Rathbone Brothers Plc Report and accounts 2007

RATHBONES
Established 1742

Contents

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

As at 31 December 2007, it managed £13.12 billion of client funds, including £1.89 billion managed by Rathbone Unit Trust Management.

2007 Highlights

5 January
Completion of the sale of the private banking part of the business acquired from Dexia in 2006 to Butterfield Bank (UK) Limited.

28 February
The Rathbone Income Fund receives a Standard & Poor's Investment Funds Performance Award for being the top performing fund in its sector (five-year UK marketed funds, UK equity income) for the fourth year in a row.

28 March
Rathbones commits to its future in the Port of Liverpool Building until 2018.

5 April
Rathbone Trust International announces the expansion of its overseas operations through the acquisition of Federal Trust (Singapore) Pte. Ltd.

2 May
Rathbones announces that funds under management for charities reach £1 billion.

15 May
The first anniversary of the Rathbone High Income Fund – it delivered a 24 per cent return over the year and was top ten in its sector (UK equity income).

27 July
Record interim profits announced.

4 September
Rathbone Investment Management International targets offshore trustees with a new funds service.

1 December
David Harrel and John May join the Board of Rathbones as non-executive directors.

31 December
Total funds under management stand at £13.12 billion.

Financial highlights

	2007	2006	% change
Funds under management	**£13.12bn**	£12.24bn	**+7.2%**
Operating income	**£154.5m**	£133.7m	**+15.6%**
Profit before tax	**£52.2m**	£44.7m	**+16.8%**
Basic earnings per share	**87.88p**	76.62p	**+14.7%**
Dividends per share	**41.0p**	35.0p	**+17.1%**

Chairman's statement

I am delighted to report our results for the year ended 31 December 2007. Despite the tensions and uncertainties associated with the difficulties in credit markets, record results have been achieved. The percentage rate of net organic growth of funds under management is the highest that Rathbone Investment Management, in the UK and Jersey, has ever announced.

Results and dividend

Profit before tax for the year to 31 December 2007 was £52.2 million compared with £44.7 million in 2006 – an increase of 16.8%. Excluding profits arising from part disposals of our investment in London Stock Exchange Group Plc of £1.3 million in 2007 and £3.2 million in 2006, underlying profits have increased by 22.7%.

Reported earnings per share have risen by 14.7% to 87.88p compared with 76.62p in 2006. Underlying earnings per share have risen from 71.28p to 85.74p, an increase of 20.3%.

It is recommended that the final dividend be increased to 25.0p (2006: 21.5p) making a total of 41.0p for the year (2006: 35.0p), an increase of 17.1%.

2007 can be characterised as a year of two parts. During the first half of the year, bond and equity markets were firm and made progress. In the second half, the well-publicised difficulties arising from sub-prime mortgage lending in the USA led to very difficult conditions in credit markets and much more volatile equity markets. July and August saw the FTSE 100 Index fall by over 12%. Although there has been some overall recovery, at the year end the FTSE 100 Index had risen by only 3.8% and the FTSE/APCIMS Balanced Index rose by 2.5%.

As announced on 10 January 2008, funds under management as a whole have risen during 2007 by 7.2% to £13.12 billion (2006: £12.24 billion). Adjusting for funds acquired and for market movements this represents an underlying organic growth rate of 7.9%. The value of funds under management within Rathbone Investment Management including Rathbone Investment Management International (RIMI) rose by 8.2% to £11.23 billion (2006: £10.38 billion) and the value of funds under management in Rathbone Unit Trusts rose by 1.6% to £1.89 billion (2006: £1.86 billion).

Within Rathbone Investment Management (including RIMI) the underlying net organic growth rate for 2007 was 7.8% compared with 7.2% in 2006 and 5.8% in 2005. These statistics reflect our continuing commitment to promoting Rathbones as the investment manager of choice for private investors and trustees, and we believe that it reflects a growing awareness of Rathbones. Particular efforts have been made in promoting our services to professional intermediaries, to charity trustees and in the increasingly important market for self-invested personal pensions.

Your Board considers that this excellent rate of net organic growth reflects the value of our policy of combining the roles of investment management and client relationship management. We believe that it is greatly appreciated by clients and prospective clients, and that it is the way of providing the most appropriate investment solution for each individual client in the light of their circumstances and risk appetite.

In common with other unit trust managers, Rathbone Unit Trust Management experienced difficult trading conditions in the second half of the year and funds under management for the year as a whole grew by 1.6% compared with the remarkable 55.0% achieved in 2006. The Chancellor of the Exchequer's proposals for changes to capital gains tax evidently had some impact on sales and redemptions in UK equity income funds, and the credit crunch clearly had an adverse impact on the confidence of retail investors and intermediary advisers.

During 2007, profits from our trust and tax activities grew by 69.6% to £3.9 million (2006: £2.3 million) as the benefits of the relocation of our offices in Jersey into one building have been felt. This improvement in profitability was achieved despite a rather unhelpful background in the provision of fiduciary and trust services from offshore centres and the management of this division has expended considerable energies in seeking to control costs and to identify new business opportunities.

With this in mind we announced the acquisition of a small, well-established trust business in Singapore in April 2007 which is now headed by a director of our Jersey operation.

'Credit crunch'

The 'credit crunch' has not had a detrimental impact on Rathbones' ability to finance its operations, indeed the consequent impact on credit markets in the second half of the year has been beneficial for profitability.

Our banking licence allows our treasury department to make use of a range of appropriate instruments issued by counterparties with high ratings when placing funds in the money markets. Rathbones, as a net provider of liquidity to the banking markets, has been able to take advantage of historically high short-term interest rate margins, which has had the effect of increasing interest income in the last quarter of the year when liquidity in client portfolios rose to £990 million (2006: £697 million).

Rathbones has no reliance on debt markets to finance its operating activities and does not anticipate that this will change.

Corporate activity

For many years Rathbones has sought to supplement organic growth through the acquisition of suitable businesses and the recruitment of established professionals from other organisations. 2007 has seen a great deal of enquiry in this area but it has not proved possible to make suitable acquisitions at valuations which your Board has considered attractive. Since the year end we have, however, committed to take over a small investment management business based in Exeter and we are delighted to be establishing a presence there. It will complement our existing office in Bristol.

As is stated in the summary statement of our strategy on pages 13 to 16 of this report, our approach to acquisition opportunities is that they must meet the criteria of involving professionals who share our commitment to discretionary investment management and that they are earnings enhancing within a reasonable timeframe or broaden the range of services available to our clients.

