performance risk, which is the risk that portfolios and/or funds fail to achieve performance benchmarks, leading to client dissatisfaction. Reputational damage is more likely to arise following the materialisation of another risk factor rather than as a standalone risk.	• Strong compliance culture. • Treating customers fairly governance. • Monitoring of media coverage. • Proactive communications with shareholders/investor relations. • Investment process. • Investment management performance monitoring. • Investment in staff training and development.

Operational and IT risks

Risk	Definition	Key mitigators
Business continuity	Business continuity risk is the risk of an event arising which could have a material impact on the operations of the business. This includes the inability to recover IT systems or the restricted or denied access to office premises.	• Documented disaster recovery and crisis/incident management plans. • Regular disaster recovery testing. • Continuous monitoring of IT systems availability. • Off-site data centre.
Data integrity	Data integrity risk includes the risks associated with breaches of client confidentiality, as well as potential failures with the maintenance, accuracy and consistency of stored data.	• System access controls. • Policy and procedures.
Outsourcing	Outsourcing risk is the risk of failure in respect of the provision of services by a third party. Any significant disruption to services, or deterioration in the performance of a key supplier, could have a negative impact on the ability of Rathbones to deliver services to our clients.	• Active relationship management, including regular service review meetings. • Service level agreements and monitoring of key performance indicators.
Processing	Processing risk includes the potential risk of loss of client or company assets through inadequate or failed internal processes and systems or fraud.	• Dealing limits and supporting system controls. • Continued investment in automated processes. • Counter review/4-eyes processes. • Segregation of duties. • Documented procedures. • Annual controls assessment including an ISAE3402 report.
Project management and control	Project management and control risks cover those areas of uncertainty which can arise and have a negative impact on the performance or delivery of a project either in terms of duration, cost or in meeting requirements.	• Documented IT strategy. • Two-stage assessment, challenge and approval of project plans. • Dedicated projects office function. • Evolutionary system changes, with close user involvement.
Settlement	Settlement risk is the risk that a counterparty will fail to deliver the terms of a contract at the time of settlement.	• Daily monitoring of settlement performance. • Delivery versus payment approach wherever possible. • Automated processes. • Authorisation and management oversight.

Corporate responsibility report

Introduction

I am pleased to introduce the fourth annual corporate responsibility report of the social and environmental committee (SEC) which I chair. Rathbones is committed to acting as a good corporate citizen and takes its responsibilities as investment manager, employer and purchaser seriously.

The SEC is responsible for ensuring that Rathbones effectively manages its sustainability issues. It is formed by members of staff from key functions such as facilities 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 matters as they affect our business, the Board believes that the SEC has identified and assessed the significant risks to the Group's short and long term value.

Whilst our total carbon footprint has risen by 2.5%, primarily due to the growth of the business, our carbon intensity per employee has fallen by 4.7%.

In November 2011, the Company offset 2,500 tonnes CO_2e in partnership with ClimateCare. We will, however, continue to strive to reduce our environmental impact wherever possible.

Finally, we were awarded the 2011 PricewaterhouseCoopers Building Public Trust Award for Best People Reporting in a FTSE 250 company. The Company remains a constituent company of the FTSE4Good Index.

Andy Pomfret
Chief Executive

Chairman of the SEC

Building Public Trust Awards 2011

Rathbones won the People Reporting in the FTSE 250 Award at PwC's Building Public Trust Awards 2011 for its 2010 annual report and accounts.

Richard Loader (right) accepted the award on Rathbones' behalf.

Our corporate responsibility strategy

Rathbones' corporate responsibility strategy can be summarised as follows.

Environment

Actively manage our environmental impact, reduce our carbon footprint by the efficient use of resources and offset unavoidable emissions.

Clients and investments

Maintain and develop the relationships we have with our clients, treat them fairly and continue to meet their needs. Consider corporate responsibility and governance issues in the companies in which we invest on behalf of our clients.

Employees

Manage the health, well-being and development of our employees.

Communities

Engage in the communities in which we operate.

Environment

As a responsible business, Rathbones believes that environmental concerns are central to the day to day running of our 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 does it consider itself to be 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 fitting out our Liverpool and London offices have largely addressed any reasonable measures we could be expected to take.

Environment continued

Our environmental performance

Scope

Our reporting period covers the year to 30 September 2011, with comparative figures from our previous reporting period 2009/10 and baseline year 2007/08. We continue to report emissions associated with all Rathbones' offices, thus covering 100% of our workforce.

In setting our organisational boundary, we continue to use the financial control approach and have calculated our total direct Scope 1, 2 and major Scope 3 emissions. Scope 1 consists of all direct operational emissions mainly from fuels combusted at Rathbones' sites (natural gas for heating) and our company cars, Scope 2 covers purchased electricity, and Scope 3 consists of significant indirect operational emissions, primarily from business travel. Data collection procedures and calculations are in accordance with the requirements of the following standards: the World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version); Defra Guidance on How to Report GHG Emissions (September 2009) and ISO 14064 – part 1.

Base year

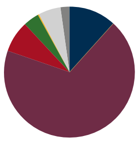
Our base year is 2007/08, the year in which verifiable emissions data became available for the first time. It should be highlighted that, during this year's reporting, base year emissions have had 2010 carbon emission factors applied and now remain fixed for the purposes of ongoing calculation. 2008/09, 2009/10 and 2010/11 calculations use 2011 carbon emission factors. This process aligns with Defra's guidance on the incorporation of updated emission factors into previous carbon accounting, which ensures accuracy and comparability in carbon accounting.

There have been no significant changes to the Company structure during the 2010/11 reporting period. An error was discovered in our Liverpool office meter readings, which has caused us to overstate our electricity consumption by approximately 45,000kWh for the past two years, amounting to a 2% variance in our total carbon footprint for 2009/10 and 2008/09. We have recalculated the last two years of electricity emissions to account for this material change to our reported data. This has not affected our base year.

Our carbon footprint

This year our total carbon footprint is 2,395 tonnes of CO_2e[1] (2009/10: 2,336[2] tonnes of CO_2e). Our emissions have risen by 2.5% over the last 12 months, primarily due to a rise in gas consumption through a particularly cold winter and increased electricity consumption correlating with increased business activity. Overall, however, we have managed to reduce our carbon footprint per employee to 3.23 tonnes of CO_2e per person (2007/08: 3.69 tonnes of CO_2e). This represents a reduction of 12% in our emissions intensity in comparison to our base year.

Chart 1. Tonnes of CO2e by emissions source for 2010/11



Gas	280
Company cars	1
Electricity	1,642
Flights	187
National rail	94
Taxis	6
Non-company cars	134
Data centre electricity	51
Total	**2,395 tCO_2e**

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

2 Our 2009/10 reported carbon footprint has fallen by 4% from last year's reported total for two notable reasons: 1) use of 2011 carbon emissions factors which result in a reduction of 1% overall carbon emissions compared to 2010 carbon emission factors; and 2) electricity consumption of approximately 45,000kWh has been removed from Liverpool's submitted 2010 data due to identification of an error in meter readings from the last reporting year

3 Including 51 tonnes CO_2e indirect emissions from the outsourced data centre during the 2010/11 reporting year

Table 1. Absolute and relative CO2e from Rathbones' offices under scope

	2010/11	2009/10 (Previous year)	2007/08 (Base year)
Office floor space (m^2)	**12,385**	11,454	11,489
Number of employees as at 31 December	**741**	689	673
Scope 1 (Gas and company cars)	**280**	258	310
Scope 2 (Electricity)	**1,642**	1,656	1,691
Scope 3 (Business travel)[3]	**473**	422	481
Total CO_2e (tonnes)	**2,395**	2,336	2,482

Environment continued

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

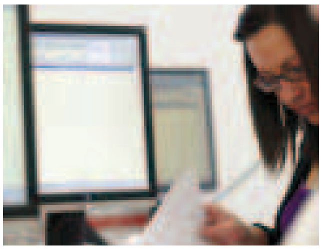
				Carbon intensity[1]		
	2010/11	2009/10	2007/08	**2010/11**	2009/10	2007/08
Full time equivalent employees (FTEE)	**741**	689	673	**3.23**	3.39	3.69
				Carbon intensity[1]		
	2011	2010	2008	**2011**	2010	2008
Operating income (£m)	**144.5**	127.2	131.8	**16.57**	18.36	18.83
Funds under management (£m)	**15,850**	15,630	10,460	**0.15**	0.15	0.24

1 Tonnes CO_2e per FTEE, £m of operating income or funds under management

During the reporting year 2010/11 core IT and communications facilities in our London office have been outsourced to a data centre. As per the World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol (revised version), electricity consumed by the data centre since the relocation has been included under Scope 3 emissions. This has contributed to the fall in Scope 2 emissions and increase in Scope 3 emissions.

Relocation to data centre

In April 2011 Rathbones migrated all of its London-based internal servers to a data centre. This move both significantly simplified the IT complexity and risk of the London office move as well as allowing for IT systems expansion in the future.



We have been calculating the greenhouse gas emissions from our business activities for the past four years and continue to reduce our carbon intensity as much as practically possible. This year we have also taken responsibility for our remaining, unavoidable business emissions, by offsetting 2,500 tonnes CO_2e through high-quality emission reduction ClimateCare projects in Kenya, India and Brazil. We chose the projects not only for their robust emissions reductions but also because each one contributes towards the sustainable development of the local communities: improving incomes, health and education opportunities. The specific projects we have invested in are certified under VCS and GS VER Standards[4].

4 The three CilmateCare projects are the Lifestraw clean water provision project in Kenya, the Saldanha small scale hydro project in Brazil and treadle water pumps project in India. Details are available via the ClimateCare website (www.climatecare.org)

Performance analysis

Energy

Electricity

Total direct electricity consumption and associated CO_2e emissions fell by 1% compared to 2009/10, whilst indirect electricity emissions increased by 100% (due to outsourcing key London IT functions to a data centre). Together, total direct and indirect electricity CO_2e emissions have increased by 2% compared to the previous reporting year. Whilst managing the data centre off-site with a specialist provider has improved the energy efficiency of a major component of our IT infrastructure, the overall increase in electricity consumption is due to the growth of the business.

Natural gas

Natural gas usage has increased by 14% over the past 12 months, primarily due to the cold 2010/11 winter.

Objectives for 2012

We will continue to improve our data collection processes so that offices which currently use benchmark data can be individually monitored and will seek to implement further energy efficiency measures where possible.

Business travel

There has been no significant change in the CO_2e emissions associated with business travel during 2010/11 and business travel emissions remain steady at 12% below baseline year levels.

By successfully implementing a travel policy in Liverpool we have restricted domestic flights from this office to Jersey, Aberdeen and Exeter. Additionally, during 2010/11 there have been significantly fewer flights taken to Edinburgh. The acquisition of a business from Lloyds Banking Group plc in 2009 led to a significant short term increase in 2009/10. Overall we have witnessed a reduction in flight emissions by 19 tonnes of CO_2e. However, this reduction is counter-balanced by increased emissions from non-company car and taxi travel. National rail travel has remained unchanged during 2010/11.

Objectives for 2012

We shall extend the availability of video conferencing facilities and encourage its use wherever practical.

Environment continued

Waste and recycling

Enthusiastic participation in recycling programmes continues across all offices, with most offices reporting recycling figures for shredded confidential paper and other dry recyclables streams such as other office paper, glass and plastic bottles.

There has been a 22% reduction in total reported waste across the business this year. This is almost wholly due to a decrease of approximately 55,000kg in confidential shredding from the Liverpool office after the completion of a significant filing review earlier in the reporting year.

The quality of data regarding the waste produced from our offices has deteriorated over the past year. Changes in waste suppliers, office services and locations has made it difficult to collect consistent data on our waste and recycling volumes. Estimated recycling levels were 89%, down from an estimated 93% last year, partly as a result of poorer data quality affecting the accuracy of the calculations.

Objectives for 2012

We will aim to reduce our total waste generation through proactive staff engagement and will seek to improve the quality of waste data we receive.

Table 3. Waste and recycling data

	Mass collected 2010/11 (tonnes)	% of total	Mass collected 2009/10 (tonnes)	% of total
Paper and cardboard	**66**	**36%**	72	30%
Secure shredding	**58**	**31%**	106	45%
Other materials	**9**	**5%**	9	4%
Total recycling	**133**	**72%**	187	79%
Waste to energy	**30**	**17%**	34	14%
Residual landfill waste	**21**	**11%**	16	7%
Total waste	**184**	**100%**	237	100%
Per employee (kg)	**248**		344	

Paper usage

Over the last 12 months total paper consumption has risen by 3% to 132 tonnes, although the amount consumed per employee has dropped by 4%. Given that paper manufacture from virgin materials is both energy intensive and of high environmental impact we are committed to reducing our consumption and ensuring that, where possible, paper is made from 100% recycled pulp.

Table 4. Paper usage

Paper weight (tonnes)	Total 2010/11	Total 2009/10 (Previous year)	Total 2007/08 (Base year)
Recycled paper	**87**	88	84
Virgin paper	**45**	40	24
Total paper	**132**	128	108
Recycled percentage	**66%**	69%	78%
Total paper usage per employee (kg)	**178**	186	160

In total, 66% of the paper we consumed was from recycled stock. The majority of the stationery paper purchased is Evolve brand, a product made from 100% UK post-consumer waste. During this reporting year, we reduced stationery paper consumption by nearly 80,000 sheets despite the increased number of employees. We continue to purchase higher levels of printed material, in line with 2009/10 figures, due to the success of the investment management business.

Objectives for 2012

We will reinforce our policy to print on recycled paper wherever possible, in order to increase the percentage of recycled materials purchased back to the level of our baseline year.

Environment continued

Table 5. Performance versus our objectives

Our objective for 2011	Performance	Comment	Our objective for 2012
Energy			
Investigate environmental benefits of outsourcing the London IT and communications facilities.	Achieved	The London IT and communications facilities were outsourced to a data centre in April 2011, allowing our IT equipment to operate more efficiently.	Ensure our new London office is more energy efficient than the old office, to be measured by comparing energy consumption per square metre.
Travel			
Introduce video conferencing facilities to all offices.	On track	The central management infrastructure is now in place and video conferencing equipment will be installed in all offices in 2012.	Encourage the increased use of video conferencing and reduce the number of domestic flights.
Increase internal data quality rating to 4 by 2011 (see data quality rating in table 6).	Achieved	Consistent business travel reports from a centralised travel agent have ensured that our data quality rating has attained a rating of 4.	Clarify expenses procedures to ensure journey details are provided for all flights and rail journeys.
Waste			
Seek ways of reducing waste in offices other than Liverpool and London.	On track	Bristol, Cambridge and Winchester have all reduced their total waste volumes.	Improve our waste data quality rating to 3 in 2012.
Paper usage			
Consider resource efficient options for delivering our client communications, including electronic media.	On track	Approximately 1,000 clients have opted to receive their portfolio information electronically.	Increase client take-up by greater promotion and the introduction of a client web portal towards the end of 2012.

Carbon Smart opinion statement

Carbon Smart's statement provides Rathbones and its stakeholders with a third party assessment of the quality and reliability of Rathbones' carbon footprint data for the reporting period 1 October 2010 to 30 September 2011. 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 fourth consecutive year to calculate Rathbones' carbon footprint for all offices for its 2011 corporate responsibility report. Through this engagement Carbon Smart has assured Rathbones that the reported carbon footprint is representative of the business and that the data presented is credible and compliant with appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 – part 1 standard and verified against the WRI GHG Protocol principles of completeness, consistency and accuracy.

Carbon Smart's work has included interviews with key Rathbones personnel, a review of internal and external documentation, interrogation of source data and data collection systems including comparison with, and appropriate recalculation of, the previous years' data. Carbon Smart 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, particularly in the area of waste management.

Consistency

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

Transparency

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

Accuracy

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

Carbon Smart has assessed the data quality against the WRI GHG Protocol principles. Data from each emission source has been rated 1 (poorest) to 5 (best). For this year, overall data quality has been rated 3.6 which reflects consistent data quality compared to 2009/10, although this accommodates an improvement in Scope 1 data (the Chichester office now has natural gas meter readings available to reduce the use of Government benchmarks to only two sites in the estate) and a deterioration in waste and recycling data quality.

Table 6. Data quality rating

Scope	% Carbon footprint 2010/11	Data quality rating 2010/11	Data quality rating 2009/10	Data quality rating 2007/08
Overall	**100%**	**3.6**	3.6	2.6
Scope 1	**12%**	**4.0**	3.0	2.0
Scope 2	**68%**	**4.0**	4.0	3.0
Scope 3	**20%**	**4.0**	4.0	2.0
Paper	**–**	**4.0**	4.0	4.0
Waste and recycling	**–**	**2.0**	3.0	2.0

Ben Murray
Director

Carbon Smart Limited

Louise Quarrell
Director

Carbon Smart Limited

20 February 2012

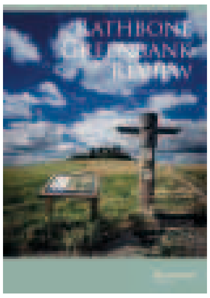
Clients and investments

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 2011, Rathbone Greenbank Investments had £0.45 billion of funds under management, representing some 3.0% of the total funds managed by Rathbone Investment Management.

Greenbank Investor Day

Rathbone Greenbank Investments hosted its 14th annual Investor Day in May 2011. Held at the Earth Trust Centre, some 70 delegates attended and heard from three selected speakers on this year's theme: 'Sustainable consumption – a contradiction in terms?'.



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 2011 the Group employed a proxy voting consultant and introduced a revised policy on governance and proxy voting. Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code, while Rathbone Investment Management now exercises the voting rights attached to approximately 90% of the UK equity it holds on behalf of its clients. Voting is also undertaken on any company if requested by an underlying shareholder.

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 PRI Engagement Clearinghouse.

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.

Health and welfare continued

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. A scheme offering savings, discounts and promotions to staff was launched in 2011 under the 'Rathbonus' banner.

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.

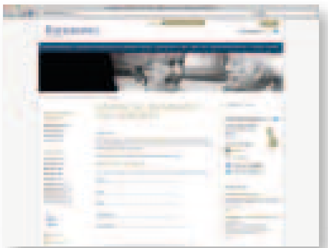
Code of conduct

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.

Financial awareness event

In July, students aged between 16 and 18 were invited to join our investment managers at a financial awareness event held at our London office. The aim was to shed light on the sometimes confusing world of money and investments. Over the next seven months, the students will compete in a Rathbones financial awareness league, using an online trading platform to simulate investing. Interest in the 2012 event can be registered on our website at:

www.rathbones.com/financial-awareness-2012-london.



Learning and development

Learning and development continues to be an important focus for the business to ensure its continued success. The maintenance of a high level of investment in training demonstrates our view that the development of our people is a continuing long term aim that becomes ever more important in turbulent times. During 2011, Rathbones invested £451,000 in developing its people (2010: £393,000). This equates to an average of £589 per employee (2010: £562) and 2.2 days per employee (2010: 2.2 days)

Retail Distribution Review (RDR)

One of the aims of the RDR is to raise professional standards across the industry and we are supportive of this principle. A significant programme of training has been implemented to ensure that all investment managers comply with the requirements of the RDR. As the 31 December 2012 deadline approaches, 88% of our investment managers now hold appropriate qualifications with the remainder working towards examinations in the coming months.

