Rathbones grows profit before tax by 15%

This is a preliminary statement of annual results published in accordance with FCA Listing Rule 9.7A.
It covers the year ended 31 December 2013.

Mark Nicholls, Chairman of Rathbone Brothers Plc, said:

"2013 was a positive year for investment markets generally, benefitting both Rathbones and our clients. This positive backdrop, combined with better levels of new business, meant that our total funds under management grew by 22.2% over the year to £22.0 billion. It is particularly pleasing that the growth in our business was broad-based.

"Philip Howell will become chief executive on 1 March 2014 in succession to Andy Pomfret who is retiring. Rathbones has flourished under Andy's strong leadership and it is a tribute to him that he not only brought in Philip as a potential successor but has also ensured a smooth handover of responsibilities. I have enjoyed working with Andy immensely and wish him well in his future plural career.

"We are well placed to take advantage of future growth opportunities in our sector and continue to look to the future with optimism. I very much look forward to working with our new chief executive, Philip Howell, and the board in the coming years to develop and grow the business further."

Highlights:

- Total funds under management were £22.0 billion at 31 December 2013, up 22.2% from £18.0 billion at 31 December 2012. In comparison, over the same period the FTSE 100 Index and FTSE WMA (formerly APCIMS) Balanced Index increased by 14.4% and 10.8% respectively.

- The total net annual growth rate of funds under management for Rathbone Investment Management was 9.0% (2012: 6.2%). This comprised £0.6 billion of acquired inflows (2012: £0.5 billion), including £0.4 billion following the completion of the acquisition of Taylor Young Investment Management's private client base, and £0.9 billion of net organic growth (2012: £0.4 billion). The underlying rate of net organic growth increased to 5.4% in 2013 (2012: 3.0%).

- Underlying profit before tax (excluding amortisation of client relationship intangible assets and, in 2012, head office relocation costs) increased 12.7% to £50.5 million from £44.8 million. Basic underlying earnings per share increased by 12.0% to 86.7p (2012: 77.4p).

- Profit before tax was £44.2 million for the year ended 31 December 2013, an increase of 14.8%, compared to £38.5 million in 2012. Basic earnings per share increased by 14.4% to 76.1p (2012: 66.5p).

- The board recommends a 31p final dividend for 2013 (2012: 30p), making a total of 49p for the year (2012: 47p), an increase of 4.3% on 2012.

- Net operating income in Rathbone Investment Management of £165.3 million for the year ended 31 December 2013 (2012: £146.7 million) represents an increase of 12.7%. The average FTSE 100 Index was 6419 on our quarterly billing dates (2012: 5734), an increase of 11.9%.

- Net interest income in Rathbone Investment Management was £8.6 million compared to £9.9 million in 2012.

- Underlying operating expenses increased 13.6% to £125.9 million largely reflecting inflation, growth of the business, higher performance-based staff costs and legal expenses.

- Rathbone Unit Trust Management saw positive net monthly sales throughout 2013 helping its funds under management to increase by 38.5% to £1.8 billion at 31 December 2013 (2012: £1.3 billion). Profit before tax in Rathbone Unit Trust Management was £1.4 million for the year ended 31 December 2013 (2012: £0.6 million).

To watch Andy Pomfret, Philip Howell and Paul Stockton discuss Rathbones' 2013 annual results, please visit: www.rathbones.com/2013results.

Ends
Issued on 20 February 2014

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

www.rathbones.com

Chairman's Statement

Overview of 2013

2013 was a positive year for investment markets generally, benefitting both Rathbones and our clients. This positive backdrop, combined with better levels of new business, meant that our total funds under management grew by 22.2% over the year to £22.0 billion. It is particularly pleasing that the growth in our business was broad-based, with our relationship approach continuing to be well received by private clients, professional intermediaries, trustees, charities and institutions. Rathbones welcomed some 1,500 clients in 2013 either directly, or through financial intermediaries or as clients of seasoned investment managers who have recently joined us. Our unit trust business also performed well, growing its funds under management from £1.3 billion to £1.8 billion through both strong inflows and good investment performance.

As part of our ongoing investment in the business in 2013, we broadened our geographical spread by opening two new offices. In addition we continued to attract good people, enhanced our investment process and improved both our front and back office systems which continue to provide the high quality support required by our clients and staff.

Governance, the board and senior management

The last few years have seen prolific growth in corporate governance codes, principles and guidelines. Much of this is sensible but no amount of process will remedy the situation if a firm's culture, starting at the top, is not healthy.

During the year, apart from routine duties, the board spent considerable time discussing risk, strategy, potential acquisitions, succession planning and litigation matters.

In my 2012 report I outlined how we had reduced the size of the board and I think it worked better in 2013 as a more cohesive and focussed unit. As part of the succession planning I described last year we instigated a search for a non-executive director with accounting experience. After a rigorous process we were delighted to appoint James Dean as a new non-executive director on 1 November 2013. James was a senior partner of Ernst & Young. It remains our aspiration to achieve greater gender balance by appointing a second female non-executive director with appropriate skills by 2015.

We appointed Philip Howell as deputy chief executive in March 2013 and on 2 December 2013 we announced that he had been appointed to the board and would become chief executive on 1 March 2014 in succession to Andy Pomfret who is retiring. Andy has been chief executive of Rathbones for nine years and was finance director for five years before that. Rathbones has flourished under his strong leadership and it is a tribute to Andy that he not only brought in Philip as a potential successor but has also ensured a smooth handover of responsibilities. I have enjoyed working with Andy immensely and we all wish him well in his future plural career.

Strategy

Rathbones has grown its investment management business very successfully over the years, both organically and by acquisition, and as a larger business we will be looking over the next year to develop our strategic processes and formalise our risk and capital planning disciplines to a greater degree. This will be a top priority for our new chief executive and I look forward to working with him and the rest of the board on this.

Risk and litigation

Whilst we have made considerable progress in 2013, risk management remains an area we want to develop further. We plan to establish an independent risk management structure to supplement our historic and proven practice of ensuring that our investment teams take responsibility for the risks in their areas of business. We will continue to promote a culture of risk awareness and responsibility throughout the firm. The biggest risks to Rathbones continue to arise from our ambition to grow our business and from regulatory intervention in our sector.

We were successful on all substantial coverage issues in the insurance case referred to in note 8, but this was negated by the court's finding that insurers had rights of subrogation against Rathbones. Both sides have lodged an appeal. The board believes that the underlying Jersey claim will be unsuccessful and that effective insurance cover will be confirmed on appeal. Nevertheless litigation is not without risk and therefore the possibility exists that the group's insurance will not be effective or proves insufficient.

Regulation

The regulatory impact on the private client investment management industry increased during the year. The regulatory system changed significantly as the Financial Services Authority was replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). We are therefore subject to two regulatory regimes. Our investment management and unit trust businesses are both regulated by the FCA, but, as Rathbone Investment Management is a bank, we are also regulated by the PRA. In addition, European legislation is increasingly impacting our industry. We believe that it is important that short term political imperatives do not mean that the pendulum

swings too far in our area of financial services and that unintended consequences do not work against the best interests of good investment managers and their clients.

Remuneration

Work continues on implementing a firm wide remuneration structure that reinforces a performance-driven culture from the top to the bottom of the group.

Shareholders

We endeavour to maintain an effective and regular dialogue with our major shareholders. The views of all our shareholders and what we believe is in their best interests shape all aspects of our decision making. At the AGM, in line with best practice, we give shareholders the opportunity to vote on the appointment or reappointment of each board member.

Outlook

We are well placed to take advantage of future growth opportunities in our sector and continue to look to the future with optimism. I very much look forward to working with our new chief executive, Philip Howell, and the board in the coming years to develop and grow the business further.

Mark Nicholls
Chairman
19 February 2014

Chief executive's statement

Performance

Our 2013 performance was, as always, affected by the markets. There were several periods of uncertainty but markets generally improved throughout the year (and ended relatively high) having a positive impact on our fee and commission income. This positive market sentiment also benefited our net organic growth rate, which is again above 5% on an annualised basis.