Sue Desborough

The tragic and untimely death of our finance director at the end of November has cast a dark shadow over Rathbones.

Sue joined Rathbones as group financial controller in 2000 and in October 2004 was appointed finance director. During her all too brief time with us she had made an enormous contribution to Rathbones as a friend, as a professional and as a greatly admired and respected colleague. She will be sadly missed by us all.

Composition of the Board

During the year, two of our non-executive directors, Roy Morris and Jamie Cayzer-Colvin, have retired. Roy first joined Rathbones 50 years ago and was chief executive from 1997 to 2004. He has made a massive contribution to Rathbones over a remarkable career. Jamie Cayzer-Colvin has served as a non-executive director for over five years and we have benefited from his experience of the financial sector generally and the investment management area in particular.

In December we welcomed David Harrel and John May to our Board as new non-executive directors. They both bring with them wide experience which I am confident will be of great value to us.

Outlook

Despite the uncertainties created by the problems being experienced in credit markets and high levels of day-to-day volatility in equity markets, Rathbones is well placed to continue to grow our investment management and other services. In part, this reflects the quality of our client relationships and we are confident of the long term future.

Mark Powell

Mark Powell
Chairman
5 March 2008

Rathbones at a glance

	Investment Management
Business activity	The investment management division provides mainly discretionary investment management services to private investors and charities with portfolios held in discretionary accounts, trust structures, ISA accounts or self-invested personal pensions from offices in the UK and Jersey. The majority of clients have a fee-based service with securities held in a Rathbone nominee company and surplus cash held by Rathbone Investment Management, an authorised banking institution. Rathbone Pension & Advisory Services advises clients on retirement planning options and offers the Rathbone SIPP.
Funds under management[1]	**£11.23bn**
Operating income[2]	**£104.4m**
Profits before tax[2]	**£40.1m**
Principal trading names	**Rathbone Investment Management** **Rathbone Investment Management International** **Rathbone Pension & Advisory Services**
Employees (full time equivalents)[1]	**545**
Offices	**Bristol** **Cambridge** **Chichester** **Edinburgh** **Jersey** **Kendal** **Liverpool** **London** **Winchester**
Business head	**Richard Lanyon**
Website	**www.rathbones.com** **www.rathboneimi.com** Offshore services **www.rathbonegreenbank.com** Ethical investment

1 as at 31 December 2007
2 for the year ended 31 December 2007

Unit Trusts

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

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

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

Trust and Tax

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

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

£1.89bn	**–**
£18.8m	**£24.9m**
£6.9m	**£3.9m**
Rathbone Unit Trust Management	**Rathbone Trust Company** **Rathbone Trust International**
37	**222**
London	**Jersey** **UK** **BVI** **Switzerland** **Singapore**
Peter Pearson Lund	**Ian Buckley**
www.rutm.com	**www.rathbones.com/rat/services/onshore** **www.rathbonetrustinternational.com** Offshore services

Chief executive's statement

One of the most pleasing figures to report in relation to our results for 2007 is our organic growth rate. By this we mean the growth in our overall funds under management coming either from existing clients adding to their funds with us or from new clients gained by our existing managers (in other words excluding any newly-joined investment managers or corporate acquisitions).

Organic growth

Our net organic growth rate of 7.8% in Rathbone Investment Management (including Rathbone Investment Management International) was a particularly impressive performance given the rather more turbulent period we entered in the second half of the year. We would not necessarily expect this to continue until markets have stabilised and have a clearer sense of direction.

Nevertheless this performance demonstrates the underlying strength of our business and the ability of our investment managers to gain significant new business (always remembering the figure of 7.8% is after the loss/withdrawal of funds by clients on death, to pay tax bills and for other expenditures). Particularly prominent in this growth have been our offices in Edinburgh and Bristol (including Rathbone Greenbank, our ethical investment service based in Bristol). These offices have achieved growth in funds under management of 14% and 11% respectively (to £1.1 billion and £650 million) which demonstrates what can be achieved with some hard work and some focused marketing.

Charity mandates

In recent years we have built a significant presence in the smaller charity market (ie those charities with less than £50 million of funds under management). This was substantially enhanced when we acquired the Dexia UK business in 2006 where they already had a strong presence in the charity marketplace. Combining these teams and successful new business activity means we now have over £1 billion of charity funds under management and it is an area we continue to develop with specialist teams based in London and Liverpool spearheading our approach to this marketplace.

There is now much more pressure on charity trustees to monitor fund performance and to ask investment managers regularly to repitch for their mandate. This is both good and bad, but to date has led to us gaining significantly from our competitors.

Marketing

Our marketing efforts continue, although a great deal of time during the year was spent producing documentation for MiFID (Markets in Financial Instruments Directive) – another piece of European-led legislation which created a significant amount of work during the year.

That aside we have also worked hard to increase our overall brand awareness and many of you will have noticed that our national press advertising campaign has continued. This advertising not only brings in clients as a direct result of the advertisements, it also greatly increases our name awareness. We have also put more marketing effort into supporting our relationship with key intermediaries, particularly IFAs who are the first port of call for many clients who seek advice, particularly about their pension assets and self-invested personal pensions (SIPPs).

We have continued to develop our approach to SIPP panels and are now a recognised provider of discretionary investment management services on the panels of several life company products. Although it is early days for many of these relationships, we see this as an attractive way of further growing funds under management as SIPPs continue to be a very powerful product for retirement planning for our typical client.

Expanding our investment management team

Although fewer professionals have joined us from other firms during the year, we have had a few notable successes attracting investment managers from Rensburg Sheppard, Barings, Close Brothers and HSBC. These recruitments have helped us expand our presence in Winchester, the charities area and our offshore investment business based in Jersey. We also have plans to add to our existing network of offices in the UK and will have a presence in Exeter later this year through a small acquisition and an office in Aberdeen established by existing investment management staff from our Edinburgh office.

The Rathbone Investment Process

Underpinning our success in generating new business is the resource we have applied to the continuing development of the Rathbone Investment Process. Our offering and our clients' requirements are becoming more sophisticated, and we look to maintain our position of being able to make independent investment decisions across a wide range of asset classes.

Over the last few years alternative products have become more important and these range from investment in private equity, funds of hedge funds through to structured products designed to protect capital and to take advantage of movements in different markets around the world. We are putting increasing amounts of time and effort into researching these complex areas to ensure that our investment managers are able to select from what we consider to be the best available and most appropriate products in the marketplace.