Investment management training

As part of our ongoing objective to maintain high standards of professional knowledge and skills a course focusing on the effective investment management of Self Invested Personal Pensions (SIPP) was run during the year. All investment managers have been attending a range of courses designed to top up knowledge on subjects including regulation and risk.

IT training

Advances in technology are key to ensuring high levels of service to our clients and to our overall competitiveness and training to improve IT literacy is crucial. The training team develops courses to support users of standard applications and our core bespoke IT systems. Much of this training is delivered to small groups or on a one to one basis.

Rathbone development programme

The fifth annual programme of its type involved delegates from our support functions with the aim of improving business awareness and increasing levels of staff engagement. The theme running throughout the course was a stock selection competition in which the participants worked in small teams to increase the value of a notional portfolio. The progress of the teams was reviewed by a number of investment managers. Other elements of the course included learning more about the managing of investments and clients and an analysis of our market place. The programme is chaired by the chief executive and attended by members of the executive committee. This high level of support provides increased profile for the attendees and a link into the grass roots of the business for senior management. To date almost 100 members of staff have attended these programmes and such is their success that a sixth course will take place in 2012.

Learning and development continued

Introduction to management

This 18 month programme concluded during the year with all 18 delegates completing the Chartered Management Institute's introductory diploma award. The course started and concluded with a 360° feedback process on which individual development plans were based and subsequently measured. All participants achieved significant improvements against the management competencies. To maintain momentum from the programme a series of ongoing alumni networking events has been established.

Secretarial networking and training programme

This initiative continues with regular business updates to ensure that this important group of staff are fully aware of changes within the Company that will affect their role and the requirements to support investment managers. During the year 'lunch and learn' sessions were introduced to encourage further skills development.

In addition to formal training there are numerous initiatives to encourage on the job training and sharing of knowledge through cross-functional presentations.

Underpinning learning and development is a planning structure that takes a top down strategic approach working with a committee of representatives from across the Group. In addition to this there is a performance appraisal process incorporating personal development plans.

Communities

Donations and fundraising

During the year, the Group made total charitable donations of £196,000, representing 0.50% of Group pre-tax profits (2010: £162,000, representing 0.54% of Group pre-tax profits).

Employees are encouraged to donate to charity in a tax efficient manner through the Give As You Earn (GAYE) payroll giving scheme. In 2011, Rathbone employees made payments totalling £189,000 (2010: £107,000) 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 2011 donated £108,000 (2010: £85,000) to causes chosen by employees through this method.

In 2010, Children with Cancer UK and The Anthony Nolan Trust were selected by an employee ballot as the charities we would support for 2010 and 2011. During 2011, £17,000 has been raised by employees for these two charities. For 2012 and 2013, employees voted to support the Claire House Children's Hospice and The Oliver King Foundation.

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

Company charities

Rathbones supports two charities over a two year period. Rathbones and its staff raised £17,000 in 2011 for The Anthony Nolan Trust and Children with Cancer UK. Nominated and voted for by staff, the charities selected for the 2012/13 period were Claire House Children's Hospice and The Oliver King Foundation.

Governance

Directors

Chairman

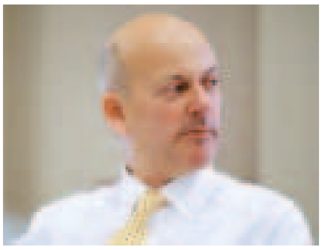
Mark Nicholls

Title: Chairman
Appointment: 1 December 2010
Age: 62
Board committees: Re N

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

Executive directors

Andy Pomfret



Title: Chief Executive
Appointment: 1 August 1999
Age: 51
Board committees: E N Ri

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

Ian Buckley

Title: Head of the Trust, Tax and Pension Advisory Businesses
Appointment: 21 December 2001
Age: 61
Board committees: E Ri

Ian Buckley qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG) in 1975. He was chief executive of Smith & Williamson for ten years from 1985 to 1995 and subsequently chief executive of EFG Private Bank Limited and Tenon Group Plc. He is the director responsible for risk management and marketing and is also chairman of the Group's IT steering committee. He is also a committee member of Family Assurance Friendly Society.

Paul Chavasse

Title: Chief Operating Officer
Appointment: 26 September 2001
Age: 47
Board committees: E Ri

Paul Chavasse started his career working for the institutional fund management arm of NatWest, which was later merged with Gartmore. After a period in the private client businesses of NatWest and Coutts, his final role before joining the Group in 2001 was as head of NatWest Portfolio Management in Bristol. He is currently the chief operating officer responsible for the Group's investment operations, IT infrastructure and facilities. He will become head of investment management on 1 March 2012 when Richard Lanyon steps down from this role.

Richard Lanyon

Title: Head of Investment Management
Appointment: 20 March 1996
Age: 60
Board committees: E Ri

Richard Lanyon started his City career with Laurence Prust, moving to Framlington Group Plc in 1986 where he was the director responsible for pension funds. He joined the Group in 1992 to concentrate on private client discretionary investment management. He will hand over his responsibilities as head of investment management to Paul Chavasse on 1 March 2012 and will retire from the Board at the AGM on 10 May 2012. He will remain with Rathbones as an investment director, managing his clients' portfolios.

Andrew Morris

Title: Head of Investment Management – Liverpool and other Northern Offices
Appointment: 1 November 2000
Age: 47
Board committees: None

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

Richard Smeeton

Title: Head of Investment Management – London and Jersey
Appointment: 1 November 2000
Age: 47
Board committees: None

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

Paul Stockton

Title: Finance Director
Appointment: 24 September 2008
Age: 46
Board committees: E Ri

Paul Stockton 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 is also a non-executive director of the Financial Services Compensation Scheme.

Board committees

The principal Board committees are the executive, audit, remuneration, nomination and risk management 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.

E Executive Committee

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

Current members
- Andy Pomfret (chairman)
- Ian Buckley
- Paul Chavasse
- Richard Lanyon
- Paul Stockton

A Audit Committee

Details of its work are set out in the audit committee report on page 59.

Current members
- Oliver Corbett (chairman)
- Kate Avery
- Caroline Burton
- David Harrel
- Kathryn Matthews

Re Remuneration Committee

Full details of its role are set out in the remuneration report on page 49.

Current members
- Caroline Burton (chairman)
- Kate Avery
- Oliver Corbett
- David Harrel
- Kathryn Matthews
- Mark Nicholls

N Nomination Committee

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

Current members
- Mark Nicholls (chairman)
- Kate Avery
- Caroline Burton
- Oliver Corbett
- David Harrel
- Kathryn Matthews
- Andy Pomfret

Ri Risk Management Committee

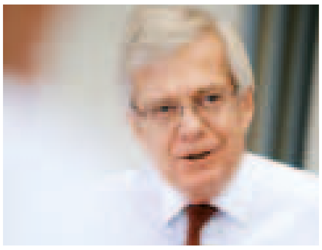
Full details of its role are set out in the risk management report on page 23.

Current director members
- Ian Buckley (chairman)*
- Paul Chavasse
- Oliver Corbett
- Richard Lanyon
- Kathryn Matthews*
- Andy Pomfret
- Paul Stockton

* Kathryn Matthews will become chairman of the committee on 1 March 2012

Non-executive directors

David Harrel



Title: Senior Independent Director
Appointment: 1 December 2007
Age: 63
Board committees: A Re N

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

Kate Avery

Title: Non-Executive Director (Independent)
Appointment: 6 January 2010
Age: 52
Board committees: A Re N

Kate Avery 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 is a non-executive director of the Newcastle Building Society.

Caroline Burton

Title: Non-Executive Director (Independent)
Appointment: 1 November 2003
Age: 62
Board committees: A Re N

Caroline Burton is a highly experienced figure within the asset management industry. She spent 26 years with Guardian Royal Exchange Plc, where she was executive director in charge of investments from 1990 until 1999. She was also a director of The Scottish Metropolitan Property Plc until June 2000 and was a member of the service authority for the National Crime Squad and National Criminal Intelligence Service until March 2006. She is a non-executive director of TR Property Investment Trust Plc, LV Friendly Society and BlackRock Smaller Companies Trust plc. She is chairman of the remuneration committee.

Oliver Corbett

Title: Non-Executive Director (Independent)
Appointment: 7 March 2006
Age: 47
Board committees: A Re Ri N

Oliver Corbett is group finance director of Novae Group plc. He is a chartered accountant and worked for S G 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 is chairman of the audit committee.

Kathryn Matthews

Title: Non-Executive Director (Independent)
Appointment: 6 January 2010
Age: 52
Board committees: A Re Ri N

Kathryn Matthews has spent her entire career in investment management, most recently as chief investment officer, Asia Pacific (ex Japan) for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a non-executive director of a number of companies including Hermes Fund Managers Limited, Aperam S.A. Fidelity Asian Values Plc, Montanaro UK Smaller Companies Investment Trust Plc and J P Morgan Chinese Investment Trust Plc. She is to chair the risk management committee with effect from 1 March 2012.

Directors' report

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

Group results and Company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2011 was £28,706,000 (2010: £21,552,000).

The directors recommend the payment of a final dividend of 29.0p (2010: 28.0p) on 17 May 2012 to shareholders on the register on 27 April 2012. An interim dividend of 17.0p (2010: 16.0p) was paid on 5 October 2011 to shareholders on the register on 16 September 2011. This results in total dividends of 46.0p (2010: 44.0p) per ordinary share for the year. These dividends amount to £20,001,000 (2010: £19,067,000) – see note 11 to the consolidated financial statements.

A full review of the Group's business performance is set out in the business review and financial review on pages 17 to 22. Information about environmental, employee and social and community issues are set out in the corporate responsibility report on pages 28 to 36.

Post balance sheet events

Details of events after the balance sheet date are set out in note 33 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 2011 43,561,140 shares were in issue (2010: 43,376,790). 50,000 shares were held in treasury (2010: nil). 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 14.3 million shares (approximately one third of the issued share capital at 1 March 2011). 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 UK Corporate Governance Code ('the Code'), the Companies Act 2006 and related legislation. Amendment of the Articles of Association requires a special resolution of shareholders.

Directors and their interests

The interests of directors and connected persons in the share capital of the Company are shown in table 1. Following the distribution of an estate, Richard Smeeton inherited 6,100 ordinary shares in February 2012. There were no other changes between 31 December 2011 and 20 February 2012. Details of directors' share options are shown in tables 6 and 7 on page 55.

Table 1. Directors' shareholdings

	Number of 5p ordinary shares at 1 January 2011[1] Beneficial	Number of 5p ordinary shares at 31 December 2011 Beneficial
Chairman		
M P Nicholls	–	2,146
Executive		
I M Buckley	36,813	49,622
P D G Chavasse	54,218	70,159
R P Lanyon	203,961	226,962
A T Morris	55,475	66,747
A D Pomfret[2]	101,034	111,115
R I Smeeton	116,856	134,572
R P Stockton	5,114	18,430
Non-executive		
C R R Avery	2,457	6,335
C M Burton	3,623	4,207
O R P Corbett	1,849	2,381
D T D Harrel	8	161
K A Matthews	160	623

1 Or date of appointment if later
2 The holding at 31 December 2011 no longer includes shares held by his adult daughter

Since 20 February 2012 (but before 1 March 2012, the last practicable date for inclusion in this report before its publication), the following directors have sold ordinary shares: Paul Chavasse (3,377 shares), Richard Lanyon (3,000 shares) and Richard Smeeton (6,500 shares).

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 38 and 39. Richard Lanyon is to retire from the Board at the Annual General Meeting on 10 May 2012.

Non-executive directors

The directors with non-executive responsibilities are Mark Nicholls, Kate Avery, Caroline Burton, Oliver Corbett, David Harrel and Kathryn Matthews. Their biographies are on pages 38 and 40.

Mark Powell retired as a director and chairman at the conclusion of the Annual General Meeting on 11 May 2011. Mark Nicholls became chairman from that date.

The senior independent director is David Harrel who is available to shareholders if they have concerns that they would rather not address to the chairman or executive directors or which remain unresolved after an approach through the normal channels. The Board considers that all non-executive directors are independent.

Retirement and re-appointment of directors

In accordance with provision B.7.1 of the Code, all directors will seek re-election at the Annual General Meeting on 10 May 2012.

Substantial shareholdings

At 20 February 2012, 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 20 February 2012

Shareholder	Date of notification	Number of voting rights	% of voting rights
BlackRock Inc.	17 March 2011	6,939,501	15.99%
Lindsell Train Ltd.	30 January 2012	4,363,462	10.03%
Massachusetts Financial Services Company	19 May 2011	2,254,063	5.19%
Legal & General Group Plc	23 January 2009	1,700,574	3.96%

There were no changes between the date of this report and 1 March 2012.

Political and charitable donations

No contributions were made for political purposes during the year (2010: nil). Details of the Company's charitable donations can be found in the corporate responsibility report on page 36.

Employees

Details of the Company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the corporate responsibility report on pages 34 to 36.

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 2011 represented 36 days of annual purchases (2010: 14 days). The increase was primarily due to the receipt of invoices of £2.4 million relating to capital expenditure on the new London office incurred towards the year end. 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

The Company has granted indemnities, which are uncapped, to all directors and to the company secretary by way of deed. Qualifying third party indemnity provisions as defined by Section 234 of the Companies Act 2006 were therefore in place throughout 2011 and remain in force at the date of this report.

Share price

The mid-market price of the Company's shares at 31 December 2011 was £10.60 (2010: £10.94) and the range during the year was £9.77 to £12.57 (2010: £7.625 to £10.94).

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 2012 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 2012 Annual General Meeting will be held on Thursday 10 May 2012 at 12.00 noon at 1 Curzon Street, London W1J 5FB. Full details of all resolutions and explanatory notes are set out in the separate notice of the meeting.

Special business

The resolutions proposed include an ordinary resolution to give the directors the authority to allot up to 14.4 million shares (with an aggregate nominal amount of up to £720,000). 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 will be at the AGM and available to answer questions.

By Order of the Board

Richard Loader
Company Secretary

20 February 2012

Registered office:

159 New Bond Street,
London W1S 2UD

Please note that the registered office will change to 1 Curzon Street, London W1J 5FB with effect from 27 February 2012.

In relation to compliance with the UK Corporate Governance Code this report together with the directors' report states the position at 20 February 2012.

The UK Corporate Governance Code compliance statement

The revised UK Corporate Governance Code ('the Code') was issued in June 2010 by the Financial Reporting Council (FRC) and applies for reporting periods beginning on or after 29 June 2010. Explanations of how the Code principles and supporting principles have been applied are set out in the governance sections of the report and accounts.

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

Independence of the Chairman on appointment (Provision A.3.1)

Mark Powell who was chairman until his retirement following the AGM on 11 May 2011 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.

Composition of the Board (Provision B.1.2)

There are currently 13 directors, of whom six (46%) are independent non-executive directors. The Code requires that at least half the Board, excluding the chairman, should be independent non-executive directors. Improvements to the working of the Board are being developed by the chairman and the chief executive following the Board performance evaluation referred to in the chairman's statement.

Board meetings

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

Board membership

The Board currently consists of a non-executive chairman, seven executive directors and five other non-executive directors. The roles of chairman, Mark Nicholls, 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.

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

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

Board performance

The Board undertakes an annual review of its operation and performance. In 2011, this was carried out based on an internal questionnaire, developed and executed with assistance from Lintstock Limited, a London-based corporate advisory firm.

Directors

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

Board training

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

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

Board committees

The principal Board committees are the executive, audit, remuneration, nomination and risk management 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. Richard Lanyon will step down from the committee on his retirement from the Board. The purpose of the executive committee is to monitor every aspect of the Group businesses on a continuing basis and to analyse and plan all business proposals in detail for submission to and consideration by the Board. It meets monthly and more frequently when required.

Audit Committee

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

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

Risk Management Committee

Current members of the risk management committee are Ian Buckley (chairman), Paul Chavasse, Oliver Corbett, Richard Lanyon, Kathryn Matthews, Andy Pomfret and Paul Stockton together with the heads of compliance, internal audit and risk, personnel and treasury. Ian Buckley will be standing down as chairman of the committee on 1 March 2012 and Kathryn Matthews will be taking on this role. Full details of its role are set out in the risk management 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 2011

	Plc Board[1]	Executive Committee[2]	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
C R R Avery	6/7		7/7	6/6	1/1	
I M Buckley	7/7	14/14				4/4
C M Burton	6/7		7/7	6/6	0/1	
P D G Chavasse	7/7	12/14				3/4
O R P Corbett	7/7		7/7	6/6	0/1	2/2
D T D Harrel	7/7		6/7	6/6	1/1	
R P Lanyon	7/7	14/14				4/4
K A Matthews	7/7		6/7	5/6	1/1	2/2
A T Morris	7/7					
M P Nicholls	7/7			6/6	1/1	
A D Pomfret	7/7	13/14			1/1	2/4
G M Powell	2/2				0/0	
R I Smeeton	6/7					
R P Stockton	7/7	14/14				3/4

1 Scheduled bi-monthly meeting
2 Scheduled monthly meeting

Shareholder relations

The Company is committed to ensuring that there is effective communication with all shareholders. All regulatory news announcements, press releases and financial reports are available on the Group website. An HTML version of the report and accounts is 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 directors, and in particular committee chairmen, are at the meeting. The Board welcomes questions and comments from shareholders.

Votes are taken on a show of hands (unless a poll is requested) and full details of proxy voting figures are disclosed after the vote and on the website.

Going concern

The Company's business activities, risks and uncertainties, financial performance in 2011 and the financial position at 31 December 2011 are summarised in the business review on page 12 and risk management report on page 23. 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.

The Board presents the remuneration report for the year ended 31 December 2011.

Remuneration Committee Chairman's statement

Following the introduction of both a new Long Term Incentive Plan (LTIP) and deferred profit share plan in 2010, 2011 was a year of relatively little change in the principal components of total reward for executive directors.

In December 2010, the FSA published a policy statement on the disclosure of remuneration in response to the 2008 financial crisis. Its aim is to ensure the disclosure of the remuneration policies and practices for those staff whose professional activities have a material impact on its risk profile. Rathbones' profits are not generated by higher risk activities such as proprietary trading. The Board considers that the Company's remuneration arrangements are consistent with the risk profile of the business. A remuneration policy statement was approved by the committee and the Board during the year.

Board salaries were increased by 3% with effect from 1 January 2012, in line with the increase given to the majority of employees.

Remuneration Committee

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

The chief executive attends meetings at the invitation of the committee. Neither the chairman nor chief executive is present when their own remuneration is discussed. The committee met on six occasions in 2011 (2010: five). Details of attendance at meetings are shown on page 47.

Remuneration policy for executive directors

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

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

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

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

The elements of remuneration packages are summarised in table 1.