We achieved a key milestone when our total funds under management exceeded £20 billion in April and by the year end this had increased to £22.0 billion. Notably our charity team grew their funds under management to £2.7 billion by the year end; their funds under management have doubled over the last five years.

Another area of significant growth was our unit trust business where funds under management increased 38.5% to £1.8 billion. 2014 has also started positively with significant inflows into the Income and Global Opportunities funds in particular.

Costs increased during 2013, due to investment and higher variable awards which are performance related. We continue to invest in our systems and expect this to deliver benefits in the coming years. We are also spending more money on our research process and anticipate expanding the number of people dedicated to this area.

Profit before tax of £44.2 million in 2013 was up 14.8% (2012: £38.5 million). Given this increase and the improving economic picture, the board has decided to increase the final dividend by 1.0p making the total dividend for the year 49.0p (2012: 47.0p).

Regulation

Regulation remains a key issue for all financial services firms. Although we consider our banking licence is an important differentiator amongst our peers, we are subject to two regimes, which results in a significant increase in the time and cost of dealing with our regulators. European legislation is also increasingly impacting the UK wealth management and banking sectors.

Key events

The clients and staff of Taylor Young Investment Management moved across to our systems and London office in early 2013 following our acquisition of the business at the end of 2012. This has been a successful acquisition bringing across a net £367 million of funds under management and eight new investment management colleagues. Our Newcastle and Lymington offices, opened at the start of 2013, are now fully operational and are working hard to build their client bases.

The roll out of our new asset allocation modelling software across Rathbone Investment Management commenced in late 2013. This exciting tool enables each of our investment managers to analyse any number of their clients' portfolios and actively compare them to model strategies. The ability to make this comparison quickly and conveniently should significantly improve the efficiency of managing portfolios, allowing more time to be spent communicating with existing clients as well as gaining new ones.

One of the reasons for the share placing at the end of 2012 was to enable us to expand our loan book. Client loans now total almost £90 million, up 37.0% from the end of 2012. As well as a welcomed solution for clients, this has helped to offset continued low interest income from our treasury assets.

We continue to develop our marketing initiatives and our support of English Lacrosse in particular. This has resulted in favourable publicity for Rathbones.

Retirement

On 2 December 2013 we announced that I will be retiring at the end of February 2014. I joined the group in 1999 as the finance director, taking over as chief executive at the end of 2004. This has been a fascinating and challenging period, characterised by unstable markets. Over this period the business has grown from £5 billion of funds under management to over £22 billion. This achievement is entirely down to the people who work for Rathbones, and I will miss them all as I move to a plural career. Philip Howell will take on the role of chief executive a year after he joined as my deputy. Having spent the last year working with Philip I believe he is the ideal person to lead Rathbones in the future. I wish him and everyone at Rathbones well. Thank you all for your support over the last 15 years.

Andy Pomfret
Chief Executive
19 February 2014

Rathbones' performance

Our 2013 financial year was positive for Rathbones and our clients. Markets improved steadily in the early part of the year and eventually shrugged off mid-year uncertainty over the sustainability of the recovery ending the year strongly. This strength in financial markets, particularly in the second half of 2013 helped improve net organic fund inflows which, together with acquired business, helped us grow total funds under management to £22.0 billion at 31 December 2013; an increase of 22.2% on £18.0 billion at the start of the year.

Positive markets and continued growth in both Rathbone Investment Management and Rathbone Unit Trust Management helped to improve 2013 profitability and earnings per share as shown in table 1.

Table 1. Extracts from the consolidated statement of comprehensive income

	2013 £m	2012 £m (Restated – note 1)
Operating income	176.4	155.6
Underlying operating expenses	(125.9)	(110.8)
Underlying profit before tax[1]	50.5	44.8
Underlying operating margin[2]	28.6%	28.8%
Profit before tax	44.2	38.5
Effective tax rate	21.3%	24.7%
Taxation	(9.4)	(9.5)
Profit after tax	34.8	29.0
Underlying earnings per share	86.7p	77.4p
Earnings per share	76.1p	66.5p
Dividend per share[3]	49p	47p

1 Profit before tax excluding amortisation of client relationships and, in 2012, head office relocation costs
2 Underlying profit before tax as a % of operating income
3 The total interim and final dividend proposed for the financial year

Group operating income

Operating income increased 13.4% to £176.4 million in 2013 reflecting higher fees and commissions from higher levels of funds under management offset by lower net interest income. A detailed analysis of the components of income is set out in the segmental review, below.

Group underlying operating expenses

Underlying operating expenses have increased 13.6% to £125.9 million and reflect a combination of business growth and investment as well as some other factors.

Total fixed staff costs, including support staff, increased by 9.8% to £56.9 million in 2013. Average full time equivalent headcount grew 5.6% to 833 (2012: 789) which reflected the addition of new revenue generating teams, including the new offices in Lymington and Newcastle and the team from Taylor Young's private client business. We have also taken on more staff in operational roles and support departments in line with a growing business. In addition, salary inflation amounted to 3.7%.

Total variable staff costs, including variable awards for business support staff, increased by 32.2% to £27.9 million. This reflects higher growth-based awards in line with improved net organic growth levels and an outperformance versus the WMA Balanced Index, together with the higher cost of cash-settled awards, in line with share price growth and higher profitability.

As planned, infrastructure costs increased by £2.4 million largely as a result of the opening of new offices in Newcastle and Lymington and increased IT expenditure to improve automation and help drive process efficiencies.

Underlying operating expenses also included £2.7 million of legal fees (2012: £0.8 million) in relation to the claims outlined in note 8 and £0.7 million of accelerated accounting charges for deferred awards on the retirement of the chief executive.

Profit before tax/operating margin

Underlying profit before tax and earnings per share are considered by the board to be a better reflection of true business performance than looking at Rathbones' results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude expenditure falling in the two categories explained below.

Amortisation of acquired client relationships
Client relationship intangible assets are created in the course of acquiring funds under management. The amortisation charge associated with these assets represents a significant non-cash item. It has, therefore, been excluded from underlying profit, which represents largely cash-based earnings. Charges for amortisation of client relationship intangibles in the year ended 31 December 2013 were £6.3 million (2012: £6.0 million).

Head office relocation costs
In February 2012, we relocated our head office to 1 Curzon Street, taking advantage of the opportunity to bring London-based employees together, with most now sitting on the same floor of a single building. Charges in 2012 of £0.3 million associated with this move were separately highlighted and excluded from underlying profit due to their non-recurring nature. No such expenditure was incurred in 2013. Head office operating lease costs of £3.3 million per annum are included within underlying operating expenses.

Underlying profit before tax grew 12.7% from £44.8 million in 2012 to £50.5 million. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to operating income, was 28.6% for the year ended 31 December 2013 (2012: 28.8%). Profit before tax grew by 14.8% to £44.2 million for the year, up from £38.5 million in 2012. Head office relocation costs were not repeated in 2013.

Taxation

The tax charge for 2013 was £9.4 million (2012: £9.5 million), and represents an effective tax rate of 21.3% (2012: 24.7%).

The effective tax rate is lower than the derived UK standard rate of corporation tax of 23.2% due to:

- an increase in the tax deduction available for share-based awards driven by a higher share price; and
- the reversal of an overprovision in 2012 for the impact of deferred awards;
- partially offset by disallowable expenses.

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

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

Basic earnings per share

Basic earnings per share for the year ended 31 December 2013 were 76.1p, up 14.4% on 66.5p in 2012 and incorporating the full year impact of the £24.0 million placing in November 2012. On an underlying basis, earnings per share increased by 12.0% to 86.7p in 2013 (see note 6).

Dividends

In light of the results for the year, the board have proposed a final dividend for 2013 of 31.0p. This results in a full year dividend of 49.0p, an increase of 2.0p on 2012 (4.3%). The proposed dividend is covered 1.6 times by basic earnings and 1.8 times by underlying earnings.

Legal proceedings

As reported in the 2012 report and accounts, a claim relating to the management of a Jersey trust has been filed against a former employee (and director) of a former subsidiary and others (and that former subsidiary has recently been joined in as a defendant). In addition, the company issued proceedings against certain of its civil liability (professional indemnity) insurers in respect of the former employee's potential liabilities arising out of the Jersey claim.