Maintaining our independent stance and therefore looking across the whole of the marketplace for the best available products for us to invest in for our clients is something we shall continue to place great emphasis on during 2008 and the coming years.

Offshore investment management services

In Jersey we have concentrated on enhancing our offering through Rathbone Investment Management International. Our offshore capability is an important part of our service offering and we are looking at ways of improving and enhancing it in the coming year. Although we lost two investment management staff during the year, we have recruited a team of four who joined in January 2008 from a competitor firm. In addition, we launched a new multi-asset class funds service for offshore trustees in September.

Unit trusts

After an excellent first half our unit trusts suffered from a net outflow of funds in the second half of the year, in common with much of the industry. Although the uncertain economic environment and the continuing weakness in consumer confidence have lead to further net redemptions in the first months of 2008, performance has improved and our largest fund, the Rathbone Income Fund, is back in the second quartile in the first two months of 2008 and back in the highly regarded 'White List' of top quality income funds (compiled by IFA, Principal Investment Management).

Trust and tax services

As you will see from the results, our trust and tax business had a rather better year than in 2006, although there continue to be concerns at the focus by the government on non-domiciled individuals and offshore jurisdictions generally. It is increasingly important in an international trust business to offer a range of jurisdictions and to that end we acquired a business in Singapore during the year and one of our directors from Jersey has moved out to Singapore to manage that business. We now have a team of 11 in Singapore and look forward to seeing the business develop further.

Disposals in 2007

I referred earlier to our acquisition of the UK Dexia business in the context of our charity mandates but it should also be noted that during the first part of 2007 we sold the banking part of that business. This was a small deposit and client base which had no investment management connection with us. This business was bought by Butterfield Bank (UK) Limited and the relevant staff transferred to them.

Investing in people

We have continued to invest in people and have spent more money than in the past on training activities. The recruitment of a new head of training and new staff in her team has significantly enhanced our training capability and, for the first time, in 2007 we have recruited individuals into Rathbone Investment Management on to a structured graduate programe. Eight graduates joined us in September and will spend a year getting to know the business. This is an exciting development and early indications are very positive. It is something we will be watching with interest and would very much hope to repeat in the future, although probably not annually.

Investing in our buildings

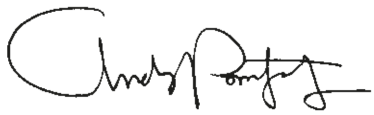
We have had a very active year in 2007 with our two key buildings, 159 New Bond Street in London and the Port of Liverpool Building.

In London we have just completed a refurbishment of all of 159 New Bond Street. This has provided us with much better space for staff and clients, and we have taken the opportunity to expand the number of meeting rooms available as our business continues to grow.

The building in Liverpool is part way through a major refurbishment programme being conducted by the landlord which had originally envisaged putting a further floor on the top of the building (while we remained in occupation!). At the time of writing that additional floor development looks unlikely to go ahead but the refurbishment of the building is continuing. This will significantly improve the office space we occupy in Liverpool. However there is considerable disruption as the work proceeds and it is expected to last for at least another 12 months. I would like to thank all the staff in Liverpool for putting up with the problems associated with this development.

Sue Desborough

Finally I would also like to pay a very personal tribute to Sue Desborough with whom I worked for some 13 years, initially at Kleinwort Benson and then at Rathbones. She will be deeply missed.



Andy Pomfret
Chief Executive
5 March 2008

Strategy and key performance indicators

Group aims	Key performance indicator	Details available	Page
To be a leading provider of high quality, personalised investment management and trust, tax and pension advisory services to private individuals, charities and trustees.	• **Funds under management** • **Organic growth rate in funds under management**	3 **Rathbone Brothers Plc – Group Summary**	17
To provide shareholders with a growing stream of dividend income, delivered by steady and consistent growth in earnings per share as market conditions allow.	• **Operating margin** • **Earnings per share**	3 **Rathbone Brothers Plc – Group Summary**	17
To provide staff with an interesting and stimulating career environment, involving a commitment for all staff to share in the equity and profits of Rathbones, and to encourage and reward organic growth.	• **Share Incentive Plan (SIP) participation rates** • **Staff turnover** • **Investment in training**	5 **Resources** Also see **Corporate responsibility report** from page 58	26
Investment Management			
Delivery of a quality service proposition	• **Funds under management** • **Organic growth rate in funds under management** • **Return on funds under management** • **Operating margin**	4 **Segmental performance**	17
Unit Trusts			
Market share built on long-term performance, distribution and brand management	• **Funds under management** • **Growth in funds under management** • **Operating margin**	4 **Segmental performance**	20
Trust and Tax			
Provide a quality service to clients	• **Chargeable time recovery rate** • **Operating margin**	4 **Segmental performance**	21

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

1 External environment

Industry environment

Rathbones provides investment and wealth management services to private individuals and trustees predominantly resident in the UK. Landsbanki Securities, in its report *Private Client Wealth Management* (October 2007), continues to see the market as very fragmented with a marketplace consisting of some 500,000 individuals in the UK being served by some 125 firms. However only 11 of those 125 have funds under management of more than £10 billion.

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

Despite difficult markets in 2007, financial assets have risen steadily over the last five years. While markets in 2008 may also be uncertain, socio-economic and demographic changes continue to be supportive. For example life expectancy in the UK is increasing as is the onus on individuals to make financial provision for their old age, rather than rely on state or company pension schemes. This growing need to build wealth and generate income in retirement supports the view that the private client wealth management sector provides good medium-term growth potential.

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

Table 1. Top ten UK private client wealth managers

£m	Discretionary AUM	Advisory AUM	Total AUM	Minimum discretionary threshold (£)
Coutts	14,656	1,628	16,284	3,000,000
UBS	13,320	8,880	22,200	100,000
Rathbones	11,704	1,596	13,300	100,000
Rensburg Sheppards	10,300	4,100	14,400	None
Barclays/Gerrard	10,241	23,896	34,137	50,000
Brewin Dolphin	10,100	11,100	21,200	None
Morgan Stanley PWM	7,766	5,397	13,163	3,000,000
Merrill Lynch	6,120	5,880	12,000	1,000,000
Goldman Sachs	4,970	11,062	16,032	5,000,000
Charles Stanley	2,975	8,000	10,975	None

Source: Landsbanki Securities estimates. Private Client Wealth Management report, October 2007

Rathbones has also seen increasing interest from smaller (sub £50 million) UK charities and has increased its funds under management from charity clients to just over £1 billion for the first time in 2007. It is in the top 15 as measured by discretionary funds under management (Charity Finance magazine November 2007).