Total executive director reward for 2011

Table 1. Directors' remuneration (audited information)

	Salary or fee[1] £'000	Payments in lieu of pension contributions £'000	Profit sharing – cash £'000	Profit sharing – deferred shares[2] £'000	Benefits[3] £'000	2011 total £'000	2010 total £'000	2011 pension contributions[4] £'000	2010 pension contributions[4] £'000
Chairman									
M P Nicholls	98	–	–	–	1	99	5	–	–
Executive									
A D Pomfret (Chief Executive)	330	–	101	204	5	640	636	38	37
I M Buckley	200	–	53	107	4	364	352	23	21
P D G Chavasse	224	–	76	152	5	457	421	–	–
R P Lanyon	242	24	99	197	5	567	578	–	–
A T Morris	197	–	48	95	5	345	349	–	–
R I Smeeton	221	–	94	188	5	508	553	–	–
R P Stockton	227	–	71	142	5	445	402	22	21
Non-executive									
C R R Avery	38	–	–	–	3	41	35	–	–
C M Burton	45	–	–	–	3	48	42	–	–
O R P Corbett	46	–	–	–	3	49	45	–	–
D T D Harrel	46	–	–	–	2	48	40	–	–
K A Matthews	38	–	–	–	3	41	36	–	–
Former Chairman (G M Powell)	60	–	–	–	2	62	168	–	–
Former executive directors	–	–	–	–	–	–	37	–	–
Former non-executive directors	–	–	–	–	–	–	56	–	–
Total	**2,012**	**24**	**542**	**1,085**	**51**	**3,714**	**3,755**	**83**	**79**

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 medical insurance and the value of SIP free shares and matching shares
4 During the year, retirement benefits accrued under money purchase schemes in relation to three directors (2010: three)

Basic salary and benefits

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

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. Salaries were increased by 3% on 1 January 2012 in line with the increase given to most employees. The only exception was Richard Lanyon, whose salary was unchanged in view of his retirement from the Board on 10 May 2012.

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

Profit share

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

The committee has the discretion to adjust the calculation of Group profit before tax for the purposes of the profit share to ensure that it appropriately reflects underlying business performance. No adjustment was made in 2011. In 2010, the committee agreed that 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 having due regard of the performance of the director, the results of the business for which the director has responsibility (where relevant) and market data where this is available. Awards are capped at 200% of basic salary.

Awards are made in both cash (one third) and deferred shares (two thirds) with interim, on account awards payable during the financial year, and final awards made shortly after the announcement of the Group's results for the year. The proportion paid in cash may be increased at the request of the participant but this will cause the overall award to be reduced such that the total will be reduced by a maximum of one third if 100% of the award is taken in cash. No executive directors chose to increase the cash element of the award in 2010 or 2011.

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

The final deferred share award for 2010 was made on 4 March 2011. An interim deferred share award was made on 26 September 2011. Awards were also made following dividend payments in May and October. The final award for 2011 will be made following the announcement of the 2011 results on 21 February 2012.

Profit share continued

Table 2. Profit share – deferred share awards in 2011 (audited information)

Name	Award type	Award date	Opening balance	Awarded	Lapsed	Closing balance	Market price at award date
I M Buckley			3,313			3,313	
	2010 final	4 March 2011		6,854		6,854	£11.963
	Dividend	18 May 2011		240		240	£11.850
	2011 interim	26 September 2011		4,954		4,954	£10.496
	Dividend	5 October 2011		175		175	£10.100
			3,313	12,223	–	15,536	
P D G Chavasse			4,375			4,375	
	2010 final	4 March 2011		7,328		7,328	£11.963
	Dividend	18 May 2011		276		276	£11.850
	2011 interim	26 September 2011		5,621		5,621	£10.496
	Dividend	5 October 2011		201		201	£10.100
			4,375	13,426	–	17,801	
R P Lanyon			11,472			11,472	
	2010 final	4 March 2011		11,117		11,117	£11.963
	Dividend	18 May 2011		533		533	£11.850
	2011 interim	26 September 2011		10,385		10,385	£10.496
	Dividend	5 October 2011		389		389	£10.100
			11,472	22,424	–	33,896	
A T Morris			4,968			4,968	
	2010 final	4 March 2011		4,513		4,513	£11.963
	Dividend	18 May 2011		224		224	£11.850
	2011 interim	26 September 2011		4,287		4,287	£10.496
	Dividend	5 October 2011		163		163	£10.100
			4,968	9,187	–	14,155	
A D Pomfret			9,107			9,107	
	2010 final	4 March 2011		11,507		11,507	£11.963
	Dividend	18 May 2011		487		487	£11.850
	2011 interim	26 September 2011		9,718		9,718	£10.496
	Dividend	5 October 2011		355		355	£10.100
			9,107	22,067	–	31,174	
R I Smeeton			11,944			11,944	
	2010 final	4 March 2011		10,504		10,504	£11.963
	Dividend	18 May 2011		530		530	£11.850
	2011 interim	26 September 2011		11,719		11,719	£10.496
	Dividend	5 October 2011		386		386	£10.100
			11,944	23,139	–	35,083	
R P Stockton			4,375			4,375	
	2010 final	4 March 2011		6,938		6,938	£11.963
	Dividend	18 May 2011		267		267	£11.850
	2011 interim	26 September 2011		5,430		5,430	£10.496
	Dividend	5 October 2011		194		194	£10.100
			4,375	12,829	–	17,204	
Total			49,554			49,554	
	2010 final	4 March 2011		58,761	–	58,761	£11.963
	Dividend	18 May 2011		2,557	–	2,557	£11.850
	2011 interim	26 September 2011		52,114	–	52,114	£10.496
	Dividend	5 October 2011		1,863	–	1,863	£10.100
			49,554	**115,295**	**–**	**164,849**	

Equity incentives

Long Term Incentive Plan (LTIP)

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

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

The performance conditions for the plan cycles are as follows:

Performance targets

2008/10, 2009/11 and 2010/12 plan cycles

Table 3. LTIP performance targets

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

a TSR

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

b EPS

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

2011/13 and future plan cycles

A combination of two performance targets will continue to be used. Whilst the EPS performance target will continue unchanged, changes to the TSR performance target were approved.

Table 4. LTIP TSR performance target

TSR over the plan cycle (50%)

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

The committee considers 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), reflecting both the change in the share price and dividends, assuming that they are reinvested.

If a participant ceases to be employed for 'good leaver' reasons, the award shall normally continue in effect and vest on the original date set for vesting but with the award based on the performance during the plan cycle as a whole 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.

Long Term Incentive Plan (LTIP) continued

Vesting of historic awards

2008/10 plan cycle

The TSR for the three year period was 19.8%, which ranked the Company at the 62nd 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. The awards were made in March 2011.

2009/11 plan cycle

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

2010/12 and 2011/13 plan cycles

Details of the awards for the 2010/12 and 2011/13 plan cycles are set out in table 5.

Were the maximum possible awards to be made in shares to current and former directors as shown in table 5, 257,231 ordinary shares (2010: 285,149) would be awarded, representing 0.6% (2010: 0.7%) of the issued share capital at 31 December 2011, excluding shares held in treasury. In practice, awards under the LTIP are intended to be satisfied using market purchased shares. Expected actual awards are difficult to predict with any accuracy.

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

	Plan cycle	At 1 January 2011	Granted in 2011	Vested in 2011	Lapsed in 2011	At 31 December 2011	Market value of shares at date of award	Market value of shares at date of vesting
I M Buckley	2009/11	18,905	–	–	18,905	–	£8.43	–
	2010/12	16,904	–	–	–	16,904	£8.23	–
	2011/13	–	13,856	–	–	13,856	£10.825	–
P D G Chavasse	2009/11	20,685	–	–	20,685	–	£8.43	–
	2010/12	21,187	–	–	–	21,187	£8.23	–
	2011/13	–	16,766	–	–	16,766	£10.825	–
R P Lanyon	2009/11	20,685	–	–	20,685	–	£8.43	–
	2010/12	21,187	–	–	–	21,187	£8.23	–
	2011/13	–	16,766	–	–	16,766	£10.825	–
A T Morris	2009/11	16,192	–	–	16,192	–	£8.43	–
	2010/12	16,585	–	–	–	16,585	£8.23	–
	2011/13	–	13,648	–	–	13,648	£10.825	–
A D Pomfret	2009/11	28,247	–	–	28,247	–	£8.43	–
	2010/12	28,933	–	–	–	28,933	£8.23	–
	2011/13	–	22,863	–	–	22,863	£10.825	–
R I Smeeton	2009/11	18,905	–	–	18,905	–	£8.43	–
	2010/12	19,365	–	–	–	19,365	£8.23	–
	2011/13	–	15,311	–	–	15,311	£10.825	–
R P Stockton	2009/11	18,460	–	–	18,460	–	£8.43	–
	2010/12	18,909	–	–	–	18,909	£8.23	–
	2011/13	–	14,951	–	–	14,951	£10.825	–
Total	**2009/11**	**142,079**	**–**	**–**	**142,079**	**–**	**£8.43**	**–**
	2010/12	**143,070**	**–**	**–**	**–**	**143,070**	**£8.23**	**–**
	2011/13	**–**	**114,161**	**–**	**–**	**114,161**	**£10.825**	**–**

The 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 award is the average mid-market price over the 20 dealing days prior to the start of the plan

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

All directors are entitled to take part in the SIP on the same terms as all other employees. This allows all employees to purchase shares in the Company and currently these are matched on a one-for-one basis by the Company. Performance related SIP shares are also offered to employees if there is year on year EPS growth over the rate of inflation. SIP shares are included in the table of directors' share interests on page 42.

Executive directors may also participate in the Rathbones SAYE scheme on the same terms as all other employees. Details of grants to directors are shown in table 6. It is anticipated that a further grant will be made in March 2012 following the announcement of the 2011 results.

Table 6. The Rathbone SAYE scheme (audited information)

	Grant date	At 1 January 2011	Granted in 2011	Exercised in 2011	Lapsed in 2011	At 31 December 2011	Earliest exercise date	Latest exercise date	Exercise price
I M Buckley	23/12/09	1,303				1,303	01/02/13	01/08/13	696p
P D G Chavasse	23/12/09	1,303				1,303	01/02/13	01/08/13	696p
R P Lanyon	23/12/09	1,303				1,303	01/02/13	01/08/13	696p
A T Morris	23/12/09	651				651	01/02/13	01/08/13	696p
A T Morris	29/03/11	–	483			483	01/05/14	01/11/14	934p
A D Pomfret	23/12/09	1,303				1,303	01/02/13	01/08/13	696p
R I Smeeton	23/12/09	1,303				1,303	01/02/13	01/08/13	696p
R P Stockton	23/12/09	651				651	01/02/13	01/08/13	696p
R P Stockton	29/03/11	–	483			483	01/05/14	01/11/14	934p
Total		**7,817**	**966**	**–**	**–**	**8,783**			

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. The outstanding options held by directors at the start of the year lapsed during the year. Details are set out in table 7.

Table 7. Outstanding share options and movements in the year (audited information)

	At 1 January 2011	Exercised in 2011	Lapsed in 2011	At 31 December 2011	Date of grant	Earliest exercise date	Exercise price
R P Stockton	30,000	–	30,000	–	22/08/08	22/08/11	813.50p
Former director							
P G Pearson Lund	9,966	–	9,966	–	24/04/01	24/04/04	827.50p
Total	39,966	–	39,966	–			

Dilution

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

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

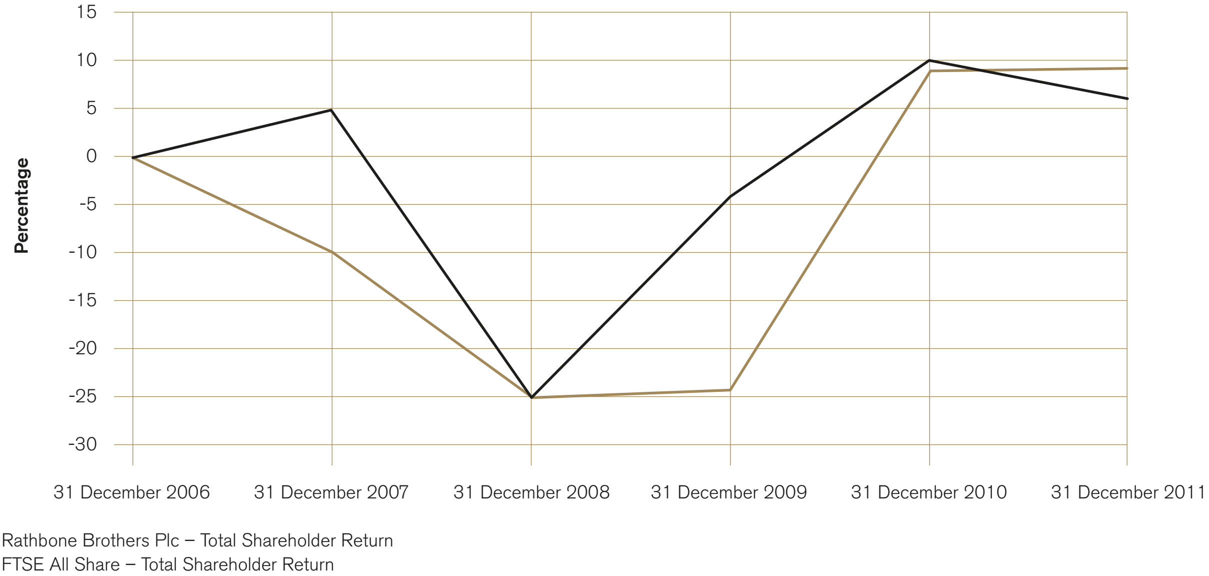


Chart 1 shows the Company's TSR against the FTSE All Share Index. TSR is calculated assuming that dividends are reinvested on receipt. The FTSE All Share Index has been selected as a comparator as it is a suitably broad market index and has been used as a performance comparator for LTIP plan cycles since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

Pension arrangements

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

Details of the Company's contributions are set out in note 24 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, Andrew Morris and Richard Smeeton are members of the Rathbone 1987 Pension Scheme. Richard Lanyon transferred out of this scheme on 15 March 2011 and has since been paid 10% of salary in lieu of pension scheme contributions. Ian Buckley, Richard Lanyon, Andy Pomfret and Paul Stockton participate in the scheme for death in service benefits only.

Richard Smeeton is also a member of the Laurence Keen Retirement Benefits Scheme (see note 24) for service prior to 1 October 1999. Ian Buckley and Andy Pomfret have arrangements under self-invested personal pension schemes whilst Paul Stockton is a member of the group defined contribution plan.

The changes in pension entitlements arising in the year, required to be disclosed by the UK Listing Authority, are shown in table 8. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors. The increases in transfer values are mainly due to changed assumptions for inflation, post-retirement discount rates and future mortality.

Pension arrangements continued

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

	Age at 31/12/11	Years of service at 31/12/11	Accrued benefit at 31/12/11[1] £	Increase in accrued benefits excluding inflation[2] £	Increase in accrued benefits including inflation[3] £	Transfer value of increase in accrued benefits less directors' contributions £	Transfer value of accrued benefits at 31/12/11 £	Transfer value of accrued benefits at 31/12/10 £	Increase in transfer value less directors' contributions[4] £
P D G Chavasse	47	11	41,535	2,956	4,723	32,112	702,659	514,401	170,362
A T Morris	47	23	70,896	2,019	5,174	28,741	1,562,614	1,125,649	421,205
R I Smeeton	47	23	82,812	1,155	4,895	4,070	1,559,473	1,152,468	389,325

During 2011, four directors (2010: four) accrued benefits under defined benefit schemes. R P Lanyon transferred his benefits out of the scheme during the year.

1 The pension entitlement shown above for the three participating directors is that which would be paid annually on retirement at age 60 or 65 based on service to 31 December 2011 (or normal retirement date, if earlier)
2 The additional pension earned in the year excluding UK inflation (RPI)
3 The additional pension earned in the year including UK inflation (RPI)
4 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 scheme

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

Service contracts for executive directors

The Company has service contracts with its executive directors which were reviewed and modernised in 2011. Following his appointment as head of investment management, Paul Chavasse's notice period was increased from 6 to 12 months. It is Company policy that such contracts should not normally contain notice periods of more than 12 months. Details of the contracts of employment of executive directors serving during the year are as shown in table 9.

Table 9. Executive directors' service contracts

Executive director	Date of contract	Notice period
I M Buckley	24 October 2011	6 months
P D G Chavasse	15 November 2011	12 months
R P Lanyon	21 November 2011	12 months[1]
A T Morris	26 October 2011	6 months
A D Pomfret	13 October 2011	12 months
R I Smeeton	9 December 2011	6 months
R P Stockton	14 October 2011	6 months

1 R P Lanyon's notice period will revert to 6 months on his retirement from the Board

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

An exception is Ian Buckley. Following his appointment as a committee member of the Family Assurance Friendly Society on 14 December 2009, he retains the fee paid of £30,000 per annum (2010: £27,350).

Advisers to the Remuneration Committee

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

Deloitte also provides occasional ad hoc advice to the Company, particularly on share scheme issues. The appointment is reviewed annually. The committee is also assisted by the 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 now required to stand for re-election annually in accordance with the UK Corporate Governance Code. The effectiveness of the non-executive directors is subject to an annual assessment. The executive directors are responsible for determining the fees of the non-executive directors, who do not receive pension or other benefits from the Group and do not participate in any Group incentive scheme, other than the SIP.

Non-executive directors' fees

Fees were increased with effect from 1 January 2011 and from 1 January 2012 as shown in table 10.

Table 10. Non-executive directors' fees

	2012 £	2011 £	2010 £
Basic fee	**40,000**	38,000	35,000
Additional fees			
– Chairman of the Audit Committee	**10,000**	8,000	7,500
– Chairman of the Remuneration Committee	**10,000**	7,000	5,000
– Chairman of the Risk Management Committee	**10,000**	–	–
– Senior independent director	**10,000**	8,000	5,000

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

Annual General Meeting (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 UK Corporate Governance Code published in June 2010 and effective for accounting periods beginning on or after 29 June 2010. The Board will move at the AGM an ordinary resolution seeking approval of the directors' remuneration report for 2011. The Notice of AGM has been circulated separately.

Approved by the Board on 20 February 2012 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 extensive experience of financial matters and of the financial services industry.

The committee met on seven occasions in 2011 (2010: five). Details of attendance by members are set out on page 47.

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; and
- regulatory financial reporting.

Internal controls and risk management systems

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

During 2011, the committee discussed a number of issues including the 2010 audit process, segmental reporting, Financial Services Compensation Scheme levies, pension scheme actuarial valuation assumptions, the effectiveness of the annual report and capital modelling. It also undertook a detailed review of the 2012 and longer term internal audit review programmes.

A separate risk management report considers risk management issues (see page 23).

Internal audit

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

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

External audit

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

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

Non-audit fees payable to the auditor in 2011 were £114,000. This represents 23.2% of the fees for assurance services of £491,000, which includes the audit of regulatory returns and of the interim statement (2010: £301,000, 67.3% of £447,000). The committee recognises that, given their knowledge of the business, there are often advantages in using the auditor to provide certain non-audit services.