In November 2013 the company announced that judgment had been handed down following the trial in the Commercial Court in London in respect of the insurance case. In December, the company and the former employee in question decided to appeal subrogation aspects of the judgment and our insurers also decided to appeal coverage aspects of the judgment. The hearing of those appeals before the Court of Appeal is expected to take place in the second half of 2014. The underlying Jersey claim is now expected to come to trial towards the end of 2015. Further detail on these matters is set out in note 8.

The board believes that, whilst legal costs may continue to be incurred, it is more likely than not that any final judgment in relation to the above claims will result in no liability to the company, and accordingly no provision has been made in the consolidated financial statements.

Segmental review

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

Investment Management

Key performance indicators

The financial performance of Investment Management is largely driven by the value of funds under management. Revenue margins are expressed as a basis point return, which depends on a mix of tiered fee rates, commissions charged for transactions undertaken on behalf of clients and the interest margin earned on cash in client portfolios and loans to clients, as described below. Funds are closely managed by investment managers, who maintain relationships with clients that are critical to the retention of client accounts.

Year on year changes in the key performance indicators for Investment Management are shown in table 2, below:

Table 2. Investment Management – key performance indicators

	2013	2012
Funds under management at 31 December[1]	£20.2bn	£16.7bn
Underlying rate of net organic growth in Investment Management funds under management[1]	5.4%	3.0%
Underlying rate of total net growth in Investment Management funds under management[1]	9.0%	6.2%
Average net operating basis point return[2]	81bps	85bps
Number of Investment Management clients	41,000	39,500
Number of investment managers	209	205

1 See table 3
2 See table 6

During 2013 we have continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 39,500 to 41,000 during the year, with some 480 clients joining us in the year as a result of our purchase of Taylor Young Investment Management's private client business. During 2013, the total number of investment managers increased to 209 at 31 December 2013 from 205 at the end of 2012.

Fund flows

Investment Management funds under management increased by 21.0% to £20.2 billion at 31 December 2013 from £16.7 billion at the start of the year. This increase is analysed in table 3, below.

Table 3. Investment Management – funds under management

	2013 £bn	2012 £bn
As at 1 January	16.7	14.8
Inflows	2.7	2.1
– organic[1]	2.1	1.6
– acquired[2]	0.6	0.5
Outflows[1]	(1.2)	(1.2)
Market adjustment[3]	2.0	1.0
As at 31 December	20.2	16.7
Net organic new business[4]	0.9	0.4
Underlying rate of net organic growth[5]	5.4%	3.0%
Underlying rate of total net growth[6]	9.0%	6.2%

1 Value at the date of transfer in/(out)
2 Value at 31 December
3 Represents the impact of market movements and investment performance
4 Organic inflows less outflows
5 Net organic new business as a % of opening funds under management
6 Net organic new business and acquired inflows as a % of opening funds under management

The improvement in market sentiment in 2013 is reflected in the increase in underlying net organic growth, which is measured as funds introduced by new or existing clients to existing investment managers. Underlying net organic growth in 2013 was 5.4% of opening funds under management in the year compared to 3.0% in 2012.

All areas of the business contributed to growth in 2013, with referrals from existing clients remaining a key source of new business. Charity funds under management continued to grow strongly, supported by good investment performance, and reached £2.7 billion at 31 December 2013, up 28.6% from £2.1 billion at the start of the year. We are now one of the ten largest charity investment managers in the UK by funds under management. We were shortlisted by the Charity Times as Investment Manager of the Year 2013 and delighted that the chair of the Charity Commission spoke at our annual charity symposium.

We retained our marketing focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers (IFAs) and provider panel relationships increased by £703 million during 2013, ending the year at £3.6 billion; an increase of 24.1%. Of this increase, Vision Independent Financial Planning Limited, in which we own a 19.9% holding, represented £164 million.

Acquired inflows of £0.6 billion in the year include £367 million from the purchase of Taylor Young Investment Management Limited's private client base in November 2012 and funds introduced by newly joining investment managers who are subject to earn-out arrangements.

In total, net organic and acquired growth added £1.5 billion to Investment Management funds under management in 2013 (2012: £0.9 billion), representing an underlying rate of total net growth of 9.0% (2012: 6.2%).

The FTSE 100 Index and the FTSE WMA Balanced Index rose by 14.4% and 10.8% respectively over the year, which helped generate a positive market adjustment of £2.0 billion (2012: £1.0 billion positive adjustment).

Performance across all of our discretionary portfolios was reasonably strong against the WMA Balanced index. Although underweight in US equities overall, favourable asset allocation towards UK equities and corporate bonds was supported by good stock selection decisions, particularly in the UK.

Financial performance

Investment Management income is derived from:

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

Table 4. Investment Management – financial performance

	2013 £m	2012[1] £m
Net investment management fee income[2]	104.2	89.6
Net commission income	42.0	37.4
Net interest income[3]	8.6	9.9
Fees from advisory services[4] and other income	10.5	9.8
Net operating income	165.3	146.7
Underlying operating expenses[5]	(116.2)	(102.4)
Underlying profit before tax	49.1	44.3
Underlying operating margin[6]	29.7%	30.2%

1 Comparatives restated due to change in accounting standard for pensions (see note 1)
2 Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
3 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 7
6 Underlying profit before tax as a % of underlying net operating income

Net investment management fee income increased by 16.3% from £89.6 million to £104.2 million in 2013, benefitting from continuing growth in funds under management. For the majority of clients, fees are calculated based on a tiered fee scale applied to the value of funds at our quarterly charging dates. Average funds under management on these billing dates in 2013 were £19.0 billion, up 18.8% from 2012.

Table 5. Investment Management – average funds under management

	2013 £bn	2012 £bn
Valuation dates for billing		
– 5 April	18.2	15.6
– 30 June	18.4	15.5
– 30 September	19.1	16.1
– 31 December	20.2	16.7
Average	19.0	16.0
Average FTSE 100 level	6419	5734

Positive markets and the resultant growth in investor confidence during the year led to an increase in transaction activity on behalf of our clients and commissions have remained strong throughout the year. In 2013, commission income of £42.0 million was up 12.3% on £37.4 million in 2012, despite the loss of substantially all trail commission income in 2013 following the implementation of the Retail Distribution Review (RDR) (2012: £2.0 million).

Net interest income of £8.6 million in 2013 was 13.1% below £9.9 million in 2012 as margins continued to be compressed. The Investment Management loan book added £0.7 million to net interest income in 2013, up from £0.4 million in 2012.

As our fee rates are tiered, rising markets reduce the average net return earned in fees. This, combined with the loss of trail commission post-RDR and continued pressure on interest margins resulted in a decrease in the basis point return earned on average funds under management to 81 bps from 85 bps in 2012, as shown in the table below.

Table 6. Investment Management – revenue margin

	2013 bps	2012 bps
Basis point return[1] from		
- fee income	55	56
- commission	22	24
- interest	4	5
Basis point return on funds under management	81	85

1 Net operating income (see table 4) 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 5)

Fees from advisory services and other income of £10.5 million were 7.1% higher than 2012 reflecting the impact of business growth.

Underlying operating expenses in Investment Management for 2013 were £116.2 million, compared to £102.1 million in 2012, an increase of 13.8%. This is highlighted in the table below:

Table 7. Investment Management – underlying operating expenses

	2013 £m	2012[1] £m
Staff costs[2]		
– fixed	39.8	36.3
– variable	20.6	16.8
Total staff costs	60.4	53.1
Other operating expenses	55.8	49.3
Underlying operating expenses	116.2	102.4
Underlying cost/income ratio[3]	70.3%	69.8%

1 Comparatives restated due to change in accounting standard for pensions (see note 1)
2 Represents the costs of investment managers and teams directly involved in client facing activities
3 Underlying operating expenses as a % of net operating income (see table 4)

Fixed staff costs of £39.8 million increased by 9.6% year on year principally reflecting teams joining the front office, in particular in Newcastle and Lymington, increased pension costs and salary inflation. Variable staff costs are also higher, reflecting higher underlying profitability, positive investment performance and growth in funds under management.