Following recent changes to the UK trust regime, the pre-Budget report of October 2007 proposed changes to both capital gains tax and the tax treatment relating to residence and domicile effective from 6 April 2008. These further changes are likely to have an impact on clients of both our UK trust and tax business, and our offshore trust operations.

Investment environment

Overall world markets showed growth in 2007 but the returns were modest in western markets and significant in emerging markets. The strong performance of mining stocks contrasted with the very poor performance of banks and pharmaceuticals in western markets. Overall the index by which we measure our performance, the FTSE/APCIMS Balanced Index, rose by 2.5%.

Regulatory environment

The principal activities of the Group's key operating entities are conducted in regulated financial services markets and the Group is therefore subject to regulation of its operations in those jurisdictions. Rathbone Investment Management is regulated by the Financial Services Authority (FSA) to take deposits in the UK; and Rathbone Bank (BVI) is similarly licenced by the BVI Financial Services Commission in the British Virgin Islands.

In the UK, the Group's investment management, unit trust and pension and advisory activities are regulated by the Financial Services Authority (FSA). The UK trust business will also be subject to registration for money laundering purposes with HMRC. The overseas businesses are subject to regulation by local regulatory bodies, including the Jersey Financial Services Commission, the BVI Financial Services Commission and the Singapore Monetary Authority.

Each regulated entity within the Group is required to conduct its business in accordance with the rules set by the relevant regulator. The Group is also required to maintain minimum capital balances in each of the regulated entities and on a consolidated basis.

During 2007, two European Directives, which have had a particularly significant impact on some or all of our UK regulated subsidiaries, came into force. The Capital Requirements Directive (CRD), which applies to both banks and investment firms, applied with effect from 1 January 2007, and the Markets in Financial Instruments Directive (MiFID) became effective on 1 November 2007.

The principal impacts of the CRD are the introduction of a more refined, risk-based approach to the assessment of the capital that a regulated entity is required to hold and the introduction of additional disclosure obligations, both of which took effect from 1 January 2008. The level of capital that the Group is required to hold has increased as a result of the new capital adequacy assessment process, where currently new interim measures are in place until our own model is approved by the FSA – expected sometime in 2008. The Group continues to hold more than enough capital to meet its new regulatory requirements.

The new Conduct of Business rules brought about by MiFID applied for the first time in 2007 and, as anticipated, required a significant effort to ensure the Group complies with the considerably extended requirements. The largest impact on our business has been the resultant need to re-issue terms of business to every investment management client, and to require clients to confirm updated personal information in return, which then needs to be entered on our systems.

A recent theme for the Financial Services Authority has been Treating Customers Fairly (TCF). It is an integral part of Rathbones' culture to give primary focus to our clients' interests and, therefore, we see it as natural to embed the concept of TCF into our operational practices and to demonstrate clearly that we put clients' interests first.

The regulatory climate in Jersey is also evolving apace with revisions to the existing Codes of Practice for both trust company business and investment business, supported by amendments to secondary legislation, and the introduction of new Codes of Practice for funds services business.

In addition, Jersey's legislative framework for the prevention and detection of money laundering and terrorist financing has been enhanced so that it meets the latest standards adopted internationally. The new Money Laundering (Jersey) Order 2008, together with a Handbook issued by the Jersey Financial Services Commission, significantly update the anti-money laundering rules and guidance first issued by the Commission in 1999, demonstrating a clear move to a risk-based regime.

2 Corporate strategy

Overall objectives

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

Rathbones' services

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

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

Investment management for private individuals and trustees

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

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

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

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

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

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

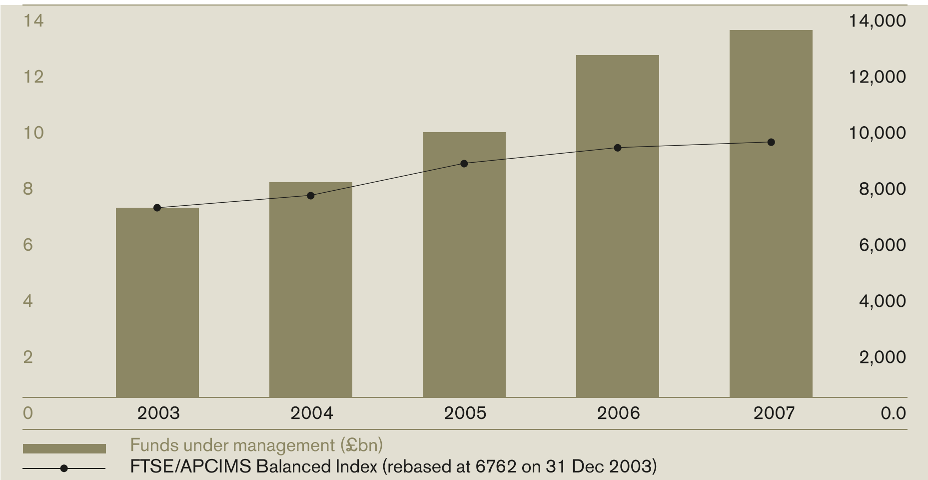
Our investment managers are able to make the final asset allocation decisions as well as investment selection but internal performance monitoring and risk control processes ensure that the quality of service and fulfilment of client objectives is achieved. Clients with more limited sums to invest are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

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

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

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

Chart 1. Funds under management



Unit trusts

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

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

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

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

Trust and tax

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

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

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

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

Rathbones' infrastructure

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

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

Marketing

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

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

People

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

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

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

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

3 Rathbone Brothers Plc – Group summary

The Group's business activities are summarised in 'Rathbones at a glance' on pages 4 and 5 and set out in more detail in the Group's corporate strategy in section 2 of this review.

Key performance indicators

Key drivers for Rathbone Brothers Plc to deliver growth in earnings are:
- growth in total funds under management, both organically and by selective acquisition; and
- maintaining an efficient operation and controlling the cost base.