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

Regarding the 2011 audit, presentations were received from the auditor on audit progress, findings and recommendations and any adjusted and unadjusted errors.

Confidential reporting policy

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

Other

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

Nomination Committee report

Committee members

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

The committee met formally on one occasion in 2011 (2010: two). Details of attendance by members are set out on page 47. The principal issues discussed were the terms of reference of the committee, the Board performance evaluation and succession planning. 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 accordance with the UK Corporate Governance Code, all directors are required to seek election by the members at the AGM following their appointment, and re-election every year thereafter. A non-executive director is not appointed for a fixed term but would not normally serve as a director for more than nine years.

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

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

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

Company law requires the directors to prepare consolidated and Company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the 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 the Company and of their profit or loss for that period. In preparing each of the consolidated and 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 Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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's websites. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and its undertakings included in the consolidation taken as a whole; and
- the directors' report, together with the information provided in the business review, financial review and risk management report, includes a fair view 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

20 February 2012

Consolidated financial statements

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

We have audited the Group financial statements of Rathbone Brothers Plc for the year ended 31 December 2011 which comprise the consolidated and Company statement of comprehensive income, consolidated and Company statement of changes in equity, consolidated and Company balance sheet, consolidated and Company statement of cash flows and 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.

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 62, the directors are responsible for the preparation of the Group 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 Group 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 and parent company's affairs as at 31 December 2011 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 provision 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 Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the corporate governance report set out on page 45 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Group 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 report has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 22, in relation to going concern;
- the part of the corporate governance report on page 45 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

Chartered Accountants
15 Canada Square, London E14 5GL

20 February 2012

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest and similar income		11,259	10,274
Interest expense and similar charges		(1,238)	(1,445)
Net interest income	4	10,021	8,829
Fee and commission income		141,484	124,432
Fee and commission expense		(10,029)	(7,762)
Net fee and commission income	5	131,455	116,670
Dividend income	6	98	90
Net trading income	6	480	226
Gains on disposal of financial securities	6	1,095	–
Other operating income	6	1,303	1,369
Operating income		144,452	127,184
Exceptional levies to the Financial Services Compensation Scheme	7	–	(3,575)
Amortisation of acquired client relationships	19	(5,134)	(4,845)
Head office relocation costs	8	(3,028)	–
Other operating expenses		(97,138)	(88,681)
Operating expenses	7	(105,300)	(97,101)
Profit before tax		39,152	30,083
Taxation	10	(10,446)	(8,531)
Profit after tax		28,706	21,552
Profit for the period attributable to equity holders of the Company		28,706	21,552
Other comprehensive income:			
Exchange translation differences		–	9
Net actuarial loss on retirement benefit obligations	24	(6,383)	(3,005)
Revaluation of available for sale investment securities:			
– net (loss)/gain from changes in fair value	15	(134)	155
Deferred tax relating to components of other comprehensive income:			
– revaluation of available for sale investment securities		94	(13)
– actuarial loss on retirement benefit obligations		1,477	782
Other comprehensive income net of tax		(4,946)	(2,072)
Total comprehensive income for the year net of tax attributable to equity holders of the Company		23,760	19,480
Dividends paid and proposed for the year per ordinary share	11	46.00p	44.00p
Dividends paid and proposed for the year		20,001	19,067
Earnings per share for the period attributable to equity holders of the Company:	12		
– basic		66.72p	49.76p
– diluted		65.90p	49.35p

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

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Translation reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010		2,165	31,756	31,835	2,077	245	(4,032)	118,443	182,489
Profit for the year								21,552	21,552
Exchange translation differences						9			9
Net actuarial loss on retirement benefit obligations	24							(3,005)	(3,005)
Revaluation of available for sale investment securities	15				155				155
Deferred tax relating to components of other comprehensive income					(13)			782	769
Other comprehensive income net of tax		–	–	–	142	9	–	(2,223)	(2,072)
Dividends paid	11							(18,167)	(18,167)
Issue of share capital	25	4	732						736
Reclassification of translation reserve on disposal of subsidiaries						(254)		254	–
Share-based payments:									
– value of employee services								1,054	1,054
– cost of treasury shares acquired	26						(569)		(569)
– cost of treasury shares vesting	26						1,702	(1,702)	–
– tax on share-based payments								351	351
At 1 January 2011		**2,169**	**32,488**	**31,835**	**2,219**	**–**	**(2,899)**	**119,562**	**185,374**
Profit for the year								**28,706**	**28,706**
Net actuarial loss on retirement benefit obligations	24							**(6,383)**	**(6,383)**
Revaluation of available for sale investment securities	15				**(134)**				**(134)**
Deferred tax relating to components of other comprehensive income					**94**			**1,477**	**1,571**
Other comprehensive income net of tax		**–**	**–**	**–**	**(40)**	**–**	**–**	**(4,906)**	**(4,946)**
Dividends paid	11							**(19,491)**	**(19,491)**
Issue of share capital	25	**9**	**1,728**						**1,737**
Share-based payments:									
– value of employee services								**1,989**	**1,989**
– cost of treasury shares acquired	26						**(2,955)**		**(2,955)**
– cost of treasury shares vesting	26						**1,125**	**(1,125)**	**–**
– tax on share-based payments								**239**	**239**
At 31 December 2011		**2,178**	**34,216**	**31,835**	**2,179**	**–**	**(4,729)**	**124,974**	**190,653**

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

Consolidated balance sheet

as at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Cash		**4**	4
Settlement balances		**13,443**	18,169
Loans and advances to banks	13	**65,008**	39,565
Loans and advances to customers	14	**47,787**	40,025
Investment securities:			
– available for sale	15	**68,563**	42,587
– held to maturity	15	**843,983**	751,085
Prepayments, accrued income and other assets	16	**38,413**	36,368
Property, plant and equipment	17	**10,660**	6,143
Deferred tax asset	18	**3,134**	2,474
Intangible assets	19	**92,844**	91,702
Total assets		**1,183,839**	1,028,122
Liabilities			
Deposits by banks	20	**513**	3,304
Settlement balances		**22,196**	23,712
Due to customers	21	**908,656**	762,026
Accruals, deferred income, provisions and other liabilities	22	**50,924**	42,455
Current tax liabilities		**3,557**	4,608
Retirement benefit obligations	24	**7,340**	6,643
Total liabilities		**993,186**	842,748
Equity			
Share capital	25	**2,178**	2,169
Share premium	25	**34,216**	32,488
Merger reserve		**31,835**	31,835
Available for sale reserve		**2,179**	2,219
Treasury shares	26	**(4,729)**	(2,899)
Retained earnings		**124,974**	119,562
Total equity		**190,653**	185,374
Total liabilities and equity		**1,183,839**	1,028,122

The financial statements were approved by the Board of directors and authorised for issue on 20 February 2012 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 2011

	Note	2011 £'000	2010 £'000 restated (note 1)
Cash flows from operating activities			
Profit before tax		**39,152**	30,083
Net interest income		**(10,021)**	(8,829)
Net (recoveries)/impairment charges on impaired loans and advances	14	**(1)**	95
Net charge for provisions	23	**2,465**	572
Profit on disposal of property, plant and equipment		**(17)**	(37)
Depreciation and amortisation		**8,997**	8,405
Defined benefit pension scheme charges	24	**1,484**	1,510
Share-based payment charges	9	**2,604**	1,729
Interest paid		**(1,282)**	(1,413)
Interest received		**10,359**	11,754
		53,740	43,869
Changes in operating assets and liabilities:			
– net (increase)/decrease in loans and advances to banks and customers		**(8,523)**	24,572
– net decrease/(increase) in settlement balance debtors		**4,726**	(864)
– net increase in prepayments, accrued income and other assets		**(1,133)**	(7,980)
– net increase/(decrease) in amounts due to customers and deposits by banks		**143,841**	(8,410)
– net (decrease)/increase in settlement balance creditors		**(1,516)**	1,555
– net increase in accruals, deferred income, provisions and other liabilities		**3,725**	6,026
Cash generated from operations		**194,860**	58,768
Defined benefit pension contributions paid	24	**(7,170)**	(7,285)
Tax paid		**(10,345)**	(6,089)
Net cash inflow from operating activities		**177,345**	45,394
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		**(12,976)**	(30,417)
Proceeds from sale of property, plant and equipment		**41**	128
Purchase of investment securities	15	**(1,565,418)**	(1,679,090)
Proceeds from sale and redemption of investment securities	15	**1,472,520**	1,622,005
Net cash used in investing activities		**(105,833)**	(87,374)
Cash flows from financing activities			
Purchase of shares for share-based schemes		**(2,259)**	(286)
Issue of ordinary shares	32	**1,041**	453
Dividends paid	11	**(19,491)**	(18,167)
Net cash used in financing activities		**(20,709)**	(18,000)
Net increase/(decrease) in cash and cash equivalents		**50,803**	(59,980)
Cash and cash equivalents at the beginning of the period		**79,069**	139,044
Effect of exchange rate changes on cash and cash equivalents		**–**	5
Cash and cash equivalents at the end of the period	32	**129,872**	79,069

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 and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company financial statements are presented on pages 116 to 133.

Changes in accounting policies and disclosures

a Presentation of primary statements

Two changes have been made to the presentation of the primary statements in these consolidated financial statements compared to the previous year. The consolidated income statement and consolidated statement of comprehensive income have been re-presented this year as a combined consolidated statement of comprehensive income. In addition, other reserves are now shown individually on the face of the balance sheet rather than in aggregate.

The consolidated statement of cash flows now separately discloses the net change in provisions through profit or loss as a single line item in cash flows from operating activities. There has been no change to the net cash inflow from operating activities or the net increase/(decrease) in cash and cash equivalents. The comparative balances have been reclassified to be consistent with this presentation.

b Segmental information

As described in note 3, the presentation of segmental information has been changed to reflect changes in the segmental information provided to the Group executive committee, which is the Group's chief operating decision maker.

The results of the business areas previously reported as Trust and Tax Services are now included within the Investment Management segment for reporting segmental results (note 3), fee and commission income (note 5) and headcount (note 9 and 36).

In addition, fee income from trust, tax and pensions advisory activities are now reported separately as fees from advisory services. Total net fee and commission income included in the consolidated statement of comprehensive income is now comprised of net investment management fee income, net commission and fees from advisory services.

Comparative balances in the segmental analysis for the full year to 31 December 2010 have been reclassified to be consistent with the revised presentation.

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:

- IAS 24 'Related Party Disclosures (revised 2009)'
- Amendments to IFRS 7 'Financial Instruments: Disclosures' as part of 'Improvements to IFRS (2010)'
- Amendments to IAS 1 'Presentation of Financial Statements' as part of 'Improvements to IFRS (2010)'
- Amendments to IAS 34 'Interim Financial Reporting' as part of 'Improvements to IFRS (2010)'

Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement' have been adopted in the current year but have had no material impact on these financial statements.

New standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and therefore have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 'Financial Instruments' and IAS19 'Employee Benefits', which are not yet adopted by the EU and are not expected to become mandatory for periods commencing before 1 January 2013.

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

1 **Principal accounting policies** continued
Developments in reporting standards and interpretations continued

IAS 19 'Employee Benefits' is not yet adopted by the EU but is expected to become mandatory for the Group's consolidated financial statements for the year ending 31 December 2013. The amendments to IAS 19, if applied for the year ended 31 December 2011, would reduce profit after tax by approximately £1,118,000 and increase actuarial gains in other comprehensive income by the same amount. There would be no effect on total equity. The Group does not plan to adopt this standard early.

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 obtained. 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. 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 profit or loss.

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.

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 financial review on page 17.

Net interest income

Interest income and expense are recognised in other comprehensive income 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.

1 **Principal accounting policies** continued

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 other comprehensive income on a straight line basis over the term of the lease. Lease expense recognised in other comprehensive income is adjusted for the impact of any lease incentives.

Fees and commissions

Portfolio and other management advisory and service fees are recognised on a continuous basis over the period the service is provided. Asset management fees are recognised evenly over the period the service is provided.

Trail commissions receivable and payable are accounted for on a continuous basis over the period in which they are earned. Commission charges for executing transactions on behalf of clients are recognised when the transaction is dealt.

To the extent that initial charges received on the sale of units arise from an identifiable brokerage service, the income is recognised on the performance of that service. Other 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 balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

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.

1 **Principal accounting policies** continued

c Client relationships
Client relationships acquired are initially recognised at cost. Those recognised 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.

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 financial assets at fair value through profit or loss are included in profit or loss 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 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 profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

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.

1 **Principal accounting policies** continued

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 for impairment when 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.

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 premiums 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 balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary financial assets carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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.

1 **Principal accounting policies** continued
Foreign currencies continued

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 balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur in other comprehensive income.

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

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

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

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 profit or loss 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 balance sheet date, and any adjustment to tax receivable or payable in respect of previous years.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised. Such assets and liabilities are not recognised if the temporary difference arises:

- from the initial recognition of goodwill 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 balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax is charged or credited to profit or loss, 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.

1 **Principal accounting policies** continued

Cash and cash equivalents

Cash comprises cash in hand.

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

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

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 profit or loss 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 profit or loss reflects the number of vested shares or share options, with a corresponding adjustment to equity. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that 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 balance sheet 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 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 9. No operating segments have been aggregated in the Group's financial statements. Transactions between operating segments are reported within the income or expenses for those segments. 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 balance sheet as the Group is not beneficially entitled to them.

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 balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the contract.

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.

Financial Services Compensation Scheme levies (note 7)

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 levies on the industry in recent years. The financial impact of FSCS levies are largely out of the Group's control as they result from other industry failures.

In February 2011, the Group received invoices totalling £3.2 million in relation to interim levies by the FSCS following the failure of Keydata Investment Services Limited ('Keydata') and other intermediaries. These charges were presented as an exceptional levy in the financial statements in 2010. No such exceptional levies have been accrued in 2011 as no further large and unexpected levies have been made by the FSCS. Levies of £353,000 have been included within administrative expenses in 2011.

There is a significant degree of uncertainty over the level of future FSCS levies as this depends on the ultimate cost to the FSCS of the failure of other entities in the financial services industry. The FSCS announced in its December 2011 Outlook Statement that it expects to have to raise an interim levy of £40 million against the investment intermediary class of firms, which includes a number of Group companies, following additional compensation costs incurred from Keydata and other stockbrokers. An accrual of £36,000 has been charged to profit or loss in 2011 for the Group's share of this. Against this, the FSCS is pursuing recoveries from parties found to be responsible for mis-selling Keydata investments. Whilst any recoveries are expected to reduce future levies, the amount and timing of these reductions is unknown.

The FSCS has also announced that it is considering whether it will be able to pay claims to investors who have incurred losses on investments with CF Arch Cru Funds and MF Global Investors, following the failure of both entities. The FSCS has not yet quantified the likely cost of compensation to affected investors but it notes that, if such compensation is payable, the additional levies would likely trigger a cross-subsidy by the investment management class of firms, which would be a cost to the Group. It is currently not possible to quantify the impact of these failures.

We understand that the FSCS 15 in the process of re-negotiating the terms of the £18 billion of loans that it took out in 2008/09 to cover the costs of five major depositor failures, and that the FSCS hopes to bring these negotiations to a conclusion before the end of June 2012. Any increase in the interest cost of these loans will result in an increase in the annual costs of the FSCS levies borne by the Group.

Vendor loan notes (note 14)

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

The carrying value of the Notes has been calculated as £3,268,000 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 £294,000. 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 £100,000, with a consequent equal change in profit before tax.

Client relationship intangibles (note 19)

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 £5,134,000 was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £453,000.

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.

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

Retirement benefit obligations (note 24)

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 £7,340,000 are given in note 24.

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 obligations to changes in underlying estimates is set out in note 24.

3 Segmental information

For management purposes, the Group is currently organised into two operating divisions: Investment Management and Unit Trusts. The products and services from which each reportable segment derives its revenues are described in Rathbones at a glance on page 9. These segments are the basis on which the Group reports its performance to the executive committee, which is the Group's chief operating decision maker. Certain items of income are presented within different categories of operating income in the financial statements compared to the presentation for internal reporting.

Following the completion of the disposal of the Group's overseas trust businesses, the presentation of segmental information has been amended to include the remaining trust and tax operations within the Investment Management segment. This change reflects management's view that the retained trust-related activities support the investment management business and are not sufficiently material in their own right to constitute a separate segment of the business.

31 December 2011	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	80,086	7,562	87,648
Net commission income	36,170	–	36,170
Fees from advisory services	7,637	–	7,637
Net interest and other income	11,216	686	11,902
Underlying operating income	135,109	8,248	143,357
Staff costs – fixed	(31,649)	(2,503)	(34,152)
Staff costs – variable	(15,770)	(1,071)	(16,841)
Total staff costs	(47,419)	(3,574)	(50,993)
Other direct expenses	(13,284)	(1,828)	(15,112)
Allocation of indirect expenses	(29,013)	(2,020)	(31,033)
Underlying operating expenses	(89,716)	(7,422)	(97,138)
Underlying profit before tax	45,393	826	46,219
Gains on disposal of financial securities (note 6)	1,095	–	1,095
Exceptional levies to the Financial Services Compensation Scheme (note 7)	–	–	–
Amortisation of client relationships (note 19)	(5,134)	–	(5,134)
Segment profit before tax	41,354	826	42,180
Head office relocation costs (unallocated) (note 8)			(3,028)
Profit before tax attributable to equity holders of the Company			39,152
Taxation			(10,446)
Profit for the year attributable to equity holders of the Company			28,706

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

3 **Segmental information** continued

31 December 2010 (restated – note 1)	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	66,511	7,074	73,585
Net commission income	35,713	–	35,713
Fees from advisory services	7,372	–	7,372
Net interest and other income	10,171	343	10,514
Underlying operating income	119,767	7,417	127,184
Staff costs – fixed	(28,912)	(2,161)	(31,073)
Staff costs – variable	(13,988)	(1,233)	(15,221)
Total staff costs	(42,900)	(3,394)	(46,294)
Other direct expenses	(12,524)	(1,545)	(14,069)
Allocation of indirect expenses	(26,632)	(1,686)	(28,318)
Underlying operating expenses	(82,056)	(6,625)	(88,681)
Underlying profit before tax	37,711	792	38,503
Exceptional levies to the Financial Services Compensation Scheme (note 7)	(3,332)	(243)	(3,575)
Amortisation of client relationships (note 19)	(4,845)	–	(4,845)
Profit before tax attributable to equity holders of the Company	29,534	549	30,083
Taxation			(8,531)
Profit for the year attributable to equity holders of the Company			21,552

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	1,004,917	12,923	1,017,840
Unallocated assets			10,282
Total assets			1,028,122

Included within Investment Management net fee and commission income is £1,547,000 (31 December 2010: £1,225,000) of fee and commission receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

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

Geographic analysis

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

Underlying operating income by geographical market	2011 £'000	2010 £'000
United Kingdom	**139,128**	123,119
Jersey	**4,229**	4,065
	143,357	127,184

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	2011 £'000	2010 £'000
United Kingdom	**102,641**	97,053
Jersey	**863**	792
	103,504	97,845

Major clients

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

4 Net interest income

	2011 £'000	2010 £'000
Interest income		
Held to maturity investment securities	**9,016**	8,083
Available for sale investment securities	**309**	555
Loans and advances to banks and customers	**1,934**	1,636
	11,259	10,274
Interest expense		
Banks and customers	**(1,238)**	(1,445)
Net interest income	**10,021**	8,829

5 Net fee and commission income

	2011 £'000	2010 £'000 restated (note 1)
Fee and commission income		
Investment Management	**126,980**	111,502
Unit Trusts	**14,504**	12,930
	141,484	124,432
Fee and commission expense		
Investment Management	**(4,634)**	(3,131)
Unit Trusts	**(5,395)**	(4,631)
	(10,029)	(7,762)
Net fee and commission income	**131,455**	116,670

6 Dividend, net trading and other operating income

Dividend income

Dividend income comprises income from available for sale equity securities of £98,000 (2010: £90,000).