Other operating expenses of £55.8 million include property, depreciation, settlement, IT, finance and other central support services costs. The year to year increase of £6.5 million (13.2%) reflects increased investment in the business, recruitment and higher variable awards in support functions.

Unit Trusts

Key performance indicators

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year on year changes in the key performance indicators for Unit Trusts are shown in table 8, below:

Table 8. Unit Trusts – key performance indicators

	2013	2012
Funds under management at 31 December[1]	£1.8bn	£1.3bn
Underlying rate of net growth in Unit Trusts funds under management[1]	23.1%	6.4%
Profit before tax[2]	£1.4m	£0.6m

1 See table 9
2 See table 12

Fund flows

The retail asset management industry saw a much improved trend in net retail sales but with industry concentration in a small number of funds continuing. Focus shifted from mainstream fixed income funds to equity (the best-selling asset class by net sales in the industry for nine consecutive months) and multi-asset funds, both areas in which we have expertise and strong product offerings. Particularly key to the growth of the business is that sales have been

strong across the product range, from bond funds, to multi-asset to global equity and UK equity income products. The pick-up in markets, coupled with greater optimism, led to a 42.7% rise in industry-wide net retail sales to £20.4 billion, compared to £14.3 billion in 2012, as reported by the Investment Management Association (IMA). Moving with this trend, Unit Trusts' funds under management increased by 38.5% year on year (the industry was up 16.0%, according to the IMA) to £1.8 billion from £1.3 billion at the end of 2012, supported both by market movements and net growth in funds as shown in table 9 below.

Table 9. Unit Trusts – funds under management

	2013 £bn	2012 £bn
As at 1 January	1.3	1.1
Net inflows	0.3	0.1
– inflows[1]	0.6	0.3
– outflows[1]	(0.3)	(0.2)
Market adjustments[2]	0.2	0.1
As at 31 December	1.8	1.3
Underlying rate of net growth[3]	23.1%	6.4%

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

Unit Trusts' positive momentum continued to grow in 2013, which was a record year with gross sales of £0.6 billion. As a result net inflows accelerated to £0.3 billion, up from £0.1 billion in 2012. Net inflows in 2013 included £95 million that is managed in the new Rathbone Global Alpha Fund under a mandate from Scottish Life that was won during the year following a competitive tender process. We also launched the Rathbone Heritage Fund in the year, a selectively marketed unitised fund which provides a discretionary-level service. Sales in 2013 were strong across the range of funds.

At 31 December 2013, the value of assets managed in each fund was as follows:

Table 10. Unit Trusts – fund assets

	2013 £m	2012 £m
Rathbone Income Fund	**656**	484
Rathbone Global Opportunities Fund	**330**	190
Rathbone Ethical Bond Fund	**148**	102
Rathbone Global Alpha Fund	**100**	-
Rathbone Recovery Fund	**76**	59
Rathbone Blue Chip Income and Growth Fund	**56**	46
Rathbone Strategic Bond Fund	**55**	43
Rathbone Active Income Fund for Charities	**39**	21
Rathbone Heritage Fund	**16**	-
Rathbone Multi Asset Portfolios	**138**	110
Other funds	**235**	211
	1,849	1,266

During 2013, the range of funds continued to consolidate their long term performance track record, which is critical to maintaining sales momentum. At 31 December 2013, all of our main retail funds reported strong three-year and five-year track records.

Table 11. Unit Trusts – fund performance

2013/(2012) Quartile ranking[1] over:	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	3 (1)	2 (2)	2 (2)
Rathbone Ethical Bond Fund	1 (1)	1 (1)	1 (2)
Rathbone Global Opportunities Fund	1 (3)	1 (1)	1 (2)
Rathbone Income Fund	2 (2)	1 (1)	1 (2)
Rathbone Recovery Fund[2]	1 (2)	1 (1)	n/a (n/a)
Rathbone Strategic Bond Fund[3]	3 (3)	n/a (n/a)	n/a (n/a)

1 Ranking of institutional share classes at 31 December 2013 and 31 December 2012
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

Following the implementation of RDR, we saw investors continue to switch from retail to institutional units across all of our funds during the year. Institutional units carry a lower annual management charge (typically half that of retail units) and do not allow for any form of trail commission to advisers who must now levy their own charges directly to investors. By 31 December 2013 some 36% of holdings in our retail funds were in institutional units.

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 12. Unit Trusts – financial performance

	2013 £m	2012[1] £m
Net annual management charges	9.5	7.6
Net dealing profits	1.2	0.6
Initial charges net of discounts	0.2	0.5
Interest and other income	0.2	0.2
Net operating income	11.1	8.9
Underlying operating expenses[2]	(9.7)	(8.3)
Profit before tax	1.4	0.6
Operating margin[3]	12.6%	6.7%

1 Comparatives restated due to change in accounting standard for pensions (see note 1)
2 See table 13
3 Profit before tax divided by net operating income

Net annual management charges increased 25.0% to £9.5 million in 2013, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 62 basis points (2012: 64 basis points) as a result of the continued switch from retail to institutional units by the platforms during the year.

Net dealing profits of £1.2 million were double the £0.6 million reported in 2012, as the level of gross sales grew significantly in 2013. Net operating income as a percentage of average funds under management fell to 72 basis points in 2013 from 75 basis points in 2012.

Table 13. Unit Trusts – underlying operating expenses

	2013 £m	2012[1] £m
Staff costs		
– fixed	3.1	2.9
– variable	1.8	0.9
Total staff costs	4.9	3.8
Other operating expenses	4.8	4.5
Underlying operating expenses	9.7	8.3
Underlying cost/income ratio[2]	87.4%	93.3%

1 Comparatives restated due to change in accounting standard for pensions (see note 1)
2 Underlying operating expenses as a % of net operating income (see table 12)

Fixed staff costs of £3.1 million for year ended 31 December 2013 were 6.9% higher than the previous year principally due to salary increases and a small increase in average headcount over the year.

Variable staff costs of £1.8 million were higher than £0.9 million in 2012 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 6.7% to £4.8 million, principally as a result of higher third party administration costs, reflecting both the launch of institutional class shares and the increased level of sales of units.

Financial position

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

	2013 £m (unless stated)	2012 £m (unless stated)
Capital resources		
- Tier 1 capital ratio[1]	**21.0%**	20.1%
- Total equity	**251.0**	229.5
- Return on assets[2]	**2.9%**	2.5%
- Consolidated leverage ratio[3]	**12.6%**	12.4%
Other resources		
- Total assets	**1,229.8**	1,137.7
- Treasury assets[4]	**940.8**	896.4
- Investment management loan book	**89.2**	65.1
- Intangible assets from acquired growth[5]	**99.7**	92.8
- Tangible assets and software[6]	**16.8**	16.6
- Net defined benefit asset	**1.6**	-
Liabilities		
- Due to customers[7]	**891.9**	828.4
- Net defined benefit liability	**-**	2.1

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

Regulatory capital

Rathbones is classified as a banking group under the Capital Requirements Directive and we are therefore required to operate within a wide range of restrictions on capital resources and banking exposures that are prescribed by the prudential rules of the Prudential Regulation Authority (PRA). At 31 December 2013, the group had regulatory capital resources of £142.3 million (2012: £128.7 million), calculated on a Basel III basis as follows:

Table 15. Regulatory capital resources (Basel III basis)

	2013 £m	2012 £m
Share capital and share premium	**67.8**	64.5
Reserves	**188.9**	170.9
Less:		
- Own shares	**(5.7)**	(5.8)
- Intangible assets[1]	**(105.0)**	(97.4)
- Other regulatory adjustments[2]	**(3.7)**	(3.5)
Total regulatory capital resources (all of which are Tier 1)	**142.3**	128.7

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

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.

Our consolidated common equity Tier 1 ratio, calculated on a Basel III basis, is much higher than the banking industry norm. This reflects the impact of our placing in November 2012, the low risk nature of our banking activity and our lack of debt financing. The Tier 1 ratio has risen to 21.0% from 20.1% at the previous year end mainly due to growth in reserves.