Table 2. Key performance indicators for **Rathbone Brothers Plc**

	2007	2006
Total funds under management at 31 December	**£13.12bn**	£12.24bn
FTSE/APCIMS Balanced Index	**3024**	2950
Underlying rate of net organic growth in total funds under management[1]	**7.9%**	10.9%
Underlying % operating margin[2]	**33.2%**	31.8%
Underlying basic earnings per share[3]	**85.74p**	71.28p

1 Net organic inflows in investment management and net inflows in unit trusts as a % of cumulative opening funds under management.
2 Consolidated profit before tax excluding gains on disposal of available for sale securities divided by consolidated net operating income excluding gains on disposal of available for sale securities.
3 Consolidated profit after tax excluding post-tax gains on disposal of available for sale securities divided by the weighted average number of shares in issue during the year.

4 Segmental performance

In this section the results of Rathbone Brothers Plc's businesses are reported segmentally under the following headings:
- Investment Management
- Unit Trusts
- Trust and Tax

Investment Mangement includes the results of Rathbone Pension & Advisory Services Limited.

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

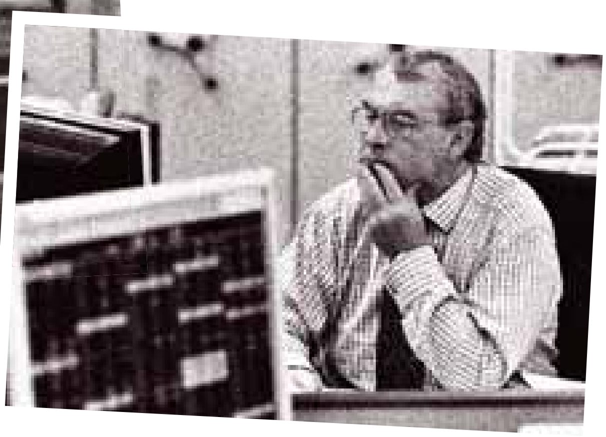
Investment Management

Key drivers for growth of revenues and profits are:
- growth in funds under management;
- maintaining gross revenue returns; and
- operational efficiency.

Table 3. Key performance indicators for **Investment Management**

	2007	2006
Funds under management at 31 December[1]	**£11.23bn**	£10.38bn
Underlying rate of net organic growth in investment management funds under management[1]	**7.8%**	7.2%
Average net operating income basis point return[2]	**94bps**	95bps
Operating % margin[3]	**38.4%**	37.5%

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



Review of 2007

Organic growth, which was largely responsible for our growth in funds under management in 2007, totalled £807 million during the year. In addition £150 million of funds under management were attracted during the year by investment managers who joined us during 2006 and 2007, which is classified as acquired growth.

The underlying rate of net organic growth of 7.8% exceeded that in 2006, which had been a previous record year. This reflects the importance of our continued investment in relationships with a range of intermediary groups and in our brand, and was achieved despite difficult market conditions in the second half of the year.

The year saw continued success in marketing to charities and funds in this area now exceed £1 billion. Rathbone Investment Management International, our offshore investment management business, launched a multi-asset class funds service in September targeting offshore trustees.

Investment continued in third-party distribution channels such as life company SIPP products, which are expected to generate increasing returns as they continue to develop. The small non-core private banking business acquired with the investment management business from Dexia was sold to Butterfield Bank (UK) Limited at the beginning of January 2007 and a modest premium was received.

In its first full year of operation, Rathbone Pension & Advisory Services made a positive contribution to Investment Management's results and has developed a platform for future growth.

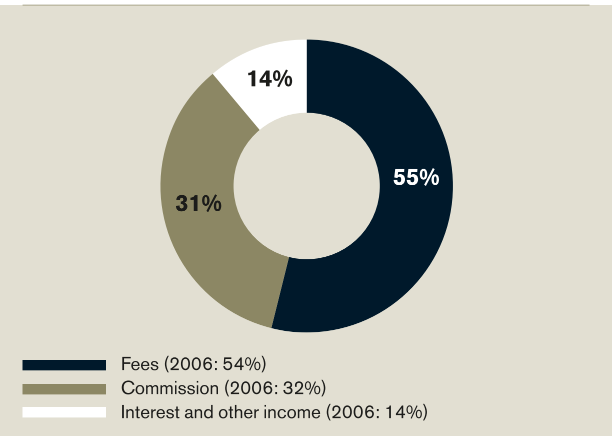
Net operating income

Net operating income for 2007 increased by 14.9% to £104.4 million (2006: £90.9 million).

Income generated from the majority of Rathbones' clients is a combination of fees, commission and interest margin. The mix of income remains broadly consistent each year.

Fee income increased by 16.8% from £49.4 million to £57.7 million in 2007. This growth was driven by the increase in the average of funds under management on our four quarterly fee billing dates of 15.6% (2007: £11.12 billion, 2006: £9.57 billion). Commission income of £32.4 million in 2007 was 11.0% higher than in the previous year (2006: £29.2 million). During the second half of 2007, interest income benefited from higher than average levels of liquidity in client portfolios and sharply increased short-term interest rates resulting from the global credit crunch.

Chart 2. Investment Management – net operating income



Operating expenses

Operating expenses for 2007 were £64.3 million compared to £56.8 million in 2006, an increase of 13.2%.

Investment managers are incentivised through a number of different schemes to maintain and grow the value of funds they manage profitably. The recruitment of investment managers will result in a decrease in operating margins until they have attracted sufficient funds to cover their employment costs. The impact for 2007 has not been significant.

Outlook

The core business continues to benefit from the growth of the last few years and Rathbones' reputation in the industry as one of the leading providers of discretionary investment management services to private individuals and trustees. This, together with the investment that we have made in our intermediary relationships, should see a continuation of the organic growth we have experienced over the last two years.

We will continue to seek to attract new investment managers to join Rathbones with their clients. We will also continue to look for acquisitions which will enhance the overall quality of our business and take advantage of our operational efficiency and ability to service both small and large clients.

