

RATHBONES CONTINUES TO GROW AS FUNDS UNDER MANAGEMENT REACH £18 BILLION

This is a preliminary statement of annual results published in accordance with FSA Listing Rule 9.7A. It covers the year ended 31 December 2012.

Andy Pomfret, Chief Executive of Rathbone Brothers Plc, said:

“Market conditions remained challenging for private clients in 2012 but Rathbones did increase its funds under management by 13.4% to £18 billion in the year. Profit before tax of £38.8 million for the year to 31 December 2012 was marginally lower than the £39.2 million in 2011 but basic earnings per share of 67.00p were up 0.4% on 66.72p in 2011.

“After a challenging 2012 UK equity markets ended the year on a more positive note and this has continued into 2013. Rathbones looks forward to 2013 with more optimism although markets do remain fragile as governments, particularly in the US, the UK and the eurozone, battle with difficult economic and financial conditions. Rathbones continues to grow and consolidate its position as a leading provider of high-quality, personalised discretionary investment management services.

“I am also pleased to announce that Philip Howell will be joining us on 4 March as Deputy Chief Executive. Most recently Philip has been chief executive of Williams de Broë and his considerable experience will add to the strength and depth of our management team.”

Highlights:

- Total funds under management were £17.98 billion at 31 December 2012, up 13.4% from £15.85 billion at 31 December 2011. In comparison over the same period the FTSE 100 Index and FTSE APCIMS Balanced Index increased by 5.9% and 5.8% respectively.
- The total net annual growth rate of funds under management for Rathbone Investment Management was 6% (2011: 8%). This comprised £0.48 billion of acquired inflows (2011: £0.31 billion) from new investment teams and private client acquisitions of R.M. Walkden & Co. in April 2012 and AIB Jersey in October 2012, and £0.44 billion of net organic growth (2011: £0.79 billion). The underlying annualised rate of net organic growth was 3% (2011: 5%) in 2012 reflecting both a £31 million outflow from Albany Investment Trust plc in August and £31 million of outflows following the end of contractual arrangements with Cavanagh Financial Management Limited in November 2012.
- Profit before tax was £38.8 million for the year ended 31 December 2012, a decrease of 1.0%, compared to £39.2 million in 2011. Basic earnings per share increased by 0.4% to 67.00p (2011: 66.72p).
- Underlying profit before tax (excluding amortisation of client relationship intangible assets, head office relocation costs and in 2011 gains on disposal of financial securities) decreased 2.4% to £45.1 million from £46.2 million. Basic underlying earnings per share decreased by 1.1% to 77.96p (2011: 78.79p).
- The Board recommends a 30p final dividend for 2012 (2011: 29p), making a total of 47p for the year (2011: 46p).
- Underlying net operating income in Rathbone Investment Management of £146.7 million for the year ended 31 December 2012 (2011: £135.1 million) represents an increase of 8.6%. This excludes gains on disposal of financial securities of £1.1 million in 2011. The average FTSE 100 Index was 5734 on our quarterly billing dates (2011: 5663), an increase of 1.3%.
- Net interest income in Rathbone Investment Management of £9.9 million compared to £10.0 million in 2011.
- Underlying operating expenses increased 13.8% to £110.5 million largely reflecting business growth and investment, higher performance-based staff costs, legal costs, a £0.6 million increase in Financial Services Compensation Scheme levies and inflation.

- Rathbone Unit Trust Management saw positive net monthly sales throughout 2012 helping its funds under management to increase by 16.5% to £1.27 billion at 31 December 2012 (2011: £1.09 billion). Profit before tax in Rathbone Unit Trust Management was £0.6 million for the year ended 31 December 2012 (2011: £0.8 million).

To watch Andy Pomfret discuss Rathbones' 2012 annual results, please visit: www.rathbones.com/2012results.

Ends

20 February 2013

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Mark Nicholls, Chairman
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Rathbone Brothers Plc

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

Rathbones has over 800 staff in 12 UK locations and Jersey, and has its head office at 1 Curzon Street, London.

www.rathbones.com

CHAIRMAN'S STATEMENT

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

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

Governance, Board and senior management group

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

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

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

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

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

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

Strategy

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

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

Remuneration

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

Risk

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

Shareholders

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

At the AGM, in line with best practice under the UK Corporate Governance Code requirements, we are giving shareholders the opportunity to vote on the re-appointment of every Board member.

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

Mark Nicholls

Chairman

19 February 2013

CHIEF EXECUTIVE'S STATEMENT

Results and financial highlights

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

As markets are more positive, the Board has decided to increase the final dividend for the year by 1p. Economic uncertainties remain, but there are a number of acquisition opportunities that we are currently reviewing, and we expect there to be more in 2013. We are keen to maintain capital to take advantage of these opportunities, and this was part of the reason for our recent placing which was announced and completed in November, raising £24 million, net of transaction costs.