Net trading income

Net trading income of £480,000 (2010: £226,000) comprises unit trust net dealing profits.

Gains on disposal of financial securities

This comprises a one-off gain of £1,095,000 from long stock positions held by firms acquired by the Group in the 1990s, against which all claims are now considered to be exhausted and which have been recognised following regulatory approval.

Other operating income

Other operating income of £1,303,000 (2010: £1,369,000) comprises rental income from sub-leases on certain properties leased by Group companies and sundry income.

7 Operating expenses

	2011 £'000	2010 £'000
Staff costs (note 9)	**64,503**	58,997
Depreciation of property, plant and equipment (note 17)	**2,384**	2,207
Amortisation of internally generated intangible assets included in operating expenses (note 19)	**357**	355
Amortisation of purchased software (note 19)	**1,122**	998
Auditor's remuneration (see below)	**605**	748
Net (recoveries)/impairment charges on impaired loans and advances (note 14)	**(1)**	95
Operating lease rentals	**7,366**	5,299
Other	**20,802**	19,982
Other operating expenses	**97,138**	88,681
Exceptional levies to the Financial Services Compensation Scheme[1]	**–**	3,575
Amortisation of client relationship intangible assets (note 19)	**5,134**	4,845
Head office relocation costs (note 8)	**3,028**	–
Total operating expenses	**105,300**	97,101

1 The arrangements put in place by the Financial Services Compensation Scheme (FSCS) to protect depositors of failed institutions resulted in significant levies on the industry (see note 2). 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 in the 2010/11 levy year, which was recognised in the financial statements in 2010. The Group accrued £3,575,000 in respect of its share of the cost of FSCS borrowings including a provision for the 2010/11 levy year, of which £3,203,000 related to Keydata and other intermediaries. No such abnormal levy has been recognised in 2011

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

	2011 £'000	2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**87**	84
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	**236**	286
– other services pursuant to legislation	**168**	86
– tax services	**39**	53
– other services	**75**	192
Fees payable to the Company's auditors in respect of the prior year	**–**	47
	605	748

Of the above, £491,000 relates to assurance services (2010: £447,000).

Fees for other services pursuant to legislation include £71,000 for the audit of the Group's regulatory returns and review of the interim statement (2010: £77,000).

8 Head office relocation costs

Rathbones announced on 16 May 2011 that it had exchanged contracts for a 12 year lease of 42,200 sq ft of office space on the 3rd and 4th floors of 1 Curzon Street, London W1J 5FB. It is expected that the move from the current head office premises in New Bond Street, London will be completed by the end of February 2012. Charges of £3,028,000 relating to the move have been recognised during the year (2010: £nil).

	2011 £'000	2010 £'000
Staff costs – wages and salaries	**146**	–
Provision for onerous lease	**276**	–
Provision for dilapidations	**920**	–
Rent, rates and service charge on unoccupied premises	**1,463**	–
Depreciation of property, plant and equipment	**148**	–
Other	**75**	–
	3,028	–

In addition to the above costs charged to profit in the year, a further £4,815,000 (2010: £nil) of costs for fitting-out the new London premises have been capitalised as leasehold improvements (note 17).

9 Staff costs

	2011 £'000	2010 £'000
Wages and salaries	**52,554**	48,671
Social security costs	**6,090**	5,771
Share-based payments	**2,604**	1,729
Pension costs: (note 24)		
– defined benefit schemes	**1,484**	1,510
– defined contribution schemes	**1,771**	1,316
	3,255	2,826
	64,503	58,997

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

	2011	2010 restated (note 1)
Investment Management:		
– investment management services	**467**	432
– advisory services	**66**	64
Unit Trusts	**29**	24
Shared services	**184**	179
	746	699

10 Income tax expense

	2011 £'000	2010 £'000
Current tax:		
– charge for the year	**9,766**	8,200
– adjustments in respect of prior years	**(470)**	82
Deferred tax: (note 18)		
– charge for the year	**1,219**	467
– adjustments in respect of prior years	**(69)**	(218)
	10,446	8,531

The tax charge on profit for the year is higher (2010: higher) than the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The differences are explained below:

	2011 £'000	2010 £'000
Tax on profit from ordinary activities at the standard rate of 26.5% (2010: 28.0%)	**10,373**	8,423
Effects of:		
– disallowable expenses	**513**	340
– share-based payments	**(15)**	(30)
– tax on overseas earnings	**81**	(77)
– over-provision for tax in previous years	**(539)**	(136)
– other	**(24)**	(35)
Effect of change in corporation tax rate	**57**	46
	10,446	8,531

The UK Government has proposed that the UK corporation tax rate be reduced to 23.0% over the four years from 2011. At 31 December 2011 only an element of this reduction, taking the UK tax rate to 25.0% in 2012, had been substantively enacted. Consequently deferred tax assets and liabilities are calculated at 25.0%.

In addition to the amount charged to profit or loss, deferred tax relating to actuarial gains and losses, share-based payments and gains and losses arising on available for sale investment securities amounting to £1,810,000 has been credited directly to equity (2010: £1,120,000).

11 Dividends

	2011 £'000	2010 £'000
Amounts recognised as distributions to equity holders in the year:		
– second interim dividend for the year ended 31 December 2010 of 28.0p (final dividend for the year ended 31 December 2009: 26.0p) per share	**12,123**	11,246
– first interim dividend for the year ended 31 December 2011 of 17.0p (2010: 16.0p) per share	**7,368**	6,921
Dividends paid in the year of 45.0p (2010: 42.0p) per share	**19,491**	18,167
Proposed final dividend for the year ended 31 December 2011 of 29.0p (2010: second interim dividend of 28.0p per share)	**12,633**	12,146

An interim dividend of 17.0p per share was paid on 5 October 2011 to shareholders on the register at the close of business on 16 September 2011 (2010: 16.0p).

A final dividend declared of 29.0p per share is payable on 17 May 2012 to shareholders on the register at the close of business on 27 April 2012. The final dividend is subject to approval by shareholders at the Annual General Meeting on 10 May 2012 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:

	2011 Pre-tax £'000	2011 Taxation £'000	2011 Post-tax £'000	2010 Pre-tax £'000	2010 Taxation £'000	2010 Post-tax £'000
Underlying profit attributable to shareholders	**46,219**	**(12,318)**	**33,901**	38,503	(10,889)	27,614
Gains on disposal of financial securities (note 6)	**1,095**	**(290)**	**805**	–	–	–
Exceptional levies to the Financial Services Compensation Scheme (note 7)	**–**	**–**	**–**	(3,575)	1,001	(2,574)
Amortisation of client relationships (note 19)	**(5,134)**	**1,360**	**(3,774)**	(4,845)	1,357	(3,488)
Head office relocation costs (note 8)	**(3,028)**	**802**	**(2,226)**	–	–	–
Profit attributable to shareholders	**39,152**	**(10,446)**	**28,706**	30,083	(8,531)	21,552

Basic earnings per share has been calculated by dividing earnings by the weighted average number of shares in issue throughout the period of 43,027,127 (2010: 43,307,423).

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):

	2011	2010
Weighted average number of ordinary shares in issue during the period – basic	**43,027,127**	43,307,423
Effect of ordinary share options/Save As You Earn	**201,651**	76,153
Effect of dilutive shares issuable under the Share Incentive Plan	**98,654**	116,364
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**235,027**	169,580
Diluted ordinary shares	**43,562,459**	43,669,520

	2011	2010
Underlying earnings per share for the year attributable to equity holders of the Company:		
– basic	**78.79p**	63.76p
– diluted	**77.82p**	63.23p

13 Loans and advances to banks

	2011 £'000	2010 £'000
Repayable:		
– on demand or at short notice	**33,254**	31,305
– 3 months or less excluding on demand or at short notice	**31,004**	8,260
– 1 year or less but over 3 months	**750**	–
	65,008	39,565
Amounts include loans with:		
– variable interest rates	**33,102**	28,084
– fixed interest rates	**31,754**	11,430
– non-interest bearing	**152**	51
	65,008	39,565

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 2011 were £64,258,000 (note 32) (2010: £39,565,000).

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

14 Loans and advances to customers

	2011 £'000	2010 £'000
Repayable:		
– on demand or at short notice	**7,844**	4,461
– 3 months or less excluding on demand or at short notice	**11,443**	10,129
– 1 year or less but over 3 months	**25,342**	22,040
– 5 years or less but over 1 year	**–**	271
With no fixed repayment date	**3,268**	3,267
Less: allowance for losses on loans and advances	**(110)**	(143)
	47,787	40,025
Amounts include loans with:		
– variable interest rates	**46,550**	35,182
– non-interest bearing	**1,237**	4,843
	47,787	40,025

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.

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 2011 amount to £852,000 (2010: £1,062,000). No banking loans and advances to customers were impaired as at 31 December 2011 (2010: none impaired).

Included within loans and advances to customers with no fixed repayment date are vendor loan notes ('Notes') carried at amortised cost of £3,268,000 at 31 December 2011 (2010: £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 Jersey trust operations by their existing owners.

The Notes bore no interest for three years from their issue date. In October 2011, interest started to roll-up into the loan at half of the Bank of England base rate. From October 2013 interest will roll-up 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.

Included within loans and advances to customers repayable within three months is a Swiss Franc denominated loan to the acquirer of the Group's former Switzerland-based trust operations with a nominal value equivalent to £406,000 at 31 December 2011 (2010: £565,000). The loan does not bear interest and the final instalment was received on 10 February 2012.

Allowance for losses on loans and advances

	2011 £'000	2010 £'000
At 1 January	**143**	82
Amounts written off	**(32)**	(34)
Amounts recovered	**(6)**	–
Charge to profit or loss	**5**	95
	110	143

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

15 Investment securities

Available for sale securities

	2011 £'000	2010 £'000
Equity securities – at fair value:		
– listed	**2,384**	2,513
– unlisted	**569**	574
Money market funds – at fair value:		
– unlisted	**65,610**	39,500
	68,563	42,587

Held to maturity securities

	2011 £'000	2010 £'000
Debt securities – at amortised cost:		
– unlisted	**843,983**	751,085
	843,983	751,085

Maturity of debt securities

	2011 £'000	2010 £'000
Due within 1 year	**833,983**	731,085
Due after more than 1 year	**10,000**	20,000
	843,983	751,085

Debt securities comprise bank and building society certificates of deposit, which have fixed coupons and UK treasury bills.

The fair value of debt securities at 31 December 2011 was £848,096,000 (2010: £754,893,000). 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 or loss' during the year (2010: none reclassified). The Group has not designated at initial recognition any financial asset as 'at fair value through profit or loss'.

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

The change in the Group's holdings of investment securities in the year may be summarised as follows:

	Available for sale £'000	Held to maturity £'000	Total £'000
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 1 January 2011	**42,587**	**751,085**	**793,672**
Additions	**455,110**	**1,565,418**	**2,020,528**
Disposals (sales and redemption)	**(429,000)**	**(1,472,520)**	**(1,901,520)**
Loss from changes in fair value	**(134)**	**–**	**(134)**
At 31 December 2011	**68,563**	**843,983**	**912,546**

16 Prepayments, accrued income and other assets

	2011 £'000	2010 £'000
Trust work in progress	**961**	698
Prepayments	**8,952**	10,606
Accrued income	**28,500**	25,064
	38,413	36,368

17 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2010	7,040	13,864	20,904
Additions	867	1,898	2,765
Disposals	(100)	(3,990)	(4,090)
At 1 January 2011	**7,807**	**11,772**	**19,579**
Additions	**5,189**	**1,736**	**6,925**
Disposals	**–**	**(1,076)**	**(1,076)**
At 31 December 2011	**12,996**	**12,432**	**25,428**
Depreciation			
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 1 January 2011	**4,329**	**9,107**	**13,436**
Charge for the year	**906**	**1,478**	**2,384**
Disposals	**–**	**(1,052)**	**(1,052)**
At 31 December 2011	**5,235**	**9,533**	**14,768**
Carrying amount at 31 December 2011	**7,761**	**2,899**	**10,660**
Carrying amount at 31 December 2010	3,478	2,665	6,143
Carrying amount at 1 January 2010	3,358	2,318	5,676

Short term leasehold improvements include additions totalling £4,815,000 in relation to the relocation of our London head office from New Bond Street to 1 Curzon Street, London W1J 5FB.

18 Net deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2010: 27.0%).

The movement on the deferred tax account is as follows:

	2011 £'000	2010 £'000
At 1 January	**2,474**	1,603
Adjustments in respect of prior years:		
– credited to profit or loss	**69**	218
– (charged)/credited directly to equity	**(106)**	56
Other movements in deferred tax:		
– amounts charged to profit or loss	**(1,162)**	(421)
– actuarial loss on retirement benefit obligations	**1,691**	841
– share-based payments	**377**	313
– fair value measurement of available for sale securities	**35**	(43)
Effect of change in corporation tax rate on deferred tax:		
– charged to profit or loss	**(57)**	(46)
– charged to other comprehensive income	**(155)**	(29)
– charged directly to equity	**(32)**	(18)
	3,134	2,474

Deferred tax assets	2011 £'000	2010 £'000
Excess of depreciation	**698**	738
Share-based payments	**1,142**	919
Staff related costs	**105**	–
Pensions	**2,072**	2,306
Deferred income	**–**	72
	4,017	4,035

Deferred tax liabilities	2011 £'000	2010 £'000
Available for sale securities	**726**	820
Intangible assets	**157**	214
Staff related costs	**–**	527
	883	1,561

The deferred tax charge in profit or loss comprises the following temporary differences:

	2011 £'000	2010 £'000
Excess of depreciation	**40**	(100)
Share-based payments	**16**	(269)
Staff related costs	**(632)**	376
Pensions	**1,711**	1,909
Unremitted overseas earnings	**–**	(269)
Intangible assets	**(57)**	(1,514)
Other provisions	**72**	116
	1,150	249

19 Intangible assets

	2011 £'000	2010 £'000
Goodwill	**47,241**	47,241
Other intangible assets	**45,603**	44,461
	92,844	91,702

Goodwill

	2011 £'000	2010 £'000
Cost		
At 1 January and 31 December	**47,241**	47,241
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Carrying amount of goodwill at 1 January and 31 December	**47,241**	47,241

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:

	2011 £'000	2010 £'000
Investment management	**45,287**	45,287
Trust and tax	**1,954**	1,954
	47,241	47,241

The recoverable amounts of goodwill allocated to the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates and growth rates. 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 CGU 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 (2010: 10% and 12% respectively), based on a risk-adjusted weighted average cost of capital. Management judge these discount rates to appropriately reflect the markets in which the CGUs operate and, in particular, the relatively small size of the trust and tax CGU.

19 **Intangible assets** continued

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
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 1 January 2011	**49,713**	**2,520**	**12,468**	**64,701**
Internally developed in the year	**–**	**340**	**–**	**340**
Purchased in the year	**5,692**	**–**	**1,723**	**7,415**
Disposals	**(1,072)**	**–**	**–**	**(1,072)**
At 31 December 2011	**54,333**	**2,860**	**14,191**	**71,384**
Amortisation				
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 1 January 2011	**8,725**	**1,780**	**9,735**	**20,240**
Charge for the year	**5,134**	**357**	**1,122**	**6,613**
Disposals	**(1,072)**	**–**	**–**	**(1,072)**
At 31 December 2011	**12,787**	**2,137**	**10,857**	**25,781**
Carrying amount at 31 December 2011	**41,546**	**723**	**3,334**	**45,603**
Carrying amount at 31 December 2010	40,988	740	2,733	44,461
Carrying amount at 1 January 2010	31,540	811	2,381	34,732

Purchases of acquired client relationships relate to payments made to investment managers and third parties for the introduction of client relationships, net of adjustments to consideration payments of £804,000 (2010: £nil). The amortisation charge for acquired client relationships has been reduced by £80,000 (2010: £nil) as a result of the adjustments to consideration payments.

Purchased software with a cost of £8,881,000 (2010: £7,957,000) has been fully amortised but is still in use.

20 Deposits by banks

On 31 December 2011, deposits by banks included overnight cash book overdraft balances of £513,000 (2010: £215,000). Included within deposits by banks at 31 December 2010 is an unsecured term loan of £3,089,000. The final instalment of this loan was paid in April 2011.

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.

21 Due to customers

	2011 £'000	2010 £'000
Repayable:		
– on demand or at short notice	**866,427**	718,168
– 3 months or less excluding on demand or at short notice	**41,879**	43,335
– 1 year or less but over 3 months	**350**	523
	908,656	762,026
Amounts include:		
– variable interest rates	**862,285**	712,260
– fixed interest rates	**40,437**	44,288
– non-interest bearing	**5,934**	5,478
	908,656	762,026

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

22 Accruals, deferred income, provisions and other liabilities

	2011 £'000	2010 £'000
Creditors	**13,128**	11,182
Accruals and deferred income	**27,787**	25,083
Other provisions (note 23)	**10,009**	6,190
	50,924	42,455

23 Other provisions

	Deferred, contingent costs to acquire client relationship intangibles £'000	Client compensation £'000	Property 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	14,293	–	–	14,293
Utilised/paid during the period	(26,018)	(243)	(163)	(26,424)
At 1 January 2011	**5,092**	**622**	**476**	**6,190**
Charged to profit or loss	**–**	**1,245**	**1,636**	**2,881**
Unused amount credited to profit or loss	**–**	**(10)**	**(406)**	**(416)**
Net charge to profit or loss	**–**	**1,235**	**1,230**	**2,465**
Other movements	**5,692**	**–**	**–**	**5,692**
Utilised/paid during the period	**(3,988)**	**(191)**	**(159)**	**(4,338)**
At 31 December 2011	**6,796**	**1,666**	**1,547**	**10,009**

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 £nil (2010: £9,844,000) in relation to the agreement to acquire certain discretionary investment management activities from Lloyds Banking Group plc.