Table 4. Investment Management – financial performance

	2007 £m	2006 £m
Fees	**57.7**	49.4
Commission	**32.4**	29.2
Interest and other income	**14.3**	12.3
Net operating income	**104.4**	90.9
Operating expenses	**(64.3)**	(56.8)
Profit before tax	**40.1**	34.1

Table 5. Investment Management – funds under management

	2007 £bn	2006 £bn
As at 1 January	**10.38**	8.28
Inflows[1]	**1.60**	1.99
– organic	**1.45**	1.13
– acquired	**0.15**	0.86
Outflows[1]	**(0.64)**	(0.53)
Market adjustment[2]	**(0.11)**	0.64
As at 31 December	**11.23**	10.38
Net organic new business[3]	**0.81**	0.60
Underlying rate of net organic growth[4]	**7.8%**	7.2%

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

Table 6. Investment Management – average funds under management

	2007 £bn	2006 £bn
Valuation dates for billing:		
5 April	**10.93**	8.95
30 June	**11.16**	9.30
30 September	**11.14**	9.65
31 December	**11.23**	10.38
Average	**11.12**	9.57

Unit Trusts

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

Table 7. Key performance indicators for Unit Trusts

	2007	2006
Funds under management at 31 December[1]	**£1.89bn**	£1.86bn
Underlying rate of net growth in funds under management[1]	**9.1%**	41.7%
Operating % margin[2]	**36.7%**	36.4%

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

Review of 2007

Growth in funds under management continued in 2007 until concerns over sub-prime mortgages brought about significant world market volatility in the final quarter of the year. This led to a fall in sales and higher redemptions as experienced across the industry.

Total net sales from all sources for the year were £172 million. Fund supermarkets account for 45% of gross unit trust sales providing an effective source of distribution to advisers throughout the UK; this includes links with life companies on whose panels a number of Rathbone Unit Trust Management's funds can be found.

The performance of the largest fund, the Rathbone Income Fund (valued at £1.1 billion as at 31 December 2007), remained first quartile over five years (to 31 December 2007) but at the end of last year results were affected by the underperformance of small and mid-size companies within the portfolio. Performance of this fund has recovered in the first two months of 2008.

Upper decile performance in the Rathbone Global Opportunities Fund over the one, two, three and five years to 31 December 2007 helped to attract £20 million of net new money and swell the size of this fund to over £50 million by the end of last year.

The Rathbone High Income Fund, launched in May 2006, continued to attract support bringing a further £11 million in net sales in the year.

Additional inflows from other sources of business, including multi-manager mandates, attracted over £48 million during 2007.

Net operating income

Net operating income was £18.8 million (2006: £14.0 million). Rebates and trail commission payable as a percentage of annual management charge income were 42.1% compared to 42.6% in 2006. Managers' box dealing profits constituted 9.0% of net operating income (2006: 9.3%).

Operating expenses

Operating expenses were £11.9 million compared to £8.9 million in 2006 – an increase of 33.7%. This increase is largely due to the increase in the costs of the profit share schemes for this business following improved profitability.

Outlook

Market volatility has a negative effect on investor confidence and, in turn, on sales and funds under management. We have built up and maintain close contact and continuity with advisers and distribution platforms which should lead to a recovery in new business when conditions improve.

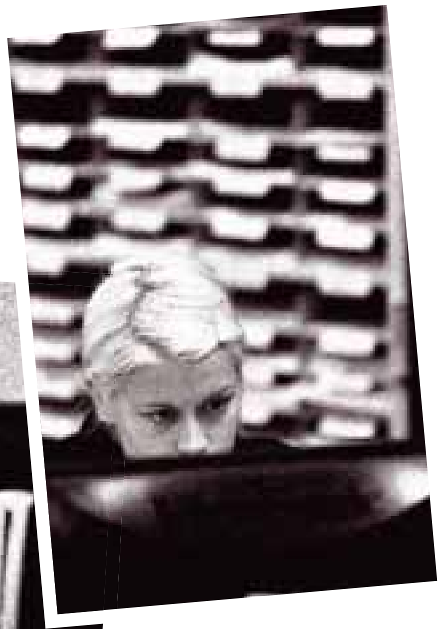


Table 8. Unit Trusts – financial performance

	2007 £m	2006 £m
Initial charges net of discounts	**1.0**	0.9
Annual management charge	**26.1**	19.5
Net dealing profits	**1.7**	1.3
Interest and other income	**1.4**	1.0
	30.2	22.7
Initial commission payable	**(0.4)**	(0.4)
Rebates and trail commission payable	**(11.0)**	(8.3)
Net operating income	**18.8**	14.0
Operating expenses	**(11.9)**	(8.9)
Profit before tax	**6.9**	5.1

Table 9. Unit Trusts – funds under management

	2007 £bn	2006 £bn
As at 1 January	**1.86**	1.20
Net inflows	**0.17**	0.50
– Inflows[1]	**0.52**	0.64
– Outflows[1]	**(0.35)**	(0.14)
Market adjustment[2]	**(0.14)**	0.16
As at 31 December	**1.89**	1.86
Underlying rate of net growth[3]	**9.1%**	41.7%

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

Trust and Tax

Key drivers for growth of revenues and profits are:

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

Table 10. Key performance indicators for Trust and Tax

	2007	2006
Chargeable time recovery rate[1]	**93%**	91%
Operating margin[2]	**15.7%**	10.8%

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

Table 11. Financial performance

	2007 £m	2006 £m
Net operating income – fees	**24.9**	21.2
Operating expenses	**(21.0)**	(18.9)
Profit before tax	**3.9**	2.3

Review of 2007

Significant recently enacted and proposed changes to UK inheritance tax, capital gains tax and the domicile rules provide a backdrop in the short to medium-term of increased activity to optimise clients' arrangements for the future, impacting particularly the UK and Jersey.

Our Jersey trust business continues to broaden its offering to clients. The recent introduction of a service focused on the administration of specialist funds demonstrates this commitment to taking advantage of the depth and range of professional expertise on this island.

Our acquisition in Singapore in April this year and the subsequent expansion of that office marks an important development for Rathbone Trust International. With offices in Geneva, Jersey, Singapore and the British Virgin Islands, and associates in the other key jurisdictions, the international business is well-placed to provide secure trust, fiduciary and related services to its clients worldwide.

Net operating income
Operating income increased by 17.5% from £21.2 million in 2006 to £24.9 million in 2007.

Operating expenses
Operating expenses increased by 11.1% from £18.9 million in 2006 to £21.0 million, including £0.6 million of costs arising in the newly-acquired Singapore business and £0.1 million of acquisition-related costs.

Outlook
In the international business, the acquisition of Singapore enhances the trust and tax business' global reach and provides a platform for building the service offering in the Far East and related markets. The development of the Rathbone Trust International brand, which includes all the business' overseas offices, is expected to continue to provide growth opportunities.

In the UK, advising clients on changes in legislation impacting on both personal tax and the tax treatment of trusts should continue to create opportunities.