The Financial Markets

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

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

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

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

Acquisitions and Growth in 2012

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

2012 was also adversely impacted by a couple of client losses. Firstly the loss of the management contract for the Albany Investment Trust which had been managed by our Liverpool office for over 60 years but was the only investment trust we managed. Secondly, we received notice that our arrangement with Cavanagh Asset Management

was coming to an end during November following Cavanagh's takeover by Close Brothers in February 2012. By the end of 2012 this had led to the loss of £31 million out of the funds originally introduced to us by Cavanagh. Relationships with significant introducers can be very beneficial as they introduce clients to us with little marketing effort, but equally there is the danger that material amounts can be withdrawn at very short notice. On a more positive note we added some significant new clients, particularly in our charity business which now has over £2 billion under management. Our Bristol office has also recently reached £1 billion of funds under management.

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

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

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

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

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

Investing in the business

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

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

Regulation

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

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

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

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

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

Other matters

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

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

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

Outlook

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

Andy Pomfret

Chief Executive

19 February 2013

BUSINESS REVIEW

The business is managed through two key operating segments, namely Investment Management and Unit Trusts.

INVESTMENT MANAGEMENT

Key performance indicators

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

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

Table 1. Investment Management – key performance indicators

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

¹ See table 2

² See table 5

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

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

Fund flows

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

Table 2. Investment Management – funds under management

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

¹ Value at the date of transfer in/(out)

² Value at 31 December

³ Represents the impact of market movements and the relative performance of funds compared to the FTSE APCIMS Balanced Index

⁴ Organic inflows less outflows

⁵ Net organic new business as a % of opening funds under management

⁶ Net organic new business and acquired inflows as a % of opening funds under management

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

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

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

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

Acquired inflows of £0.48 billion in the year include:

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

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

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

Financial performance

Investment Management income is derived from:

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

Table 3. Investment Management – financial performance

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

¹ Comparatives restated due to re-presentation of segmental information (see note 2)

² Net fee income is stated after deducting fees and commission expenses paid to introducers

³ Interest is presented net of interest expense paid on client accounts

⁴ Fees from advisory services includes income from trust, tax and pensions advisory services

⁵ See table 6

⁶ Underlying profit before tax as a % of underlying net operating income

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

Table 4. Investment Management – average funds under management

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

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

Net interest income of £9.9 million in 2012 was consistent with 2011 (£10.0 million) as lower income from treasury assets, in spite of higher average liquidity, was offset by £0.4 million of additional interest on client loans.

The above factors resulted in a marginal increase in basis point return on average funds under management to 85 bps from 84 bps in 2011, as shown in the table below:

Table 5. Investment Management – revenue margin

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

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

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

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

Table 6. Investment Management – underlying operating expenses

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

¹ Represents the costs of investment managers and teams directly involved in client facing activities

² Underlying operating expenses as a % of underlying net operating income (see table 3)

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

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

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

UNIT TRUSTS

Key performance indicators

Unit Trusts performance is largely driven by the value and growth of funds managed. Year on year changes in the key performance indicators for Unit Trusts are shown in table 7, below:

Table 7. Unit Trusts – key performance indicators

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

¹ See table 8

² See table 11

Fund flows

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

Table 8. Unit Trusts – funds under management

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

¹ Valued at the date of transfer in/(out)

² Impact of market movements and relative performance

³ Net inflows as a % of opening funds under management

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

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

Table 9. Unit Trusts – fund assets

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

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

Table 10. Unit Trusts – fund performance

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

¹ Ranking of retail share classes

² Performance data for the Rathbone Recovery Fund is not yet available beyond three years as the fund was launched on 13 July 2009

³ Performance data for the Rathbone Strategic Bond Fund is not yet available beyond one year as the fund was launched on 3 October 2011

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

Financial performance

Unit Trusts income is primarily derived from:

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

Table 11. Unit Trusts – financial performance

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

¹ See table 12

² Profit before tax divided by net operating income

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

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

Table 12. Unit Trusts – underlying operating expenses

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

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

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

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

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

FINANCIAL REVIEW

CONSOLIDATED FINANCIAL PERFORMANCE

Table 13. Extracts from the consolidated statement of comprehensive income

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

¹ Profit before tax excluding amortisation of client relationships, head office relocation costs and, in 2011, gains on disposal of financial securities

² Underlying profit before tax as a % of operating income, excluding gains on disposal of financial securities in 2011

³ The total interim and final dividend proposed for the financial year

Operating income

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

Underlying operating expenses

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

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

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

Taxation

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

The effective tax rate has fallen since 2011 primarily due to a reduction in the UK corporation tax rate. The effective tax rate is slightly higher than the derived UK standard rate of corporation tax of 24.5% due to the impact of disallowable expenses, which has been largely offset by the impact of a small overprovision in 2011. A full reconciliation of the income tax expense is provided in note 3.