23 Other provisions continued

During the ordinary course of business the Group may be subject to complaints, threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

Property related and other provisions include £920,000 (2010: £nil) in relation to dilapidation costs and £276,000 (2010: £nil) of onerous lease costs arising from the relocation of the current head office premises from New Bond Street to 1 Curzon Street, London W1J 5FB (note 8).

The non-current element of provisions totals £5,745,000 as at 31 December 2011 (2010: £3,158,000). Non-current provisions are expected to be settled within 24 months of the balance sheet date.

24 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 £1,750,000 (2010: £1,295,000). The Group also operates a defined contribution scheme for overseas employees, for which the total contributions were £21,000 (2010: £21,000).

The Group operates two defined benefit pension schemes; the Rathbone 1987 Scheme and the Laurence Keen Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the Group.

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

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

The Group provides death in service benefits to all employees through the Rathbone 1987 Scheme. Third party insurance is purchased for the benefits where possible and £539,000 of related insurance premiums were expensed to profit or loss in the year (2010: £519,000). The estimated present value of the uninsured death in service benefits is included in long term employee benefits liabilities.

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

Rathbone 1987 Scheme	31 December 2010
Laurence Keen Scheme	31 December 2010

24 Long term employee benefits continued

The assumptions used by the actuaries, in preparing this note, 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:

	2011 Laurence Keen Scheme %	2010 Laurence Keen Scheme %	2011 Rathbone 1987 Scheme %	2010 Rathbone 1987 Scheme %
Rate of increase in salaries	**4.10**	4.85	**4.10**	4.85
Rate of increase of pensions in payment	**3.40**	3.70	**3.10**	3.50
Rate of increase of deferred pensions	**3.10**	3.60	**3.10**	3.60
Discount rate	**4.70**	5.40	**4.70**	5.40
Expected return on scheme assets	**4.60**	5.90	**5.00**	6.70
Inflation*	**3.10**	3.60	**3.10**	3.60

* Inflation assumptions are based on the Retail Prices Index

The assumed duration of the liabilities for the Laurence Keen Scheme is 18 years (2010: 18 years) and the assumed duration for the Rathbone 1987 Scheme is 24 years (2010: 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 onwards, following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S1NA actuarial tables. The assumed life expectations on retirement were:

		2011 Males	2011 Females	2010 Males	2010 Females
Retiring today:	– aged 60	**28.7**	**30.8**	26.9	29.1
	– aged 65	**23.8**	**25.9**	22.1	24.3
Retiring in 20 years:	– aged 60	**31.2**	**32.9**	28.6	30.4
	– aged 65	**26.1**	**27.9**	23.7	25.4

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

	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000
Present value of defined benefit obligations	**(13,421)**	**(103,113)**	**(116,534)**	(12,041)	(89,312)	(101,353)
Fair value of scheme assets	**12,902**	**96,292**	**109,194**	11,951	82,759	94,710
Total deficit	**(519)**	**(6,821)**	**(7,340)**	(90)	(6,553)	(6,643)

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000
Current service cost	**–**	**2,479**	**2,479**	–	2,129	2,129
Interest cost	**642**	**4,843**	**5,485**	623	4,374	4,997
Expected return on scheme assets	**(718)**	**(5,762)**	**(6,480)**	(631)	(4,985)	(5,616)
	(76)	**1,560**	**1,484**	(8)	1,518	1,510

Actuarial gains and losses have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £500,000 (2010: £1,206,000 rise) for the Laurence Keen Scheme and a rise in value of £8,844,000 (2010: £9,084,000 rise) for the Rathbone 1987 Scheme.

24 Long term employee benefits continued

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

	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000
At 1 January	(472)	(10,487)	(10,959)	(405)	(7,549)	(7,954)
Net actuarial loss recognised in year	(1,261)	(5,122)	(6,383)	(67)	(2,938)	(3,005)
At 31 December	(1,733)	(15,609)	(17,342)	(472)	(10,487)	(10,959)

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

	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000
At 1 January	12,041	89,312	101,353	11,086	75,581	86,667
Service cost (employer's part)	–	2,479	2,479	–	2,129	2,129
Interest cost	642	4,843	5,485	623	4,374	4,997
Contributions from members	–	1,283	1,283	–	1,245	1,245
Actuarial loss	1,043	8,204	9,247	642	7,037	7,679
Benefits paid	(305)	(3,008)	(3,313)	(310)	(1,054)	(1,364)
At 31 December	13,421	103,113	116,534	12,041	89,312	101,353

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

	2011 Laurence Keen Scheme £'000	2011 Rathbone 1987 Scheme £'000	2011 Total £'000	2010 Laurence Keen Scheme £'000	2010 Rathbone 1987 Scheme £'000	2010 Total £'000
At 1 January	11,951	82,759	94,710	10,299	66,955	77,254
Expected return on scheme assets	718	5,762	6,480	631	4,985	5,616
Actuarial (losses)/gains	(218)	3,082	2,864	575	4,099	4,674
Contributions from the sponsoring companies	756	6,414	7,170	756	6,529	7,285
Contributions from scheme members	–	1,283	1,283	–	1,245	1,245
Benefits paid	(305)	(3,008)	(3,313)	(310)	(1,054)	(1,364)
At 31 December	12,902	96,292	109,194	11,951	82,759	94,710

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

Laurence Keen Scheme	1.1.11 Expected return %	1.1.10 Expected return %	2011 Fair value £'000	2010 Fair value £'000	2011 Current allocation %	2010 Current allocation %
Equity instruments	6.05	7.45	6,198	6,082	48	51
Debt instruments	3.40	4.60	6,208	5,538	48	46
Cash	0.50	0.50	496	331	4	3
At 31 December			12,902	11,951		

Rathbone 1987 Scheme	1.1.11 Expected return %	1.1.10 Expected return %	2011 Fair value £'000	2010 Fair value £'000	2011 Current allocation %	2010 Current allocation %
Equity instruments	6.05	7.45	63,504	64,971	66	79
Debt instruments	3.25	4.60	21,791	11,928	23	14
Interest rate swap funds	2.80	4.20	8,707	4,512	9	5
Cash	0.50	0.50	2,290	1,348	2	2
At 31 December			96,292	82,759		

24 Long term employee benefits continued

At 31 December 2011 the Rathbone 1987 Scheme held 335 shares (2010: 335) with a nominal value of £8,417,000 (2010: £4,808,000) 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 is assumed to be 3.25% above the return on long-dated gilts (2010: 3.25% above). The expected rate of return on debt instruments is based on long term yields at the start of the year. Cash has been assumed to generate a similar return to the Bank of England base rate.

The statements of investment principles set by the trustees require that the assets of the schemes are invested in a balanced portfolio in the following asset classes and proportions:

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

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

In the Rathbone 1987 Scheme, not more than 80% of the assets may be held in equities. A maximum of 5% of UK equities may be invested in companies outside the FTSE 350 and not more than 5% of the total portfolio can be invested in hedge funds. The trustees have initiated a process of de-risking the portfolio over the next 10 years as the scheme matures by switching a proportion of the scheme's assets into 'lower risk' asset classes on the occurrence of a series of time-based and/or market-based trigger events.

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

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

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% increase in:		
– discount rate	(13,567)	(11.6)
– rate of inflation	8,602	7.4
– rate of salary growth	4,310	3.7
1 year increase to longevity at 60	3,242	2.8

The history of experience adjustments is as follows:

Laurence Keen Scheme	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of defined benefit obligations	**(13,421)**	(12,041)	(11,086)	(9,750)	(10,301)
Fair value of scheme assets	**12,902**	11,951	10,299	8,760	9,708
Deficit in the scheme	**(519)**	(90)	(787)	(990)	(593)
Experience adjustments on scheme liabilities:					
– amount	**474**	–	395	(248)	(104)
– percentage of scheme liabilities	**4%**	–	4%	(3%)	(1%)
Experience adjustments on scheme assets:					
– amount	**218**	575	940	(1,715)	70
– percentage of scheme assets	**2%**	5%	9%	(20%)	1%

24 Long term employee benefits continued

Rathbone 1987 Scheme	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of defined benefit obligations	**(103,113)**	(89,312)	(75,581)	(55,284)	(60,274)
Fair value of scheme assets	**96,292**	82,759	66,955	50,551	54,415
Deficit in the scheme	**(6,821)**	(6,553)	(8,626)	(4,733)	(5,859)
Experience adjustments on scheme liabilities:					
– amount	**4,338**	(635)	305	2,937	(1,264)
– percentage of scheme liabilities	**4%**	(1%)	–	5%	(2%)
Experience adjustments on scheme assets:					
– amount	**3,082**	4,099	6,314	(10,677)	(90)
– percentage of scheme assets	**3%**	5%	9%	(21%)	–

The total regular contributions made by the Group to the Rathbone 1987 Scheme during the year were £3,664,000 (2010: £3,571,000) based on 22.6% of pensionable salaries (2010: 22.6%). Additional lump sum contributions of £2,750,000 were paid in 2011 (2010: £2,958,000). Following the recent triennial valuation, the Group's regular contributions will fall to 14.8% of pensionable salaries and the Group has committed to make additional annual contributions to the scheme of £2,750,000 until 30 June 2017. With effect from 31 March 2002 the Rathbone 1987 Scheme was closed to new entrants and, consequently, the current pension cost will increase as the members of the scheme approach retirement.

The total contributions made by the Group to the Laurence Keen Scheme during the year were £756,000 (2010: £756,000). 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.

25 Share capital and share premium

The following movements in share capital occurred during the year:

	Number of shares	Exercise price pence	Share capital £'000	Share premium £'000	Total £'000
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 1 January 2011	**43,376,790**		**2,169**	**32,488**	**34,657**
Shares issued:					
– to Share Incentive Plan	**147,229**	**890.0 – 1,117.0**	**7**	**1,451**	**1,458**
– to Save As You Earn scheme	**1,288**	**696.0**	**–**	**9**	**9**
– on exercise of options	**35,833**	**415.0 – 852.0**	**2**	**268**	**270**
At 31 December 2011	**43,561,140**		**2,178**	**34,216**	**36,394**

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.

26 Treasury shares

The following movements in treasury shares occurred during the year:

	Number of shares	£'000
At 1 January 2010	383,831	4,032
Acquired in the year	62,449	569
Released on vesting	(135,995)	(1,702)
At 1 January 2011	**310,285**	**2,899**
Acquired in the year	**285,728**	**2,955**
Released on vesting	**(120,559)**	**(1,125)**
At 31 December 2011	**475,454**	**4,729**

Treasury shares represent the cost of the Company's own shares, either purchased in the market or issued by the Company, that are held by the Company or in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (note 27). The number of ordinary shares held by the Company outside the employee benefit trust was 50,000 (2010: nil) and the number of shares held by Investec Trust (Jersey) Limited at 31 December 2011 was 106,604 (2010: 42,693).

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 (up to £1,500 in any tax year), whilst for Jersey employees dividends are paid in cash.

As at 31 December 2011, the trustees of the SIP held 1,394,076 (2010: 1,316,557) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £14,777,000 (2010: £14,403,000). No dividends on these shares have been waived. Of the total number of shares held by the trustees, 310,426 (2010: 267,592) have been conditionally gifted to employees and 8,424 (2010: nil) remain unallocated.

Long Term Incentive Plan

Details of the general terms of this plan are set out in the remuneration report on page 53. The total shareholder return based performance criteria have been treated as market-based vesting conditions. Shares for plan awards are provided by market purchase, treasury shares or from the Rathbone Brothers Plc Settlement.

Historically, the Group has elected to settle substantially all of the LTIP awards in cash as an alternative to shares. As a consequence of this, the Group treats awards under the LTIP as cash-settled rather than equity-settled. At the year end, a liability of £1,175,000 (2010: £795,000) has been recognised for the estimated fair value of future awards.

At 31 December 2011, the trustees held 106,604 (2010: 112,693) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £1,130,000 (2010: £1,233,000). Dividends on these shares have been waived by the trustees.

Executive profit share

Details of the terms of the executive profit share scheme are set out in the remuneration report on page 51. Shares for plan awards, all of which are yet to vest, will be provided by market purchase or treasury shares.

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

Under the SAYE plan, employees can contribute up to £250 per month to acquire shares at the end of a three or five year savings period. Further information on the scheme is given in the remuneration report on page 55.

27 Share-based payments continued
Savings related share option or Save As You Earn (SAYE) plan continued

Options with an aggregate estimated fair value of £185,000, determined using a binomial valuation model including expected dividends, were granted on 29 March 2011 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2011, as at the date of issue, were as follows:

	2011	2010
Share price (pence)	**1,196**	–
Exercise price (pence)	**934**	–
Expected volatility	**32%**	–
Risk-free rate	**2.4%**	–
Expected dividend yield	**3.7%**	–

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

Year of grant	Exercise price pence	Exercise period	2011 Number of share options	2010 Number of share options
2009	696.0	2013	**179,151**	184,988
2011	934.0	2014 and 2016	**54,053**	–

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 pence	Exercise period	2011 Number of share options	2010 Number of share options
2001	985.0	2004–2011	**–**	22,500
2001	827.5	2004–2011	**–**	66,184
2001	915.8	2004–2011	**–**	38,110
2002	810.0	2005–2012	**64,851**	64,851
2003	415.0	2006–2013	**1,500**	9,622
2004	743.5	2007–2014	**59,698**	61,956
2005	852.0	2008–2015	**116,187**	144,648
2006	1,172.0	2009–2016	**–**	15,948
2006	1,116.0	2009–2016	**–**	10,000
2008	813.5	2011–2018	**–**	30,000
Exercisable			**242,236**	463,819

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

	2011 Number of share options	2011 Weighted average exercise price pence	2010 Number of share options	2010 Weighted average exercise price pence
At 1 January	**648,807**	**802.0**	777,214	819.0
Granted in the year	**54,964**	**934.0**	–	–
Lapsed in the year	**(35,833)**	**753.0**	(116,798)	911.0
Exercised in the year	**(192,498)**	**900.0**	(11,609)	847.0
At 31 December	**475,440**	**782.0**	648,807	802.0

The weighted average share price at the dates of exercise for share options exercised during the year was £11.91 (2010: £10.04). The options outstanding at 31 December 2011 had a weighted average contractual life of 2.1 years (2010: 3.5 years). Options exercisable at 31 December 2011 had a weighted average exercise price of £7.82 (2010: £7.71).

The Group recognised total expenses of £2,604,000 in relation to share-based payment transactions in 2011 (2010: £1,729,000).

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 risk management report on page 23. 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 risk management committee has primary responsibility for co-ordinating and overseeing the identification, mitigation and management of risks as described in the risk management report.

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.

Eurozone credit crisis

During the second half of 2011, concerns have grown about the strength and stability of certain eurozone economies, in particular whether the Greek, Italian or Spanish governments would default on their debt. This, in turn, increased speculation on the future of the Euro and whether the more heavily indebted countries would continue to participate in it.

A break-up of the Euro, should it occur, is likely to result in a protracted recession in the Euro area and wider disruption to global financial markets. Such an event would be expected to have an adverse effect on the Group's trading conditions. This might include falls in the values of financial assets, the potential loss of capital and liquidity through counterparty defaults and further reductions in interest rate margins.

The Group's treasury portfolio is well diversified and invests in certificates of deposit with a number of European banks. At 31 December 2011, the Group had no direct exposure to eurozone sovereign entities (2010: none). The controls around the treasury portfolio are set out below. The banking committee has been particularly active this year in assessing the expected impact of the eurozone issues. As a result, during the year it has moved increasing amounts of money into UK treasury bills. By the end of the year these totalled some 9.6% of the total treasury assets of £909,593,000, of which all were rated Fitch single A or above. The duration of these assets is set out in the table on page 106.

(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.

28 Financial risk management continued

(i) Credit risk continued

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 by the treasury department and reviewed by the banking committee on a monthly basis, or more frequently when necessary. The banking committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers

The Group provides loans to clients through its investment management operations (the investment management loan book). The Group is also exposed to credit risk on trade debtors arising from the trust, tax and pensions advisory businesses (trust and pension debtors).

(a) Overdrafts

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

(b) Investment management loan book

Loans 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 2011, the total lending exposure limit for the investment management loan book was £60,000,000 (2010: £45,000,000), of which £36,434,000 had been advanced (2010: £31,957,000) and a further £6,925,000 had been committed (2010: £7,724,000).

(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.

28 **Financial risk management** continued
(i) **Credit risk** continued

(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, and other loans (note 14). Such debts do not usually arise within the course of the Group's day to day operations and therefore they are not subject to formalised standard lending criteria.

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually, or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis. The assessment considers, where applicable, the value of any collateral held, any changes to the external credit rating and the anticipated receipts for each individual exposure.

Impairment provisions for credit risk, which relate solely to trust and pension debtors, are set out in note 14. No other impairment losses arose during the year (2010: none).

Maximum exposure to credit risk

	2011 £'000	2010 £'000
Credit risk relating to on-balance sheet exposures:		
Settlement balances	**13,443**	18,169
Loans and advances to banks	**65,008**	39,565
Loans and advances to customers:		
– overdrafts	**4,887**	3,306
– investment management loan book	**36,434**	31,957
– trust and pension debtors	**852**	1,073
– other debtors	**7,463**	5,822
Debt securities:		
– unlisted debt securities and money market funds	**909,593**	790,585
Other financial assets	**31,155**	30,265
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**6,925**	7,724
Financial guarantees	**578**	583
	1,076,338	929,049

The above table represents the gross credit risk exposure to the Group at 31 December 2011 and 2010, 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 balance sheet.

10.7% of the total maximum exposure is derived from loans and advances to banks and customers (2010: 8.8%) and 84.5% represents investments in debt securities (2010: 85.1%).

Settlement balances

Settlement balances are summarised as follows:

	2011 £'000	2010 £'000
Neither past due nor impaired	**11,812**	13,267
Past due but not impaired < 90 days	**1,615**	4,877
Past due but not impaired > 90 days	**16**	25
Carrying value	**13,443**	18,169

28 **Financial risk management** continued

(i) **Credit risk** continued

Loans and advances

Loans and advances are summarised as follows:

	2011 Loans and advances to banks £'000	2011 Loans and advances to customers £'000	2010 Loans and advances to banks £'000	2010 Loans and advances to customers £'000
Neither past due nor impaired	65,008	47,255	39,565	39,318
Past due but not impaired	–	504	–	708
Impaired	–	138	–	143
Gross carrying value	65,008	47,897	39,565	40,169
Less: allowance for impairment (note 14)	–	(110)	–	(143)
Net carrying value	65,008	47,787	39,565	40,026

No loans and advances have been renegotiated (2010: none).

(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 2011, which are all externally unrated, is analysed below between those loans that are subject to standard lending criteria, which are described on page 100, and those loans for which there are no standard criteria. All loans initially made subject to standard lending criteria remained within those criteria at 31 December 2011 (2010: all loans). An exposure is reported as past due when the contractual due date for settlement has passed and the balance has not been repaid, except in the case of trust and pension debtors, where a normal settlement period of up to 30 days is expected.