5 Resources

IT

Rathbones' IT department has continued to provide a robust operations infrastructure. As we, like so many businesses, become more reliant on IT systems, business continuity arrangements become increasingly important. Off-site facilities are in place for both the London and Liverpool offices, and we conduct full business continuity exercises each year in each location; both were very successful in 2007.

As well as such off-site arrangements, we also look at the broader system resilience to maintain the business' operational capacity in as many scenarios as possible. For example, local roadworks caused us to lose power to our entire Liverpool operational hub on 14 August 2007. Despite the temporary shutdown, our emergency generator took over the power supply to the IT communications room with the result that the London and regional offices had no knowledge of the problems and continued working without issue.

We have continued the migration from a Novell to a Microsoft infrastructure. We successfully completed the largest element, moving from the GroupWise email system to Microsoft's Exchange. For a system that is now so embedded in the workplace, this was a major exercise. Extensive project planning with regular reporting to the Group's IT Steering Committee, and a large element of training and support for staff ensured risks to our IT infrastructure were minimised and the change over went smoothly. We plan to complete the transition to Microsoft in 2008.

Investment systems

There has been no major change to Rathbones' core investment systems – part of our strategy of trying to evolve a stable and reliable platform. One of the biggest projects for 2008 will be the three to four yearly replacement of the main HP UNIX servers that host our investment software. We are budgeting over £0.5 million for the live and back-up servers.

There have been a large number of different developments to enhance and drive forward our business. One project currently being piloted is the launch of a new, more comprehensive client and intermediary web site to view on-line valuations. This will complement the existing functionality we have to email information to clients, providing a very broad spectrum of electronic support.

A further development for our proprietary Rathbone Investment Desk (RID) has been to develop the dealing software to process placings and offers for subscription. In most of the industry these events are highly paper-driven and liable to error, and this new software will be very advantageous. We have also completed the electronic workflow process we were working on in 2006 so that all new client accounts are processed this way. The system has coped well with high levels of new business in 2007 and has cut down on the use of paper. The scanning and document management aspects of this software have also been put into action to help store and archive the large number of additional client forms generated by MiFID.

Private client investment operations

One key area supporting the robust organic growth levels in the business has been the investment we have made to offer a range of services, supporting both new client types and new investment opportunities. For example, the launch of the Rathbone Investment Management International Strategies Funds in the final quarter of 2007 expanded our services. We have also continued to work with SIPP providers and other intermediaries throughout 2007 and see ongoing opportunities in these markets. While we need to invest in these opportunities and while there is clearly growth in these areas, we also need to ensure that our investment is appropriate to the levels of business generated from any one area in order to deliver longer-term returns to shareholders.

2007 has seen an increase in operational staff in Liverpool of some 9% in order to support the increasing demands of the client base; the requirement for systems to support these clients will see a rise in IT staff in 2008.

The second half of 2007 was a very challenging environment for investment, given the diversity of returns from various asset classes and different sectors in the market. This has been particularly so for clients who want income (such as charities or pensioners) and need regular monthly payments. The value of many income assets has dropped, in some cases indiscriminately, even though they may still be paying a good income for the client.

A real strength of Rathbones (and this is frequently commented on by our clients) is that we offer bespoke solutions with different approaches for different client needs. In addition we do not aim to generate 'index' returns over short periods but look to provide longer-term wealth management. As part of this, we need to provide the full range of assets to our clients including fund of hedge funds, structured products and investment into areas such as commodities, private equity and property funds when appropriate.

We have invested in staff and technology to support these areas that are often a lot more complicated to support operationally than settling a traditional UK equity or gilt. For example, the RID placing software described above allowed us to process the largest ever deal done at Rathbones in December to take £20 million in an offer for subscription of Dexion Absolute (a lower volatility fund of hedge funds) for just over 1,400 clients.

Other operational areas

In our unit trust business, we reviewed our third party administrator and decided that the size of the business now merited a larger and better-resourced level of support. We have selected IFDS as transfer agent and HSBC as fund accountant and custodian. Such a significant change to the infrastructure of our unit trust business poses significant operational risk, requiring careful project management. Key aspects of the transfer have already been completed smoothly and we will complete the exercise in the first half of 2008. The links with these larger firms will allow us to benefit from their investment in technology and obtain better management information and enhance controls. At the same time we have been working on our own systems and would hope later in 2008 to be able to communicate electronically (and more efficiently than we have in the past) with these new suppliers.

Pension advice and administration has continued to be a strong area of growth for us. While this remains a relatively small part of the business, we have spent significant time and money increasing the calibre of the team supporting this area and enhancing the services we offer clients. Processes have also been reviewed to meet regulatory changes: 'A' day in 2006 and then the new FSA Regulations that came into effect in 2007, involving several new reporting deadlines in the first quarter of 2008. As we work through these changes we expect to emerge with a much more robust and streamlined support for our SIPP and SSAS clients.

In our UK trust and tax business we have reviewed our main IT system and decided to seek a replacement which focuses specifically on the requirements and tax circumstances of the business in London and Liverpool. We have, therefore, implemented Viztopia Practice Management from MYOB which is a well-known industry system. This was commissioned in late 2007, ready for the year end accounts and the key business period of January when tax returns have to be completed.

In Jersey we have seen limited change to the business infrastructure after the major property move and associated IT changes in 2006. This has allowed the new office to bed down. In particular, we have worked to refine and get better productivity out of the document management system that we implemented in 2006. The Jersey trust business remains on the system that has been replaced in the UK; our feeling is that overseas jurisdictions are better served by their own information systems and in 2008 we will review whether we want to remain with the existing system in Jersey or to look for a replacement.

Property

We have completed rent reviews for both of our largest properties in 2007.

In Liverpool this involved extensive negotiations with the landlords in the Port of Liverpool Building (which is part of a World Heritage Site). We acquired a further 9,000 square feet of space, ideally positioned next to our existing space and this has been fitted out to a high standard. At the same time, we reached agreement with the landlords to safeguard our working environment while they undertook a major two-year refurbishment of the building; in conjunction with their works we are also redecorating our existing space. The rent was fixed at £13.50 per square foot through to February 2013 with the lease extended to 2018.

In London we saw a significant rent increase reflecting trends over the last five years in the West End, but avoided the very highest rental figures in the area, eventually settling on a rent of £90 per square foot for our main building at 159 New Bond Street. The lease on our adjacent building in 161 New Bond Street is due for renewal in 2008 and this too will lead to a rent increase. The refurbishment works in London that we have completed in the last year are now essentially complete providing an attractive environment for work and client meetings.