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

Earnings per share and dividends

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

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

CONSOLIDATED BALANCE SHEET AND CAPITAL RESOURCES

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

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

¹ Tier 1 capital as a proportion of total risk weighted assets, calculated on a Basel III basis

² Balances with central banks, loans and advances to banks and investment securities (excluding available for sale equity investments)

³ Net book value of acquired client relationships and goodwill

⁴ Net book value of property, plant and equipment and computer software

⁵ Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank

Regulatory capital

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

Table 15. Regulatory capital resources

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

¹ Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources

² Including committed pension funding contributions and balances related to the Group's captive insurance company

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

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

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

Capital resources

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

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

Total assets

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

Treasury assets

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

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

Loan book

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

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

Intangible assets

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

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

Client relationship intangibles are amortised over the estimated life of the client relationship, generally over a period of 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 2012 was £6.0 million (2011: £5.1 million).

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

Capital expenditure

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Financial risks

Risk	Definition	Key mitigators
Credit	Risk associated with one or more counterparties failing to fulfil its contractual obligations, including stock settlement.	<ul style="list-style-type: none">▪ Banking committee oversight.▪ Counterparty limits and credit reviews.▪ Treasury policy & procedures manual.▪ Active monitoring of exposures.▪ Annual Individual Capital Adequacy Assessment Process.
Liquidity	Risk of insufficient financial resources to meet obligations as they fall due, or can only secure access to such resources at excessive cost.	<ul style="list-style-type: none">▪ Banking committee oversight.▪ Daily reconciliations and reporting to senior management.▪ Cashflow forecasting.▪ Contingency funding plan.▪ Annual Individual Liquidity Adequacy Assessment (including stress testing).
Market	Risk that earnings or capital will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices.	<ul style="list-style-type: none">▪ Banking committee oversight.▪ Documented policies and procedures.▪ Daily monitoring of interest rates, exchange rates and maturity mismatch.▪ Robust application of policy and investment limits.
Pension	Risk that the obligation to fund any deficit arising from defined benefit schemes materially affects dividend reserves and capital.	<ul style="list-style-type: none">▪ Management and trustee oversight.▪ Monthly valuation estimates.▪ Triennial independent actuarial valuations.▪ Investment policy and oversight.▪ Monthly management information.▪ Annual Individual Capital Adequacy Assessment Process.

Business risks

Risk	Definition	Key mitigators
Business model	Risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth or market share is adversely affected.	<ul style="list-style-type: none"> ▪ Board and executive oversight. ▪ A documented strategy. ▪ Annual business targets, subject to regular review and challenge. ▪ Regular reviews of pricing structure. ▪ Continued investment in marketing, the investment process, and service standards. ▪ Trade body participation.
Performance & advice	Risk of inappropriate financial or investment advice, inadequate documentation, unsuitable portfolios or inadequate performance failing to meet our client's investment and/or other objectives or expectations.	<ul style="list-style-type: none"> ▪ Investment governance & structured committee oversight, specifically strategic asset allocation, stock selection. ▪ Management oversight and active client service, performance measurement and attribution analysis. ▪ Weekly investment management meetings. ▪ Monthly investment manager peer reviews. ▪ Consistent and competitive remuneration schemes. ▪ Compliance monitoring.
Regulatory	Risk that the introduction of new regulation or changes to interpretation or enforcement of existing regulation, materially affects the business model, services or operations.	<ul style="list-style-type: none"> ▪ Active involvement with representative industry bodies. ▪ Compliance monitoring and oversight of regulatory developments. ▪ Close contact with the regulators. ▪ Documented policy and procedures.
Reputational	Risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations	<ul style="list-style-type: none"> ▪ Board and executive oversight with a strong compliance culture. ▪ Investment in staff training and development. ▪ Proactive communications with shareholders/investor relations. ▪ Investment process, management and performance monitoring. ▪ Treating clients fairly culture, values and governance. ▪ Monitoring of media coverage.

Operational risks

Risk	Definition	Key mitigators
Business change	Risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes.	<ul style="list-style-type: none"> ▪ Project and IT committees. ▪ Dedicated project office function. ▪ Documented business plans and IT strategy. ▪ Two-stage assessment, challenge and approval of project plans. ▪ Documented project and change procedures.
Business continuity	Risk that an internal or external event results in either failure or detriment to core business processes or services.	<ul style="list-style-type: none"> ▪ Group Business Continuity committee oversight. ▪ Documented crisis/incident management and disaster recovery plans. ▪ Regular disaster recovery testing. ▪ Continuous monitoring of IT systems availability. ▪ Off-site data centre.