At 31 December 2011	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	4,887	36,434	210	–	41,531
Not subject to standard lending criteria	–	–	–	5,724	5,724
	4,887	36,434	210	5,724	47,255

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
Not subject to standard lending criteria	–	–	–	3,832	3,832
	3,306	31,957	223	3,832	39,318

The credit quality of loans and advances to banks that were neither past due nor impaired at 31 December 2011 is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's as at the balance sheet date.

	2011 £'000	2010 £'000
AA– to AA+	21,007	39,565
A to A+	44,001	–
	65,008	39,565

28 **Financial risk management** continued
(i) **Credit risk** continued

(b) Past due but not impaired
Loans and advances that are past due are assessed for impairment and provided against where objective evidence of impairment exists. Trust and pension debtors may be outstanding for some time before collection, but this is not necessarily an indication that the debt will not ultimately be collected. The gross amounts of loans and advances to customers, by class, that were past due but not impaired at 31 December 2011 were:

At 31 December 2011	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
< 90 days overdue	–	–	162	–	162
90 – 180 days overdue	–	–	202	–	202
180 – 270 days overdue	–	–	52	–	52
270 – 365 days overdue	–	–	59	–	59
> 365 days overdue	–	–	29	–	29
	–	–	504	–	504

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

(c) Impaired
Allowance has been made for individually impaired trust and pension debtors. The balance of individually impaired trust and pension debtors is £138,000 (2010: £143,000). There were no other impaired credit exposures at 31 December 2011 (2010: £nil).

Debt securities
The table below presents an analysis of debt securities by rating agency designation, as at 31 December 2011, based on Fitch or Moody's long term rating designation.

	2011 Government securities £'000	2011 Money market funds £'000	2011 Certificates of deposit £'000	2011 Total £'000	2010 Government securities £'000	2010 Money market funds £'000	2010 Certificates of deposit £'000	2010 Total £'000
AAA	86,983	65,610	–	152,593	–	39,500	–	39,500
AA– to AA+	–	–	258,000	258,000	–	–	448,000	448,000
A– to A+	–	–	499,000	499,000	–	–	303,085	303,085
	86,983	65,610	757,000	909,593	–	39,500	751,085	790,585

28 **Financial risk management** continued
(i) **Credit risk** continued

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 balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2011	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Settlement balances	**12,479**	**–**	**964**	**13,443**
Loans and advances to banks	**53,116**	**–**	**11,892**	**65,008**
Loans and advances to customers:				
– overdrafts	**4,310**	**122**	**455**	**4,887**
– investment management loan book	**34,758**	**263**	**1,413**	**36,434**
– trust and pension debtors	**742**	**–**	**–**	**742**
– other debtors	**2,050**	**3,268**	**406**	**5,724**
Debt securities:				
– unlisted debt securities and money market funds	**370,093**	**–**	**539,500**	**909,593**
Other financial assets	**27,847**	**41**	**3,267**	**31,155**
	505,395	**3,694**	**557,897**	**1,066,986**

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

28 **Financial risk management** continued

(i) **Credit risk** continued

(b) Industry sectors

The Group's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2011	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	–	13,443	–	13,443
Loans and advances to banks	–	65,008	–	65,008
Loans and advances to customers:				
– overdrafts	–	–	4,887	4,887
– investment management loan book	–	–	36,434	36,434
– trust and pension debtors	–	–	742	742
– other debtors	–	–	5,724	5,724
Debt securities:				
– unlisted debt securities and money market funds	86,983	822,610	–	909,593
Other financial assets	–	5,580	25,575	31,155
	86,983	906,641	73,362	1,066,986

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

(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 and Rathbone Investment Management ('the Bank') performs an annual assessment of liquidity adequacy in accordance with the requirements outlined in BIPRU 12 (our 'Individual Liquidity Adequacy Assessment'). The Bank faces two principal risks, namely that a significant proportion of client funds are withdrawn over a short period of time (retail funding risk) and the risk that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

Retail funding risks are managed by daily cash mismatch analyses using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market wide stresses. Strict tolerance and early warning criteria are also set to control any liquidity mismatches. Marketable assets risk is primarily managed by holding cash and marketable instruments that are realisable at short notice. The Group operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the Board at least annually.

The Group does not rely on external funding for its activities.

28 **Financial risk management** continued
(ii) **Liquidity risk** continued

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Group under non-derivative financial assets and liabilities analysed by the remaining contractual maturities at the balance sheet date.

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets						
Cash	4	–	–	–	–	4
Settlement balances	–	13,443	–	–	–	13,443
Loans and advances to banks	33,254	31,078	771	–	–	65,103
Loans and advances to customers	4,944	12,244	27,865	–	5,203	50,256
Debt securities and money market funds	65,653	484,863	355,457	10,602	–	916,575
Other financial assets	825	26,056	9	50	–	26,940
Cash flows arising from financial assets	104,680	567,684	384,102	10,652	5,203	1,072,321
Cash flows arising from financial liabilities						
Deposits by banks	513	–	–	–	–	513
Settlement balances	–	22,196	–	–	–	22,196
Due to customers	866,431	41,897	351	–	–	908,679
Other financial liabilities	969	27,109	94	10,119	–	38,291
Cash flows arising from financial liabilities	867,913	91,202	445	10,119	–	969,679
Net liquidity gap	(763,233)	476,482	383,657	533	5,203	102,642

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	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets						
Cash	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	20,548	5,229	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	23,639	1,888	13,488	–	39,146
Cash flows arising from financial liabilities	718,517	92,249	3,975	13,488	–	828,229
Net liquidity gap	(642,809)	342,019	385,197	7,060	5,229	96,696

Included within the amounts due to customers 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. A prudent level of highly liquid assets is retained to cover reasonably foreseeable short term changes in client deposits. All debt securities are readily marketable and can be realised through disposals.

28 Financial risk management continued
(ii) **Liquidity risk** continued

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 2011	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	6,925	–	–	–	6,925
Financial guarantees	–	–	578	–	578
Operating lease commitments	1,171	1,855	20,981	34,448	58,455
Capital commitments	2,223	–	–	–	2,223
Total off-balance sheet items	10,319	1,855	21,559	34,448	68,181

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

Total liquidity requirement

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	867,913	91,202	445	10,119	–	969,679
Total off-balance sheet items	–	10,319	1,855	21,559	34,448	68,181
	867,913	101,521	2,300	31,678	34,448	1,037,860

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	92,249	3,975	13,488	–	828,229
Total off-balance sheet items	–	9,628	3,910	11,784	7,749	33,071
	718,517	101,877	7,885	25,272	7,749	861,300

28 **Financial risk management** continued

(iii) Market risk

Interest rate risk

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

The Group's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities. In particular, customer accounts and loan balances are repriced very shortly after changes in base rates, whereas the yield on the Group's interest-bearing assets is correlated to the future expectation of base rates and varies depending on the maturity profile of the Group's treasury portfolio. The average maturity mismatch is controlled by the banking committee, which generally lengthens the mismatch when the yield curve is expected to rise and shortens it when the yield curve is expected to fall.

The table below shows the consolidated repricing profile of the Group's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2011	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	–	–	–	–	–	4	4
Settlement balances	–	–	–	–	–	13,443	13,443
Loans and advances to banks	64,091	750	–	–	–	167	65,008
Loans and advances to customers	46,586	–	–	–	–	1,201	47,787
Investment securities:							
– equity securities	–	–	–	–	–	2,953	2,953
– debt securities and money market funds	551,750	289,843	58,000	10,000	–	–	909,593
Other financial assets	–	–	–	–	–	31,155	31,155
Total financial assets	662,427	290,593	58,000	10,000	–	48,923	1,069,943
Liabilities							
Deposits by banks	513	–	–	–	–	–	513
Settlement balances	–	–	–	–	–	22,196	22,196
Due to customers	902,372	350	–	–	–	5,934	908,656
Other financial liabilities	134	–	–	–	–	31,580	31,714
Total financial liabilities	903,019	350	–	–	–	59,710	963,079
Interest rate repricing gap	(240,592)	290,243	58,000	10,000	–	(10,787)	106,864

28 **Financial risk management** continued

(iii) **Market risk** continued

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	–	–	–	–	–	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

The banking committee has set an overall pre-tax interest rate exposure limit of £5,000,000 (2010: £5,000,000) for the total potential profit or loss resulting from an unexpected immediate and sustained 2% movement in Sterling interest rates for the Bank, the principal operating subsidiary. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest-bearing liabilities compared with the period to repricing on a corresponding amount of interest-bearing assets.

At 31 December 2011, the Bank had £876.2 million (2010: £734.2 million) of Sterling interest-bearing liabilities averaging two days (2010: two days) to repricing, which were matched by Sterling assets averaging 65 days (2010: 89 days) to repricing, creating an exposure of 63 days (2010: 87 days). The total potential impact on profit after tax and equity was £2,211,000 (2010: £2,542,000) at the balance sheet date for a 2% decrease or increase in interest rates. The Group held no forward rate agreements at 31 December 2011 (2010: none).

Foreign exchange risk

The Group is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to changes in foreign exchange rate fluctuations. The Group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time to time, so as to reduce any currency exposure to a minimal amount. The Group's structural currency exposure was eliminated on the disposal of its Switzerland, Singapore, British Virgin Islands and Dutch operations during 2009 and 2010.

28 Financial risk management continued

(iii) Market risk continued

The Group does not have any material exposure to transactional foreign exchange risk. The table below summarises the Group's exposure to foreign currency translation risk at 31 December 2011. Included in the table are the Group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2011	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash	4	–	–	–	4
Settlement balances	12,070	331	879	163	13,443
Loans and advances to banks	44,225	12,967	3,805	4,011	65,008
Loans and advances to customers	45,543	901	928	415	47,787
Investment securities:					
– equity securities	2,389	–	564	–	2,953
– debt securities and money market funds	909,593	–	–	–	909,593
Other financial assets	31,089	66	–	–	31,155
Total financial assets	1,044,913	14,265	6,176	4,589	1,069,943
Liabilities					
Deposits by banks	285	–	–	228	513
Settlement balances	21,103	807	–	286	22,196
Due to customers	883,631	15,266	5,494	4,265	908,656
Other financial liabilities	31,688	26	–	–	31,714
Total financial liabilities	936,707	16,099	5,494	4,779	963,079
Net on-balance sheet position	108,206	(1,834)	682	(190)	106,864
Loan commitments	6,925	–	–	–	6,925

At 31 December 2010	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash	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

A 10% weakening of the US Dollar against Sterling, occurring on 31 December 2011, would have increased equity and profit after tax by £135,000 (2010: reduced by £42,000). A 10% weakening of the Euro against Sterling, occurring on 31 December 2011, would have reduced equity and profit after tax by £50,000 (2010: £85,000). A 10% strengthening of the US Dollar or Euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

28 Financial risk management continued
(iii) Market risk continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Group is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 15).

At 31 December 2011, the fair value of equity securities recognised on the balance sheet was £2,953,000 (2010: £3,087,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £295,000 (2010: £309,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values, with the exception of held to maturity investment securities (note 15).

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 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**2,384**	**569**	**–**	**2,953**
– money market funds	**–**	**65,610**	**–**	**65,610**
Total financial assets	**2,384**	**66,179**	**–**	**68,563**

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

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 total equity. As at 31 December 2011 this totalled £190,653,000 (2010: £185,374,000). The Company has no external borrowings at 31 December 2011 (2010: £3,089,000) (note 20).

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 2011 the Group's regulatory capital resources, including retained earnings for 2011, were £89,770,000 (2010: £85,250,000). The increase in reserves during 2011 was partially offset by an increase in intangible assets.

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's structures remain optimal.

Regulatory capital requirements have been met throughout the financial years ended 31 December 2010 and 2011.

30 Contingent liabilities and commitments

(a) Indemnities are provided to a number of directors and employees who provide tax and trust advisory services in connection with them acting as directors on client structures in the normal course of business.

(b) Capital expenditure authorised and contracted for at 31 December 2011 but not provided in the financial statements amounted to £2,223,000 (2010: £594,000).

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

	2011 £'000	2010 £'000
Guarantees	578	583
Undrawn commitments to lend of 1 year or less	6,925	7,724
	7,503	8,307

The fair value of the guarantees is £nil (2010: £nil).

(d) The Group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. During 2011 the Group committed to take on a 12 year lease at 1 Curzon Street, London and extended the lease on the Port of Liverpool Building. The Group's agreement to lease space at 1 Curzon Street, London provides for an upward only reset to market rents in 2018.

Payments under non-cancellable operating leases	2011 £'000	2010 £'000
No later than 1 year	3,026	5,215
Later than 1 year and no later than 5 years	20,981	11,206
Later than 5 years	34,448	7,749
	58,455	24,170

30 Contingent liabilities and commitments continued

(e) In addition to the Financial Services Compensation Scheme levies accrued in the year further levy charges may be incurred in future years, although the ultimate cost remains uncertain. Further information is given in note 2.

31 Related party transactions

The remuneration of the key management personnel of the Group, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Group, is set out below. Historically, the key management personnel of the Group were considered to be limited to the Company's directors. The comparative balances in this note have been restated to reflect the revised presentation. Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 50 to 57.

	2011 £'000	2010 £'000
Short term employee benefits	**6,029**	5,990
Post employment benefits	**321**	320
Other long term benefits	**964**	1,333
Share-based payments	**1,828**	1,876
	9,142	9,519

Dividends totalling £399,000 were paid in the year (2010: £432,000) in respect of ordinary shares held by key management personnel.

At 31 December 2011, the Group had provided interest-free season ticket loans of £8,000 (2010: £7,000) to key management personnel.

At 31 December 2011, key management personnel and their close family members had gross outstanding deposits of £1,040,000 (2010: £1,395,000) and gross outstanding banking loans of £1,685,000 (2010: £1,299,000), of which £1,685,000 (2010: £1,299,000) 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.

The Group's transactions with the pension funds are described in note 24. At 31 December 2011, £10,000 was due from the pension schemes (2010: £4,000).

The Group managed 18 unit trusts and OEICs during 2011 (2010: 16 unit trusts and OEICs). Total annual management charges of £14,451,000 (2010: £12,823,000) were earned, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the Group. Annual management fees owed to the Group as at 31 December 2011 totalled £1,208,000 (2010: £1,078,000).

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 consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months until maturity from the date of acquisition:

	2011 £'000	2010 £'000
Cash	**4**	4
Loans and advances to banks (note 13)	**64,258**	39,565
Available for sale investment securities (note 15)	**65,610**	39,500
	129,872	79,069

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:

	2011 £'000	2010 £'000
Share capital issued (note 25)	**9**	4
Share premium on shares issued (note 25)	**1,728**	732
Shares issued in relation to share-based schemes for which no cash consideration was received	**(696)**	(283)
	1,041	453

33 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

Company financial statements

Company statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**15,027**	39,192
Other comprehensive income:			
Net actuarial loss on retirement benefit obligations	45	**(6,383)**	(3,005)
Revaluation of available for sale investment securities:			
– net (loss)/gain from changes in fair value	15	**(134)**	155
Deferred tax relating to components of other comprehensive income:			
– revaluation of available for sale investment securities		**94**	(13)
– actuarial loss on retirement benefit obligations		**1,477**	782
Other comprehensive income net of tax		**(4,946)**	(2,081)
Total comprehensive income for the year net of tax attributable to equity holders of the Company		**10,081**	37,111

Company statement of changes in equity
for the year ended 31 December 2011

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010		2,165	31,756	2,077	(4,032)	12,280	44,246
Profit for the year						39,192	39,192
Net actuarial loss on retirement benefit obligations	24					(3,005)	(3,005)
Revaluation of available for sale investment securities	15			155			155
Deferred tax relating to components of other comprehensive income				(13)		782	769
Other comprehensive income net of tax		–	–	142	–	(2,223)	(2,081)
Dividends paid	11					(18,167)	(18,167)
Issue of share capital	25	4	732				736
Share-based payments:							
– value of employee services						1,054	1,054
– cost of treasury shares acquired	26				(569)		(569)
– cost of treasury shares vesting	26				1,702	(1,702)	–
– tax on share-based payments						351	351
At 1 January 2011		**2,169**	**32,488**	**2,219**	**(2,899)**	**30,785**	**64,762**
Profit for the year						**15,027**	**15,027**
Net actuarial loss on retirement benefit obligations	24					**(6,383)**	**(6,383)**
Revaluation of available for sale investment securities	15			**(134)**			**(134)**
Deferred tax relating to components of other comprehensive income				**94**		**1,477**	**1,571**
Other comprehensive income net of tax		**–**	**–**	**(40)**	**–**	**(4,906)**	**(4,946)**
Dividends paid	11					**(19,491)**	**(19,491)**
Issue of share capital	25	**9**	**1,728**				**1,737**
Share-based payments:							
– value of employee services						**1,989**	**1,989**
– cost of treasury shares acquired	26				**(2,955)**		**(2,955)**
– cost of treasury shares vesting	26				**1,125**	**(1,125)**	**–**
– tax on share-based payments						**239**	**239**
At 31 December 2011		**2,178**	**34,216**	**2,179**	**(4,729)**	**22,518**	**56,362**

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

Company balance sheet

as at 31 December 2011

	Note	2011 £'000	2010 £'000 restated (note 34)	2009 £'000 restated (note 34)
Non-current assets				
Investment in subsidiaries	38	**37,975**	37,975	22,999
Other investments	39	**2,953**	3,087	2,932
Trade and other receivables	40	**3,268**	3,538	4,098
Deferred tax	41	**2,488**	2,405	2,925
		46,684	47,005	32,954
Current assets				
Trade and other receivables	40	**44,240**	44,924	44,812
Current tax asset		**991**	469	323
Cash and cash equivalents		**1,158**	410	185
		46,389	45,803	45,320
Total assets		**93,073**	92,808	78,274
Current liabilities				
Borrowings	42	**–**	(3,089)	(6,155)
Trade and other payables	43	**(28,175)**	(18,314)	(18,460)
Provisions for liabilities and charges	44	**(1,196)**	–	–
		(29,371)	(21,403)	(24,615)
Net current assets		**17,018**	24,400	20,705
Non-current liabilities				
Employee benefits	45	**(7,340)**	(6,643)	(9,413)
Total liabilities		**(36,711)**	(28,046)	(34,028)
Net assets		**56,362**	64,762	44,246
Equity				
Share capital	46	**2,178**	2,169	2,165
Share premium	46	**34,216**	32,488	31,756
Available for sale reserve		**2,179**	2,219	2,077
Treasury shares	26	**(4,729)**	(2,899)	(4,032)
Retained earnings		**22,518**	30,785	12,280
Equity shareholders' funds		**56,362**	64,762	44,246

The financial statements were approved by the Board of directors and authorised for issue on 20 February 2012 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 2011

	Note	2011 £'000	2010 £'000 restated (note 34)
Cash flows from operating activities			
Profit before tax		**14,430**	39,877
Investment revenues		**(16,770)**	(39,984)
Finance costs		**10**	67
Net charge for provisions	44	**1,196**	–
Defined benefit pension scheme charges	24	**1,484**	1,510
Share-based payment charges	9	**2,604**	1,729
Interest paid		**(20)**	(75)
		2,934	3,124
Changes in operating assets and liabilities:			
– net decrease in trade debtors		**158**	266
– net decrease in prepayments, accrued income and other assets		**799**	162
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**9,253**	(794)
Cash generated from operations		**13,144**	2,758
Defined benefit pension scheme contributions paid	24	**(7,170)**	(7,285)
Tax received		**1,802**	809
Net cash inflow/(outflow) from operating activities		**7,776**	(3,718)
Cash flows from investing activities			
Interest received		**672**	114
Intercompany dividends received		**16,000**	39,781
Other dividends received		**98**	90
Liquidation of subsidiary, net of cash transferred	38	**–**	274
Investment in subsidiaries	38	**–**	(15,250)
Net cash generated from investing activities		**16,770**	25,009
Cash flows from financing activities			
Purchase of shares for share-based payments		**(2,259)**	(286)
Issue of ordinary shares	32	**1,041**	453
Repayments of borrowings	42	**(3,089)**	(3,066)
Dividends paid	11	**(19,491)**	(18,167)
Net cash used in financing activities		**(23,798)**	(21,066)
Net increase in cash and cash equivalents		**748**	225
Cash and cash equivalents at the beginning of the period		**410**	185
Cash and cash equivalents at the end of the period		**1,158**	410

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.