The consolidated leverage ratio, also calculated on a Basel III basis, was 12.6% at 31 December 2013, up slightly from 12.4% at 31 December 2012. The leverage ratio represents the group's Tier 1 capital resources as a percentage of its total assets, excluding intangible assets and investment in associates, plus a proportion of off balance sheet exposures.

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

Table 16. Group Pillar I requirement

	2013 £m	2012 £m
Credit risk requirement	**32.6**	31.6
Market risk requirement	**0.2**	0.1
Operational risk requirement	**21.3**	19.4
Pillar I requirement	**54.1**	51.1

Capital resources
The consolidated balance sheet remains healthy with total equity of £251.0 million at 31 December 2013, up 9.4% from £229.5 million at the end of 2012. The business remains well capitalised and does not rely on wholesale markets to fund its operations. The group is wholly funded by equity.

Total assets
Total assets at 31 December 2013 were £1,229.8 million (2012: £1,137.7 million), of which £891.9 million (2012: £828.4 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 £896.8 million (2012: £833.9 million), including £4.9 million (2012: £5.5 million) held in client money accounts, represented 4.4% of total investment management funds at 31 December 2013 compared to 5.0% at the end of 2012.

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk. The treasury department invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be 'A' rated or higher by Fitch and are regularly reviewed by the banking committee. During the year, we increased the share of treasury assets held with the Bank of England to £211.0 million from £116.0 million at 31 December 2012.

Loans to clients
Loans are provided as a service to investment management clients who have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name and are usually advanced for a maximum of one year. In addition, equitable charges may be made on property held by the client. 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.

As foreshadowed last year, we have increased the size of the investment management loan book during 2013, to take advantage of the higher demand for client loans. Outstanding loans totalled £89.2 million at the end of 2013 (2012: £65.1 million). This activity remains 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 2013, the total carrying value of intangible assets arising from acquired growth was £99.7 million (2012: £92.8 million). During the year, client relationship intangible assets of £13.2 million were capitalised (2012: £10.0 million), including £9.6 million relating to the acquisition of Taylor Young Investment Management Limited's private client base. No goodwill was acquired during 2012 or 2013.

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of ten to fifteen years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships, including the impact of lost relationships, in 2013 was £6.3 million (2012: £6.0 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 2012 or 2013.

Capital expenditure
During 2013, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £4.5 million (2012: £6.1 million). Capital expenditure in 2012 included £2.0 million in relation to the relocation of our head office. 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.

In 2014, we expect capital expenditure to remain at 2013 levels as we continue to invest in our internet portal for clients and advisers as part of our ongoing endeavours to improve and develop the business.

Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years. Actuarial valuations of the schemes as at 31 December 2010 were carried out during 2011 and these are due to be updated during the second half of 2014 based on the position at 31 December 2013.

Continued market volatility in 2013, in particular in relation to interest rates and inflation expectations, has meant that the funding positions of our pension schemes have also been volatile during the year. However, the strong growth in asset prices in 2013 has moved both the schemes into a surplus (on an accounting basis) at 31 December 2013. The combined accounting surplus on the two defined benefit schemes was £1.6 million at the year end, compared to a combined deficit of £2.1 million at 31 December 2012. This improvement is mainly due to continued funding, improved asset returns and the impact of higher discount rates on the valuation of scheme liabilities.

Funding valuations, which form the basis of the annual contributions that we make into the schemes, are required to be more prudent than valuations used for financial reporting. Regular annual contributions to the schemes for ongoing service by scheme members were £2.5 million in 2013, based on 14.8% of pensionable salaries. In addition, further funding contributions of up to £3.1 million per year are payable until 2017 under the current agreement, although this will be revisited during 2014 as part of the triennial valuation process.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

	2013 £m	2012 £m
Cash and cash equivalents at the end of the year	319.8	230.2
Net cash inflows/(outflows) from operating activities	145.3	(176.8)
Net increase in cash and cash equivalents	89.7	100.3

Fee income is largely collected directly from client portfolios and expenses, by and large, are predictable; consequently Rathbones operates with a modest amount of working capital. Larger cash flows are principally generated from banking/treasury operations when investment managers make asset allocation decisions about the amount of cash to be held in client portfolios.

As a bank, Rathbones is subject to the PRA's ILAA regime, which requires us to hold a suitable Liquid Assets Buffer to ensure that short-term liquidity requirements can be met under certain stressed scenarios. Liquidity risks are actively managed on a daily basis and depend on operational and investment transaction activity.

Cash and balances at central banks was £211.0 million at 31 December 2013 (2012: £116.0 million).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits which had an original maturity of less than three months.

Net cash flows from operating activities include the effect of a £62.9 million decrease in banking client deposits (2012: £80.2 million increase) and a £37.9 million decrease in the component of treasury assets placed in term deposits for more than three months (2012: £131.2 million increase).

Offsetting these inflows was a net outflow of £16.9 million from the maturity of certificates of deposit and the liquidation of holdings in money market funds (2012: £284.9 million net inflows), shown within investing activities in the consolidated statement of cash flows.

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

- outflows relating to the payment of dividends of £22.1 million (2012: £20.1 million);
- outflows relating to payments to acquire intangible assets of £17.0 million (2012: £7.7 million); and
- £2.4 million of capital expenditure on property, plant and equipment (2012: £4.0 million).

Risk management

Rathbones continues to enhance its risk management framework which provides a structured and consistent approach to ensuring that all identified risks are owned by management, business units and, in some cases, specific committees. Risk management is supported by a dedicated risk function.

Risk appetite

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

Risk assessment

Rathbones reviews and monitors risk exposures closely, considering the potential impact and any management actions required to mitigate the impact of emerging issues and future events. The group risk register is the principal tool for monitoring risks which are classified in a strict hierarchy. The highest level (Level 1) identifies risks as either financial, business or operational. The next level (Level 2) contains 15 risk categories which are listed below. Detailed risks (Level 3) are a subset of Level 2 risks and are captured and maintained across the company within separate business unit risk registers. A watch list is maintained to record any emerging issues and future events which will or could have the potential to impact Rathbones' risk profile and may therefore require active management, process changes or systems development. The watch list is regularly reviewed and monitored by executive management and governance committees.

Risk scoring

During 2013, Rathbones continued to assess the risks using a 1 – 4 scoring system with each Level 3 risk rated by assessing the likelihood of its occurrence in a five year period and the associated impact. A residual risk score is then derived by taking into account an assessment of the internal control environment or insurance mitigation.

Risk Profile

39 Level 3 risks currently form the basis of the group's risk register, each of which is classified under one of the 15 Level 2 risk categories.

Rathbones approach to managing risk is underpinned by our understanding of our current risk exposures and how risks change over time. The risk register and watch list are monitored closely by executive management, the group risk committee and the board.

The risk profile and ratings for the majority of Level 2 risks have remained consistent during 2013. The following table summarises the changes.

Ref	Risk	Risk change in 2013	Description of change
F	Performance & advice	Up	Insurance risks arising from Jersey trust legal proceedings (see note 8).
G	Regulatory	Up	Higher FSCS levies and volume of regulation impacting the business.
K	Data integrity & security	Up	Increased financial impact and consequences of potential cyber attacks, fraud and external data loss events.

The board believes that the principal risks and uncertainties facing the group have been identified within the information below. Our overall risk profile and ways in which we mitigate risks are analysed below. These listings are not exhaustive and risk mitigators exclude the oversight provided by board committees.

Financial risks

Ref	Level 2 Risk	Definition	Key Mitigators
A	Credit	The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement.	▪ Banking committee oversight. ▪ Counterparty limits and credit reviews. ▪ Treasury policy and procedures manual. ▪ Active monitoring of exposures. ▪ Annual Individual Capital Adequacy Assessment Process.
B	Liquidity	The risk of having insufficient financial resources to meet obligations as they fall due, or that secure access to such resources would be at excessive cost.	▪ Banking committee oversight. ▪ Daily reconciliations and reporting to senior management. ▪ Cash flow forecasting. ▪ Contingency funding plan. ▪ Annual Individual Liquidity Adequacy Assessment (including stress testing).
C	Market	The risk that earnings or capital will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices.	▪ Banking committee oversight. ▪ Documented policies and procedures. ▪ Daily monitoring of interest rates, exchange rates and maturity mismatch. ▪ Robust application of policy and investment limits.
D	Pension	The risk that funding our defined benefit pension schemes materially affects dividends, reserves and capital.	▪ Management and trustee oversight. ▪ Monthly valuation estimates. ▪ Triennial independent actuarial valuations. ▪ Investment policy and oversight. ▪ Monthly management information. ▪ Annual Individual Capital Adequacy Assessment Process.