Risk	Definition	Key mitigators
Data integrity & security	Risk of inappropriate access to, disclosure of or integrity with client or company sensitive information.	<ul style="list-style-type: none"> ▪ Data security committee oversight. ▪ Data protection policy and procedures. ▪ System access controls. ▪ Training and employee awareness programmes. ▪ Office and physical security within all locations.
Legal & compliance	Risk of remediation, censure, fines or legal action as a result of a failure to identify or inability to comply with regulatory or legislative requirements.	<ul style="list-style-type: none"> ▪ Executive oversight. ▪ Retained specialist legal advisers. ▪ Compliance department. ▪ Data protection policy and compliance monitoring. ▪ Documented policies and procedures. ▪ Training and employee awareness programmes.
Outsourcing	Risk of one or more third parties failing to provide or perform outsourced services to standards expected by the Group, impacting the ability to deliver core services.	<ul style="list-style-type: none"> ▪ Executive oversight. ▪ Active relationship management, including regular service review meetings. ▪ Service level agreements and monitoring of key performance indicators. ▪ Compliance monitoring.
People	Risk of loss of key staff (or group), insufficiently skilled resources and inappropriate (individual or group) behaviour or actions.	<ul style="list-style-type: none"> ▪ Executive oversight. ▪ Succession and contingency planning. ▪ Transparent, consistent and competitive remuneration schemes. ▪ Investment in staff training and development. ▪ Contractual clauses with restrictive covenants.
Processing	Risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets.	<ul style="list-style-type: none"> ▪ Authorisation limits and management oversight. ▪ Dealing limits and supporting system controls. ▪ Active investment in automated processes. ▪ Counter review/4-eyes processes. ▪ Segregation of duties. ▪ Documented procedures. ▪ Annual controls assessment (ISAE3402 report).

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 above.

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

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

As the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In forming their view, the directors have considered the Company's prospects for a period exceeding 12 months from 19 February 2013, the date the 2012 financial statements were approved.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

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

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

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number: 01000403

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

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

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1. Accounting policies

In preparing the financial information included in this statement the Group has applied accounting policies which are in accordance with International Financial Reporting Standards as adopted by the EU at 31 December 2012. The accounting policies have been applied consistently to all periods presented in this statement.

2. Segmental information

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

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

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

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

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

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

The following table reconciles underlying operating income to operating income:

	2012 £'000	2011 £'000
Underlying operating income	155,581	143,357
Gains on disposal of financial securities	-	1,095
Operating income	155,581	144,452

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

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

Geographic analysis

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

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

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

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

Major clients

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

3. Taxation

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

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

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

4. Dividends

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

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

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

5. Earnings per share

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

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

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

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

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

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

6. Related parties

The aggregate 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.

	2012	2011
	£'000	£'000
Short term employee benefits	8,013	6,029
Post employment benefits	777	321
Other long term benefits	438	964
Share-based payments	2,122	1,828
	11,350	9,142

Dividends totalling £418,000 were paid in the year (2011: £399,000) in respect of ordinary shares held by key management personnel and their close family members.

At 31 December 2012, the Group had provided interest-free season ticket loans of £6,000 (2011: £8,000) to key management personnel.

At 31 December 2012, key management personnel and their close family members had gross outstanding deposits of £1,112,000 (2011: £1,040,000) and gross outstanding banking loans of £559,000 (2011: £1,685,000), all of which were made on normal business terms. A number of the Group's key management personnel and their close family members make use of the services provided by companies within the Group. Charges for such services are made at various staff rates.

At 31 December 2012, no amounts were due from the pension schemes (2011: £10,000).

The Group managed 19 unit trusts and OEICs during 2012 (2011: 18 unit trusts and OEICs). Total annual management charges of £16,110,000 (2011: £14,451,000) were earned, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the Group. Annual management fees owed to the Group as at 31 December 2012 totalled £1,172,000 (2011: £1,208,000).

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

7. Consolidated cash flow statement

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

	2012 £'000	2011 £'000
Cash and balances at central banks	116,003	4
Loans and advances to banks	62,611	64,258
Available for sale investment securities	51,551	65,610
	230,165	129,872

Available for sale investment securities are amounts invested in money market funds which are realisable on demand.

Cash flows arising from issue of ordinary shares comprise:

	2012 £'000	2011 £'000
Share capital issued	120	9
Share premium on shares issued	27,944	1,728
Shares issued in relation to share-based schemes for which no cash consideration was received	(1,630)	(696)
	26,434	1,041

8. Financial information

The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2012 or 2011. Statutory financial statements for 2011 have been delivered to the Registrar of Companies. Statutory financial statements for 2012 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2011 and 2012 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

9. Forward-looking statements

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

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