On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Changes in accounting policies and disclosures

Intercompany balances, contingent liabilities and commitments
The Company recharges the majority of the costs it incurs to its subsidiaries. Historically the resultant accruals, intercompany balances and off-balance sheet commitments have been shown net of these recharges. In these financial statements the presentation of these items has been amended to show the full legal obligation and the consequent recoverable amounts from subsidiaries. This has resulted in an increase in the amounts due from subsidiaries at 31 December 2010 of £15,420,000 (2009: £16,346,000), an increase in prepayments at 31 December 2010 of £124,000 (2009: £720,000) and an increase in accruals at 31 December 2010 of £15,544,000 (2009: £17,066,000).

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.

Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are as set out below:

Investments in subsidiaries
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 benefit 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 by 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 2011 of £15,027,000 (2010: £39,192,000).

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:

	2011	2010 restated (note 1)
Investment Management:		
– investment management services	**455**	422
– advisory services	**66**	64
Unit Trusts	**29**	24
Shared services	**184**	179
	734	689

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 2010	250	22,749	22,999
Additions	15,000	250	15,250
Disposals	–	(274)	(274)
At 1 January and 31 December 2011	**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.

A resolution was passed on 18 November 2011 to commence a members' voluntary liquidation of Rathbone Neilson Cobbold Limited and Neilson Cobbold Holdings Plc. At the time of signing the financial statements, this process was still ongoing.

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 financial year end is 31 March.

38 Investment in subsidiaries continued

At 31 December 2011 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 and tax 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	2011 £'000	2010 £'000
Rathbone Investment Management Limited	None	Bank of England base rate plus 2.50% to a maximum of 5%	**15,000**	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	15,250

The fair value of the subordinated loans is not materially different to their carrying amount.

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	2011 £'000	2010 £'000
Equity securities – at fair value:		
– listed	**2,384**	2,513
– unlisted	**569**	574
	2,953	3,087

40 Trade and other receivables

	2011 £'000	2010 £'000 restated (note 34)	2009 £'000 restated (note 34)
Loan notes	**3,674**	3,832	4,098
Prepayments and other receivables	**2,407**	603	1,406
Amounts owed by group undertakings	**41,427**	44,027	43,406
	47,508	48,462	48,910
Current	**44,240**	44,924	44,812
Non-current	**3,268**	3,538	4,098
	47,508	48,462	48,910

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

The Notes bear no interest for three years from issue. From October 2011, interest is rolled-up into the loan at half the Bank of England base rate for the following two years. Thereafter, interest is rolled-up at the Bank of England base rate. The carrying value of the Notes has been discounted to £3,268,000 at 31 December 2011 (2010: £3,267,000; 2009: £3,267,000) and interest income is recognised over the expected life of the Notes under the effective interest rate method.

Included within loan notes is a Swiss Franc denominated loan to the acquirer of the Group's Switzerland trust operations with a nominal value equivalent to £406,000 at 31 December 2011 (2010: £565,000; 2009: £831,000). The loan does not bear interest and the final instalment was received on 10 February 2012.

41 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2010: 27.0%).

The movement on the deferred tax account is as follows:

	2011 £'000	2010 £'000
At 1 January	**2,405**	2,925
Adjustments in respect of prior years:		
– credited/(charged) to profit or loss	**13**	(64)
– directly to equity	**(106)**	56
Other movements in deferred tax:		
– amounts charged to profit or loss	**(1,729)**	(1,534)
– actuarial loss on retirement benefit obligations	**1,691**	841
– share-based payments	**377**	313
– fair value measurement of available for sale securities	**35**	(43)
Effect of change in corporation tax rate on deferred tax:		
– charged to profit or loss	**(11)**	(42)
– charged to other comprehensive income	**(155)**	(29)
– charged directly to equity	**(32)**	(18)
	2,488	2,405

41 Deferred tax continued

Deferred tax assets	2011 £'000	2010 £'000
Share-based payments	**1,142**	919
Pensions	**2,072**	2,306
	3,214	3,225

Deferred tax liabilities	2011 £'000	2010 £'000
Available for sale securities	**726**	820

The deferred tax charge in profit or loss comprises the following temporary differences:

	2011 £'000	2010 £'000
Share-based payments	**16**	(269)
Pensions	**1,711**	1,909
	1,727	1,640

Deferred income tax liabilities of £464,000 (2010: £448,000) 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 £2,811,000 at 31 December 2011 (2010: £2,492,000).

42 Borrowings

Included within deposits by banks is an unsecured term loan of £nil (2010: £3,089,000). The final instalment of this loan was paid in April 2011.

43 Trade and other payables

	2011 £'000	2010 £'000 restated (note 34)	2009 £'000 restated (note 34)
Accruals, deferred income and other creditors	**25,611**	16,753	17,487
Amounts owed to group undertakings	**58**	58	78
Other taxes and social security costs	**2,506**	1,503	895
	28,175	18,314	18,460

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 Provisions for liabilities and charges

	£'000
As at 1 January and 31 December 2010	–
Charged to profit or loss	**1,576**
Unused amount credited to profit or loss	**(380)**
Net charge to profit or loss	**1,196**
As at 31 December 2011	**1,196**

Provisions include £920,000 (2010: £nil) in relation to dilapidation costs and £276,000 (2010: £nil) of onerous lease costs arising from the relocation of the London head office premises from New Bond Street to 1 Curzon Street, London W1J 5FB (note 8).

45 Employee benefits

Details of the defined benefit pension schemes operated by the Company are provided in note 24 to the consolidated financial statements.

46 Share capital, treasury shares and share-based payments

Details of the share capital of the Company and treasury shares held by the Company together with changes thereto are provided in notes 25 and 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.

47 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.

(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.

47 **Financial instruments** continued
(i) **Credit risk** continued

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis.

No impairment losses arose during the year (2010: none).

Maximum exposure to credit risk

	2011 £'000	2010 £'000 restated (note 34)
Trade and other receivables:		
– loan notes	5,413	5,822
– amounts owed by group undertakings	56,677	59,277
– other financial assets	82	135
Balances at banks	1,158	410
	63,330	65,644

The above table represents the gross credit risk exposure of the Company at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached.

All trade and other receivables are neither past due nor impaired. Loan notes are not subject to standard lending criteria. All other trade and other receivables are within normal terms and conditions of lending at the balance sheet date (2010: all within normal terms of trade).

The terms attached to loan notes 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 balance sheet date.

	2011 £'000	2010 £'000
AA– to AA+	–	410
A to A+	1,158	–
	1,158	410

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-quality financial institutions.

47 Financial instruments continued

(i) Credit risk continued

(a) Geographical sectors

The following table analyses the Company's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2011	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Trade and other receivables:				
– loan notes	–	3,268	406	3,674
– amounts owed by Group undertakings	56,549	128	–	56,677
– other financial assets	16	–	66	82
Balances at banks	1,158	–	–	1,158
	57,723	3,396	472	61,591

At 31 December 2010 (restated – note 34)	United Kingdom £'000	Jersey £'000	Rest of the World £'000	Total £'000
Trade and other receivables:				
– loan notes	–	3,267	565	3,832
– amounts owed by Group undertakings	59,155	122	–	59,277
– other financial assets	28	–	107	135
Balances at banks	410	–	–	410
	59,593	3,389	672	63,654

(b) Industry sectors

The Company's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2011	Financial institutions £'000	Other companies £'000	Total £'000
Trade and other receivables:			
– loan notes	–	3,674	3,674
– amounts owed by Group undertakings	41,690	14,987	56,677
– other financial assets	–	82	82
Balances at banks	1,158	–	1,158
	42,848	18,743	61,591

At 31 December 2010 (restated – note 34)	Financial institutions £'000	Other companies £'000	Total £'000
Trade and other receivables:			
– loan notes	–	3,832	3,832
– amounts owed by Group undertakings	54,585	4,692	59,277
– other financial assets	–	135	135
Balances at banks	410	–	410
	54,995	8,659	63,654

47 Financial instruments continued

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company places its funds in short term or demand facilities with financial institutions to ensure liquidity. The Company has no bank loans (2010: £3,089,000) and does not rely on external funding for its activities.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Company on its financial assets and liabilities by remaining contractual maturities at the balance sheet date.

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets						
Trade and other receivables:						
– loan notes	–	413	–	–	5,203	5,616
– amounts owed by Group undertakings	39,377	129	2,441	17,081	–	59,028
– other financial assets	–	35	1	46	–	82
Balances at banks	1,158	–	–	–	–	1,158
Cash flows arising from financial assets	40,535	577	2,442	17,127	5,203	65,884
Cash flows arising from financial liabilities						
Borrowings	–	–	–	–	–	–
Trade and other payables:						
– amounts owed to Group undertakings	58	–	–	–	–	58
– other financial liabilities	134	13,243	–	10,014	–	23,391
Cash flows arising from financial liabilities	192	13,243	–	10,014	–	23,449
Net liquidity gap	40,343	(12,666)	2,442	7,113	5,203	42,435

At 31 December 2010 (restated – note 34)	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	No fixed maturity date £'000	Total £'000
Cash flows arising from financial assets						
Trade and other receivables:						
– loan notes	–	355	360	–	5,229	5,944
– amounts owed by Group undertakings	44,027	113	345	17,081	–	61,566
– other financial assets	11	38	4	82	–	135
Balances at banks	410	–	–	–	–	410
Cash flows arising from financial assets	44,448	506	709	17,163	5,229	68,055
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	9,760	–	11,745	–	21,630
Cash flows arising from financial liabilities	183	11,305	1,562	11,745	–	24,795
Net liquidity gap	44,265	(10,799)	(853)	5,418	5,229	43,260

Included within trade and other payables disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

47 Financial instruments continued
(ii) Liquidity risk continued

Off-balance sheet items

Cash flows arising from the Company's off-balance sheet financial liabilities arise solely from operating leases (note 49) 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 2011	**1,140**	**1,772**	**20,871**	**34,448**	**58,231**
At 31 December 2010 (restated – note 34)	1,275	3,825	10,955	7,308	23,363

Total liquidity requirement

Total liquidity requirement	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	**192**	**13,243**	**–**	**10,014**	**–**	**23,449**
Total off-balance sheet items	**–**	**1,140**	**1,772**	**20,871**	**34,448**	**58,231**
	192	**14,383**	**1,772**	**30,885**	**34,448**	**81,680**

At 31 December 2010 (restated – note 34)	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	11,305	1,562	11,745	–	24,795
Total off-balance sheet items	–	1,275	3,825	10,955	7,308	23,363
	183	12,580	5,387	22,700	7,308	48,158

47 **Financial instruments** continued

(iii) Market risk

Interest rate risk

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

The Company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities.

The table below shows the repricing profile of the Company's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2011	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	–	–	–	–	–	2,953	2,953
Trade and other receivables:							
– loan notes	3,268	–	–	–	–	406	3,674
– amounts owed by Group undertakings	17,300	–	–	–	–	39,377	56,677
– other financial assets	–	–	–	–	–	82	82
Balances at banks	1,018	–	–	–	–	140	1,158
Total financial assets	21,586	–	–	–	–	42,958	64,544
Liabilities							
Borrowings	–	–	–	–	–	–	–
Trade and other payables:							
– amounts owed to Group undertakings	–	–	–	–	–	58	58
– other financial liabilities	134	–	–	–	–	18,441	18,575
Total financial liabilities	134	–	–	–	–	18,499	18,633
Interest rate repricing gap	21,452	–	–	–	–	24,459	45,911

At 31 December 2010 (restated – note 34)	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:							
– loan notes	–	–	3,267	–	–	565	3,832
– amounts owed by Group undertakings	15,250	–	–	–	–	44,027	59,277
– other financial assets	–	–	–	–	–	135	135
Balances at banks	279	–	–	–	–	131	410
Total financial assets	15,529	–	3,267	–	–	47,945	66,741
Liabilities							
Borrowings	3,089	–	–	–	–	–	3,089
Trade and other payables:							
– amounts owed to Group undertakings	–	–	–	–	–	58	58
– other financial liabilities	125	–	–	–	–	15,544	15,669
Total financial liabilities	3,214	–	–	–	–	15,602	18,816
Interest rate repricing gap	12,315	–	3,267	–	–	32,343	47,925

A 1% parallel increase/decrease in the Sterling yield curve would result in an increase/decrease in profit after tax and equity of £73,000 (2010: £70,000).

47 **Financial instruments** continued
(iii) **Market risk** continued

Foreign exchange risk

The Company does not have any material exposure to transactional foreign exchange risk. The table below summarises the Company's exposure to foreign currency translation risk at 31 December 2011. Included in the table are the Company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2011	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Investments	2,389	–	564	–	2,953
Trade and other receivables:					
– loan notes	3,268	–	–	406	3,674
– amounts owed by Group undertakings	56,677	–	–	–	56,677
– other financial assets	16	66	–	–	82
Balances at banks	1,158	–	–	–	1,158
Total financial assets	63,508	66	564	406	64,544
Liabilities					
Borrowings	–	–	–	–	–
Trade and other payables:					
– amounts owed to Group undertakings	58	–	–	–	58
– other financial liabilities	18,575	–	–	–	18,575
Total financial liabilities	18,633	–	–	–	18,633
Net on-balance sheet position	44,875	66	564	406	45,911

At 31 December 2010 (restated – note 34)	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Investments	2,518	–	569	–	3,087
Trade and other receivables:					
– loan notes	3,267	–	–	565	3,832
– amounts owed by Group undertakings	59,277	–	–	–	59,277
– other financial assets	28	–	107	–	135
Balances at banks	410	–	–	–	410
Total financial assets	65,500	–	676	565	66,741
Liabilities					
Borrowings	3,089	–	–	–	3,089
Trade and other payables:					
– amounts owed to Group undertakings	58	–	–	–	58
– other financial liabilities	15,669	–	–	–	15,669
Total financial liabilities	18,816	–	–	–	18,816
Net on-balance sheet position	46,684	–	676	565	47,925

A 10% weakening of the US Dollar or Euro against Sterling, occurring on 31 December 2011, would have reduced equity and profit after tax by £5,000 or £41,000 respectively (2010: £nil or £49,000 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.

47 Financial instruments continued
(iii) Market risk continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Company is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 39).

At 31 December 2011, the fair value of equity securities recognised on the balance sheet was £2,953,000 (2010: £3,087,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £295,000 (2010: £309,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries which are carried at historical cost (note 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 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Available for sale equity securities	**2,384**	**569**	**–**	**2,953**
Total financial assets	**2,384**	**569**	**–**	**2,953**
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

There have been no transfers between levels during the year (2010: none).

48 Capital management

The Company's objectives when managing capital are to:

- safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

For monitoring purposes, the Company defines capital as equity shareholders' funds. 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 31 December 2011, 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.

49 Contingent liabilities and commitments

Indemnities are provided to a number of directors and employees who provide tax and trust advisory services in connection with them acting as directors on client structures in the normal course of business.

The Company leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. During 2011 the Company committed to take on a 12 year lease at 1 Curzon Street, London and extended the lease on the Port of Liverpool Building. The Company's agreement to lease space at 1 Curzon Street, London provides for an upward only reset to market rents in 2018.

Payments under non-cancellable operating leases	2011 £'000	2010 £'000 restated (note 34)
No later than 1 year	**2,912**	5,100
Later than 1 year and no later than 5 years	**20,871**	10,955
Later than 5 years	**34,448**	7,308
	58,231	23,363

50 Related party transactions

(i) Transactions with key management personnel

The remuneration of the key management personnel of the Company, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Company, is set out below. Historically, the key management personnel of the Company were considered to be limited to the Company's directors. The comparative balances in this note have been restated to reflect the revised presentation.

Key management personnel compensation	2011 £'000	2010 £'000
Short term employee benefits	**1,566**	1,449
Post employment benefits	**85**	81
Other long term benefits	**22**	74
Share-based payments	**730**	732
	2,403	2,336

Dividends totalling £399,000 were paid in the year (2010: £432,000) in respect of ordinary shares held by key management personnel.

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.

50 Related party transactions continued

(ii) Other related party transactions

During the year, the Company entered into the following transactions with fellow subsidiaries:

	2011 Receivable £'000	2011 Payable £'000	2010 Receivable £'000	2010 Payable £'000
Interest	**527**	**–**	113	–
Charges for management services	**73,826**	**–**	61,422	–
	74,353	**–**	61,535	–

The Company's balances with fellow Group companies at 31 December 2011 are set out in notes 38, 40 and 43.

The Company's transactions with the pension funds are described in note 45. At 31 December 2011 £10,000 was due from the pension schemes (2010: £4,000).

All transactions and outstanding balances with fellow Group companies are priced on an arm's length basis and are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts for any amounts due from fellow Group companies.

51 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

Five year record

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Operating income	**144,452**	127,184	116,757	131,166	134,480
Underlying profit before tax	**46,219**	38,503	32,446	45,020	47,302
Exceptional items	**(7,067)**	(8,420)	(2,978)	(2,714)	–
Profit before tax	**39,152**	30,083	29,468	42,306	47,302
Tax	**(10,446)**	(8,531)	(9,271)	(13,421)	(14,212)
Profit after tax	**28,706**	21,552	20,197	28,885	33,090
Equity dividends paid and proposed	**20,001**	19,067	18,159	17,984	17,479
Continuing basic earnings per share	**66.72p**	49.76p	46.87p	67.57p	77.79p
Diluted earnings per share	**65.90p**	49.35p	46.85p	67.02p	76.54p
Dividends per ordinary share	**46.0p**	44.0p	42.0p	42.0p	41.0p
Equity shareholders' funds	**190,653**	185,374	182,489	184,631	184,750
Total funds under management	**£15.85bn**	£15.63bn	£13.10bn	£10.46bn	£13.12bn

The amounts disclosed for 2007 include the results of operations that were discontinued in 2009.

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RATHBONES
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