Business risks

Ref	Level 2 Risk	Definition	Key Mitigators
E	Business model	The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected.	• Board and executive oversight. • A documented strategy. • Annual business targets, subject to regular review and challenge. • Regular reviews of pricing structure. • Continued investment in marketing, the investment process, and service standards. • Trade body participation.
F	Performance & advice	The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios resulting in a failure to meet clients' investment and/or other objectives or expectations.	• Investment governance and structured committee oversight, specifically strategic asset allocation and stock selection. • Management oversight and active client service, performance measurement and attribution analysis. • Weekly investment management meetings. • Monthly investment manager peer reviews. • Consistent and competitive remuneration schemes. • Compliance monitoring.
G	Regulatory	The risk that the introduction of new regulation or changes to interpretation or enforcement of existing regulation, or imposition of levies, materially affects the business model, our services, cost levels or operations.	• Active involvement with representative industry bodies. • Compliance monitoring and oversight of industry and regulatory developments. • Close contact with the regulators. • Documented policy and procedures.
H	Reputational	The risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations.	• 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. • A treating clients fairly culture. • Strong values and approach to governance. • Monitoring of media coverage.

Operational risks

Ref	Level 2 Risk	Definition	Key Mitigators
I	Business change	The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes.	• Project and IT committees. • Dedicated project office function. • Documented business plans and IT strategy. • Two-stage assessment, challenge and approval of project plans. • Documented project and change procedures.
J	Business continuity	The risk that an internal or external event results in either failure or detriment to core business processes or services.	• Group business continuity committee oversight. • Documented crisis/incident management and disaster recovery plans. • Regular disaster recovery testing. • Continuous monitoring of IT systems availability. • Off-site data centre.
K	Data integrity & security	The risk of a lack of integrity of, inappropriate access to, or disclosure of, client or company-sensitive information.	• Data security committee oversight. • Data protection policy and procedures. • System access controls and encryption. • Penetration testing & multi layer network security. • Training and employee awareness programmes. • Office and physical security within all locations.
L	Legal & compliance	The 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 or inadequate or ineffective insurance cover.	• Executive oversight. • Retained specialist legal advisers. • Compliance department. • Data protection policy and compliance monitoring. • Documented policies and procedures. • Training and employee awareness programmes.
M	Outsourcing	The risk of one or more third parties failing to provide or perform outsourced services to standards expected by the Group, impacting the ability to deliver core services.	• Executive oversight. • Active relationship management, including regular service review meetings. • Service level agreements and monitoring of key performance indicators. • Compliance monitoring.
N	People	The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions.	• Executive oversight. • Succession and contingency planning. • Transparent, consistent and competitive remuneration schemes. • Investment in staff training and development. • Contractual clauses with restrictive covenants.

O	Processing	The risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets.	• Authorisation limits and management oversight. • Dealing limits and supporting system controls. • Active investment in automated processes. • Counter review/4-eyes processes. • Segregation of duties. • Documented procedures. • Annual controls assessment (ISAE3402 report).

Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in this announcement.

Group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments which include the modelling of certain extreme stress scenarios. The company publishes Pillar III disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. During the year, and as at 31 December 2013, the group has had no external borrowings and is wholly funded by equity.

In 2013, the group has continued to generate organic growth in client funds under management and this is expected to continue. The directors believe that the company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook.

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

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000 (restated - note 1)
Interest and similar income		**9,212**	11,162
Interest expense and similar charges		**(604)**	(1,258)
Net interest income		**8,608**	9,904
Fee and commission income		**174,325**	153,703
Fee and commission expense		**(9,938)**	(10,305)
Net fee and commission income		**164,387**	143,398
Dividend income		**127**	110
Net trading income		**1,226**	562
Other operating income		**1,972**	1,586
Share of profit of associates		**89**	21
Operating income		**176,409**	155,581
Amortisation of acquired client relationships		**(6,306)**	(6,025)
Head office relocation costs		**-**	(300)
Other operating expenses		**(125,899)**	(110,752)
Operating expenses		**(132,205)**	(117,077)
Profit before tax		**44,204**	38,504
Taxation	4	**(9,453)**	(9,521)
Profit after tax		**34,751**	28,983
Profit for the year attributable to equity holders of the company		**34,751**	28,983
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit asset/liability		**2,188**	968
Deferred tax relating to net remeasurement of defined benefit asset/liability		**(788)**	(474)
Items that may be reclassified to profit or loss			
Revaluation of available for sale investment securities:			
- net gain from changes in fair value		**2,072**	923
- net profit on disposal transferred to profit or loss during the year		**(5)**	-
		2,067	923
Deferred tax relating to revaluation of available for sale investment securities		**(298)**	(154)
Other comprehensive income net of tax		**3,169**	1,263
Total comprehensive income for the year net of tax attributable to equity holders of the company		**37,920**	30,246
Dividends paid and proposed for the year per ordinary share	5	**49.0p**	47.0p
Dividends paid and proposed for the year		**22,645**	21,220
Earnings per share for the year attributable to equity holders of the company:	6		
- basic		**76.1p**	66.5p
- diluted		**75.6p**	65.9p

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

(restated - note 1)	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2012	2,178	34,216	31,835	2,179	(4,729)	124,974	190,653
Profit for the year						28,983	28,983
Net remeasurement of defined benefit liability						968	968
Revaluation of available for sale investment securities				923			923
Deferred tax relating to components of other comprehensive income				(154)		(474)	(628)
Other comprehensive income net of tax	-	-	-	769	-	494	1,263
Dividends paid						(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 1 January 2013	**2,298**	**62,160**	**31,835**	**2,948**	**(5,844)**	**136,096**	**229,493**
Profit for the year						**34,751**	**34,751**
Net remeasurement of defined benefit asset						**2,188**	**2,188**
Revaluation of available for sale investment securities:							
- net gain from changes in fair value				**2,072**			**2,072**
- net profit on disposal transferred to profit or loss during the year				**(5)**			**(5)**
Deferred tax relating to components of other comprehensive income				**(298)**		**(788)**	**(1,086)**
Other comprehensive income net of tax	**-**	**-**	**-**	**1,769**	**-**	**1,400**	**3,169**
Dividends paid						**(22,096)**	**(22,096)**
Issue of share capital	**17**	**3,324**					**3,341**
Share-based payments:							
- value of employee services						**2,918**	**2,918**
- cost of own shares acquired					**(609)**		**(609)**
- cost of own shares vesting					**731**	**(731)**	**-**
- tax on share-based payments						**33**	**33**
At 31 December 2013	**2,315**	**65,484**	**31,835**	**4,717**	**(5,722)**	**152,371**	**251,000**

Consolidated balance sheet

as at 31 December 2013

	2013 £'000	2012 £'000
Assets		
Cash and balances with central banks	**211,005**	116,003
Settlement balances	**19,611**	12,606
Loans and advances to banks	**106,327**	169,795
Loans and advances to customers	**95,543**	71,711
Investment securities:		
- available for sale	**53,985**	55,749
- held to maturity	**575,838**	559,025
Prepayments, accrued income and other assets	**46,368**	40,279
Property, plant and equipment	**11,522**	11,950
Net deferred tax asset	**1,699**	1,930
Investment in associates	**1,296**	1,237
Intangible assets	**104,969**	97,423
Surplus on retirement benefit schemes	**1,614**	-
Total assets	**1,229,777**	1,137,708
Liabilities		
Deposits by banks	**-**	518
Settlement balances	**27,626**	18,592
Due to customers	**891,897**	828,443
Accruals, deferred income, provisions and other liabilities	**55,282**	55,004
Current tax liabilities	**3,972**	3,528
Retirement benefit obligations	-	2,130
Total liabilities	**978,777**	908,215
Equity		
Share capital	**2,315**	2,298
Share premium	**65,484**	62,160
Merger reserve	**31,835**	31,835
Available for sale reserve	**4,717**	2,948
Own shares	**(5,722)**	(5,844)
Retained earnings	**152,371**	136,096
Total equity	**251,000**	229,493
Total liabilities and equity	**1,229,777**	1,137,708

Consolidated statement of cash flows

for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000 (restated - note 1)
Cash flows from operating activities			
Profit before tax		**44,204**	38,504
Share of profit of associates		**(89)**	(21)
Net profit on disposal of available for sale investment securities		**(5)**	-
Net interest income		**(8,608)**	(9,904)
Net impairment charges on impaired loans and advances		**290**	801
Net charge for provisions		**500**	290
Profit on disposal of property, plant and equipment		**(1)**	(9)
Depreciation and amortisation		**10,580**	10,237
Defined benefit pension scheme charges		**3,188**	3,167
Defined benefit pension contributions paid		**(4,744)**	(7,409)
Share-based payment charges		**4,833**	3,232
Interest paid		**(615)**	(1,272)
Interest received		**9,802**	12,523
		59,335	50,139
Changes in operating assets and liabilities:			
- net decrease/(increase) in loans and advances to banks and customers		**37,904**	(131,154)
- net (increase)/decrease in settlement balance debtors		**(7,005)**	837
- net increase in prepayments, accrued income and other assets		**(6,678)**	(3,209)
- net increase/(decrease) in amounts due to customers and deposits by banks		**62,936**	(80,208)
- net increase/(decrease) in settlement balance creditors		**9,034**	(3,604)
- net decrease in accruals, deferred income, provisions and other liabilities		**(409)**	(742)
Cash generated from/(used in) operations		**155,117**	(167,941)
Tax paid		**(9,830)**	(8,885)
Net cash inflow/(outflow) from operating activities		**145,287**	(176,826)
Cash flows from investing activities			
Dividends received from associates		**30**	-
Purchase of equity-accounted associates		**-**	(1,216)
Acquisition of subsidiaries, net of cash acquired		**-**	(1,244)
Purchase of property, plant, equipment and intangible assets		**(19,415)**	(11,690)
Proceeds from sale of property, plant and equipment		**1**	42
Purchase of investment securities		**(839,938)**	(1,353,137)
Proceeds from sale and redemption of investment securities		**823,062**	1,638,004
Net cash (used in)/generated from investing activities		**(36,260)**	270,759
Cash flows from financing activities			
Issue of ordinary shares		**2,732**	26,434
Dividends paid	5	**(22,096)**	(20,074)
Net cash (used in)/generated from financing activities		**(19,364)**	6,360
Net increase in cash and cash equivalents		**89,663**	100,293
Cash and cash equivalents at the beginning of the year		**230,165**	129,872
Cash and cash equivalents at the end of the year	9	**319,828**	230,165

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 2013. The accounting policies have been applied consistently to all periods presented in this statement.

Standards affecting the reported results or the financial position
In the current year, the group has adopted the amendments to IAS 19 'Employee Benefits', which has affected the amounts reported in these financial statements. Comparatives have been restated to reflect the impact of the change.

The group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit pension schemes ('Schemes'). Under IAS 19, the group determines the net interest income or expense for the year arising on the Schemes by applying a single discount rate, based on the long-term return on high quality corporate bonds, to the net surplus or deficit at the beginning of the reporting period; taking into account any changes during the period as a result of contributions and benefit payments. Previously, the group determined interest income on Schemes' assets based on the long-term rate of expected return on those assets.

The amendments to IAS 19 have reduced profit after tax by £276,000 and increased other comprehensive income by the same amount. The income tax charge for the year has been reduced by £69,000 and the deferred tax charge through other comprehensive income has been increased by the same amount. There has been no impact on shareholders' equity or total assets. Profit after tax for the year ended 31 December 2012 has been reduced by £233,000 and other comprehensive income has been increased by the same amount. The income tax charge for the year ended 31 December 2012 has been reduced by £75,000 and the deferred tax charge through other comprehensive income has been increased by the same amount.

Changes in accounting disclosure
Fee and commission income was previously presented net of broker commissions paid. Following a review of broker contracts, the group has concluded that the broker commissions receivable and payable should be shown gross in the income statement and has re-presented these costs as fee and commission expense. This re-presentation has increased fee and commission income by £1,666,000 in 2013 (2012: £1,549,000) and fee and commission expense by the same amount. The re-presentation has had no impact on net operating income, profit or equity in either period.

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

The group determines a suitable period during which awards accruing to new investment managers are capitalised. Typically, this will be for 12 months after the cessation of any non-compete period, which is in line with acquisition accounting under IFRS3. After the defined period has elapsed, any payments made are charged to profit or loss.

During the year the group capitalised £13,245,000 of payments made to investment managers and expensed £487,000 (2012: £7,873,000 capitalised and £nil expensed). A reduction in the capitalisation period by 1 month would decrease client relationship intangibles by £56,000 and decrease profit before tax by £56,000.

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations for the future. During the year client relationship intangible assets were amortised over a ten to fifteen year period. Amortisation of £6,306,000 was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £600,000. At 31 December 2013, the carrying value of client relationship intangibles was £52,487,000.

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

The carrying value of the Notes, net of provision for impairment, was £2,835,000 at 31 December 2013 (2012: £2,821,000). The impairment has been calculated using a discounted cash flow model based on the estimated repayment date of the Notes, 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, net of provision for impairment, of approximately £240,000. A 1% increase/decrease in the assumed rate at which interest accrues under the loan would increase/decrease the net carrying value, net of provision for impairment, by approximately £90,000 with a consequent equal change in profit before tax.

Retirement benefit obligations
The group makes estimates about a range of long term trends and market conditions to determine the value of the surplus or deficit on its retirement benefit schemes, based on the group's expectations of the future and advice taken from qualified actuaries. Long term forecasts and estimates are necessarily highly judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

Legal proceedings
Note 8 refers to two related legal claims that are ongoing.

As with all disputes of this nature, the eventual outcome is uncertain and depends on the outcome of the Jersey claim (which is now not expected to come to trial until 2015), on the outcome of the Court of Appeal hearing in the insurance proceedings and on whether either or both cases are subject to a negotiated settlement at any stage. There is a risk that the group's insurance cover for the year in question will not be effective in relation to the Jersey claim or will prove insufficient to cover losses, in which case any obligation could be material.

The board believes that, whilst legal costs may continue to be incurred, it is more likely than not that any final judgment in relation to the above claims will result in no liability to the company, and accordingly no provision has been made (2012: nil).

3. 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.

31 December 2013	Investment Management £'000	Unit Trusts £'000	Total £'000
Net investment management fee income	**104,222**	**9,651**	**113,873**
Net commission income	**42,051**	**-**	**42,051**
Net interest income	**8,608**	**-**	**8,608**
Fees from advisory services and other income	**10,456**	**1,421**	**11,877**
Operating income	**165,337**	**11,072**	**176,409**
Staff costs - fixed	**(39,848)**	**(3,059)**	**(42,907)**
Staff costs - variable	**(20,588)**	**(1,799)**	**(22,387)**
Total staff costs	**(60,436)**	**(4,858)**	**(65,294)**
Other direct expenses	**(19,456)**	**(2,400)**	**(21,856)**
Allocation of indirect expenses	**(36,348)**	**(2,401)**	**(38,749)**
Underlying operating expenses	**(116,240)**	**(9,659)**	**(125,899)**
Underlying profit before tax	**49,097**	**1,413**	**50,510**
Amortisation of acquired client relationships	**(6,306)**	**-**	**(6,306)**
Profit before tax attributable to equity holders of the company	**42,791**	**1,413**	**44,204**
Taxation (note 4)			**(9,453)**
Profit for the year attributable to equity holders of the company			**34,751**

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

31 December 2012 (restated - note 1)	Investment Management £'000	Unit Trusts £'000	Total £'000
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
Operating income	146,680	8,901	155,581
Staff costs - fixed	(36,348)	(2,892)	(39,240)
Staff costs - variable	(16,774)	(913)	(17,687)
Total staff costs	(53,122)	(3,805)	(56,927)
Other direct expenses	(16,052)	(2,189)	(18,241)
Allocation of indirect expenses	(33,228)	(2,356)	(35,584)
Underlying operating expenses	(102,402)	(8,350)	(110,752)
Underlying profit before tax	44,278	551	44,829
Amortisation of acquired client relationships	(6,025)	-	(6,025)
Segment profit before tax	38,253	551	38,804
Head office relocation costs (unallocated)			(300)
Profit before tax attributable to equity holders of the company			38,504
Taxation (note 4)			(9,521)
Profit for the year attributable to equity holders of the company			28,983

	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

Included within Investment Management net fee and commission income is £829,000 (2012: £1,797,000) 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 operating income analysed by the geographical location of the group entity providing the service:

	2013 £'000	2012 £'000
United Kingdom	170,786	150,822
Jersey	5,623	4,759
Operating income	176,409	155,581

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

	2013 £'000	2012 £'000
United Kingdom	114,015	107,603
Jersey	2,476	1,770
Non-current assets	116,491	109,373

Major clients

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

4. Taxation

	2013 £'000	2012 £'000 (restated - note 1)
Current tax:		
- charge for the year	11,096	9,218
- adjustments in respect of prior years	(821)	(378)
Deferred tax:		
- charge for the year	(687)	643
- adjustments in respect of prior years	(135)	38
	9,453	9,521

The tax charge on profit for the year is lower (2012: higher) than the standard rate of corporation tax in the UK of 23.2% (2012: 24.5%). The differences are explained below:

	2013 £'000	2012 £'000 (restated - note 1)
Tax on profit from ordinary activities at the standard rate of 23.2% (2012: 24.5%)	10,276	9,508
Effects of:		
- disallowable expenses	348	747
- share-based payments	(232)	(146)
- tax on overseas earnings	(44)	(258)
- overprovision for tax in previous years	(956)	(340)
- other	(31)	5
Effect of change in corporation tax rate on deferred tax	92	5
	9,453	9,521

5. Dividends

	2013 £'000	2012 £'000
Amounts recognised as distributions to equity holders in the year:		
- final dividend for the year ended 31 December 2012 of 30.0p (2011: 29.0p) per share	13,800	12,640
- interim dividend for the year ended 31 December 2013 of 18.0p (2012: 17.0p) per share	8,296	7,434
Dividends paid in the year of 48.0p (2012: 46.0p) per share	22,096	20,074
Proposed final dividend for the year ended 31 December 2013 of 31.0p (2012: 30.0p) per share	14,349	13,786

An interim dividend of 18.0p per share was paid on 9 October 2013 to shareholders on the register at the close of business on 13 September 2013 (2012: 17.0p).

A final dividend declared of 31.0p per share (2012: 30.0p per share) is payable on 19 May 2014 to shareholders on the register at the close of business on 25 April 2014. The final dividend is subject to approval by shareholders at the Annual General Meeting on 14 May 2014 and has not been included as a liability in these financial statements.

6. Earnings per share

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

	2013 Pre-tax £'000	2013 Taxation £'000	2013 Post-tax £'000	2012 Pre-tax £'000	2012 Taxation £'000	2012 Post-tax £'000 (restated - note 1)
Underlying profit attributable to shareholders	50,510	(10,919)	39,591	44,829	(11,070)	33,759
Amortisation of acquired client relationships	(6,306)	1,466	(4,840)	(6,025)	1,476	(4,549)
Head office relocation costs	-	-	-	(300)	73	(227)
Profit attributable to shareholders	**44,204**	**(9,453)**	**34,751**	38,504	(9,521)	28,983

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 45,667,571 (2012: 43,604,542).

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):

	2013	2012
Weighted average number of ordinary shares in issue during the year – basic	45,667,571	43,604,542
Effect of ordinary share options/Save As You Earn	45,814	122,257
Effect of dilutive shares issuable under the Share Incentive Plan	60,078	5,589
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	222,122	258,180
Diluted ordinary shares	**45,995,585**	43,990,568

	2013	2012 (restated - note 1)
Underlying earnings per share for the year attributable to equity holders of the company:		
- basic	86.7p	77.4p
- diluted	86.1p	76.7p

7. Related parties

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below.

	2013 £'000	2012 £'000
Short term employee benefits	6,063	8,013
Post employment benefits	640	777
Other long term benefits	546	438
Share-based payments	2,867	2,122
	10,116	11,350

Dividends totalling £84,000 were paid in the year (2012: £418,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2013, the group had no outstanding interest-free season ticket loans (2012: £6,000) issued to key management personnel.

At 31 December 2013, key management personnel and their close family members had gross outstanding deposits of £436,000 (2012: £1,112,000) and gross outstanding banking loans of £6,488,000 (2012: £559,000), all of which (2012: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

At 31 December 2013, no amounts were due from the pension schemes (2012: £nil).

The group managed 22 unit trusts and OEICs during 2013 (2012: 19 unit trusts and OEICs). Total management charges of £19,169,000 (2012: £16,110,000) were earned during the year, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group. Management fees owed to the group as at 31 December 2013 totalled £1,785,000 (2012: £1,172,000).

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.

8. Contingent liabilities
Indemnities are provided in the normal course of business to a number of directors and employees who provide tax and trust advisory services in connection with them acting as trustees/directors of client companies and providing other services.

As reported in the 2012 report and accounts, a claim relating to the management of a Jersey trust has been filed against a former employee (and director) of Rathbone Trust Company Jersey Limited (RTCJ) and others. Hawksford Trust Company Jersey Limited (as RTCJ is now known) has also recently been joined in as a defendant. RTCJ was a subsidiary of the company from March 2000 until October 2008. Although the board believes that this claim will be unsuccessful, a possible material obligation may arise. Due to the complexity of the claim, the number of parties involved and the impact of the insurance cover available, it is not practicable to estimate reliably the value of any possible obligation for the company.

Professional indemnity cover of £50 million under the relevant year of the company's civil liability insurance policy is made up of a first layer of £5 million and an excess layer of a maximum of £45 million. The limit of the indemnity given jointly by RTCJ and the company to the employee in question is £40 million per event.

The group has sought to confirm the position of the company's civil liability (professional indemnity) insurers in relation to the claim and issued proceedings to confirm insurance cover against the excess insurers. The trial of those proceedings took place in October 2013 and judgment was handed down on 8 November 2013. In the judgment, the judge ruled in favour of the company and the employee on all the substantive coverage points on the insurance policy, confirming that the employee was covered by the policy in respect of liability for the wrongful acts alleged in the Jersey proceedings. However, he also ruled that the insurers should have a right of subrogation whereby they could, upon payment of any sums to the employee, take over any rights of action which the employee might have against the company pursuant to an indemnity granted to him jointly by RTCJ and the company.

The company and the former employee in question have filed notices to appeal subrogation aspects of the judgment, and insurers have filed notices to cross-appeal coverage aspects of the judgment. The hearing of these appeals before the Court of Appeal is expected to take place in the second half of 2014. There is therefore a risk that the group's insurance cover for the year in question will not be effective in relation to the Jersey claim or will prove insufficient to cover losses, in which case any obligation could be material.

The board believes that it is more likely than not that any final judgment in relation to the above claims will result in no liability to the company, and accordingly no provision has been made.

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

	2013 £'000	2012 £'000
Cash and balances at central banks	**211,005**	116,003
Loans and advances to banks	**61,171**	62,611
Available for sale investment securities	**47,652**	51,551
	319,828	230,165

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:

	2013 £'000	2012 £'000
Share capital issued	**17**	120
Share premium on shares issued	**3,324**	27,944
Shares issued in relation to share-based schemes for which no cash consideration was received	**(609)**	(1,630)
	2,732	26,434

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

The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 December 2013 or 2012. Statutory financial statements for 2012 have been delivered to the Registrar of Companies. Statutory financial statements for 2013 will be delivered to the Registrar of Companies following the company's Annual General Meeting. The auditor has reported on both the 2012 and 2013 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

11. Forward-looking statements

This announcement contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of the 2013 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.