A rent review has also been completed in Edinburgh and one is due in the first half of the year in Winchester. In Bristol, we had outgrown our existing office and are in the final stages of negotiations for a well-located new office which will accommodate more staff – we hope to have occupancy by the middle of 2008.

While parts of the property market are clearly now cooling, five year rent reviews reflect longer trends in property costs. This has increased our costs in 2007 and given the phasing noted above, there inevitably will be further increases in operating costs in 2008.

The Rathbone Investment Process

The Rathbone Investment Process pulls together the combined expertise of our investment managers from our discretionary investment management and unit trust operations. It is designed to enable investment managers to make considered and consistent decisions in the best interests of their clients, drawing on the combined knowledge and experience of investment managers throughout Rathbones, and taking advantage of the best external products and structures that are available.

Our Strategic Asset Allocation Committee meets monthly to consider the opportunities and threats within financial markets. Conclusions from these meetings are reflected in a range of models with differing risk and return profiles. These enable investment managers to make informed and disciplined decisions about the structuring of individual clients' portfolios in the light of their stated aims, circumstances and appetite for risk.

An important advantage of the Rathbone Investment Process is that it provides investment managers with genuine access to the 'best of breed' across all securities and structures, without any conflicts of interest. Our independence and size provides access to a very wide range of investment options which are considered by specialist committees, who conduct due diligence across an increasingly broad and complex range of investments. These involve researching investment opportunities across all asset classes, including fixed income, UK equity and managed funds. In addition, an alternatives team covers hedge funds, property, structured products, commodities and private equity.

Brand and reputation

We continue to grow our reputation as a quality name in wealth management.

Investment continues in promotion with Rathbones' profile increasing in key media during 2007; in part through our advertising campaign in the national press, which we expect to continue through 2008.

We continue to invest in our central marketing resource and in the quality and quantity of marketing activities, including proposals and presentations to potential new clients, a range of business development events (seminars, workshops and similar), our presence at industry conferences, our involvement with appropriate trade bodies, and our range of marketing materials. A good example of the latter are the revised and significantly upgraded websites launched in 2007 for Rathbone Unit Trusts and Rathbone Greenbank Investments (www.rutm.com and www.rathbonegreenbank.com).

Marketing is not just the responsibility of our central marketing department but of everyone, and investment managers and trust professionals continue to participate in and indeed drive initiatives to grow the business.

People

As stated in our strategy (page 16), in line with all professional services businesses, Rathbones' greatest asset is its people and we aim to provide staff with an interesting and stimulating career environment, involving a commitment for all staff to share in the equity and profits of Rathbones, and to encourage and reward organic growth.

Staff turnover in the UK fell from 11% in 2006 to 8% in 2007. The turnover amongst investment managers in Rathbone Investment Management was 2% in 2007 (2006: 4%) with the average length of service at 10.8 years (all UK staff 7.5 years) and 408 people having more than five years' service (all UK staff 689).

Staff turnover in our Liverpool operations area was 9% in 2007, a much lower level than would be likely in a location such as London. With so much happening in the business it is very important that we keep and motivate the quality staff we employ.

To support our local community we have decided to invest around £120,000 into four very different schools in the Liverpool area to support them in achieving Specialist Schools and Academies Trust status. This investment will release over £1m of government money in additional funding to help these schools develop their chosen specialism.

Amongst the initiatives that have been implemented with the individual schools and as part of our contribution to the celebrations for the Liverpool Capital of Culture, we are hosting a Summer Exhibition of artistic works during July 2008 in conjunction with the four schools, which we hope will showcase the creative talents of Liverpool's youth across many different and diverse artistic mediums. Information is available at www.summerexhibition.rathbones.com.

We seek to invest in our people and our current standards of qualification in the UK exceed the guidelines set out by the Financial Services Authority. A new head of training joined early in 2007 and Rathbones spent an average of £542 per person in 2007 enhancing individuals' skills. Many staff took part in development activities to improve their professional competence with 92 of our people studying for a variety of industry-related examinations.

During the year all staff had the opportunity to attend training to support the introduction of MiFID and the updating of our IT systems.

We encourage equity participation at all levels. This is supported by the provision of a Share Incentive Plan (SIP). Approximately 78% of UK employees and 60% of offshore employees contribute to the SIP by way of monthly payroll deduction. Participation rates and shareholdings are lower offshore due to the absence of UK tax reliefs on SIP contributions.

As at 31 December 2007, over 1.2 million Rathbone Brothers Plc shares were held by Rathbone employees in the SIP with average holdings of over 2,000 shares per participating employee in the UK and just under 1,000 per employee offshore.

Profit-related schemes are in place in specific areas for fee-earners. These are designed to provide appropriate incentives and rewards for profitability and successful new business generation.

6 Risks and uncertainties

The principal risks and uncertainties that face Rathbones are:

Financial risks

The principal financial risks that the Group faces, together with the policies and procedures for the monitoring and management of those risks, are set out in note 30 to the consolidated financial statements.

Non-financial risks

The significant non-financial risks that face Rathbones are:

Competition risk

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

To mitigate this risk, we continue to invest in the people and resources required to ensure the Rathbone Investment Process remains robust, flexible and capable of meeting a variety of needs. The business continuously monitors developments in the marketplaces in which it operates and the Group invests in enhancing or broadening the services offered where we believe it will contribute to growth in earnings. Investment is maintained in the marketing and operational resource to continue to develop distribution channels for all parts of the business.

Recruitment policies stress the importance of recruiting high quality staff and, through regular benchmarking, we ensure that remuneration packages remain appropriate. Staff training and development are supported by the employment of a dedicated training manager and contracts of employment for all fee earning staff are reviewed regularly and updated when necessary.

Reputational risk

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

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

This risk is mitigated by preserving and building on our established culture of seeking the highest possible professional and ethical standards, and fostering a strategic focus throughout the business on the provision of a first class service to our clients. The Group also places significant emphasis on compliance with all relevant regulation and statutes, in particular the Training and Competence regime of the Financial Services Authority. This is monitored and controlled by internal and external auditors as well as the Group's compliance department.

Regulatory risk

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

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

Technology risk

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

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

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

Operational risk

Operational risk arises from the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group actively manages these risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The Group also regularly monitors the performance of its controls and adherence to these guidelines through the Risk Management Committee.

Key components of the group control environment include modelling of operational risk exposure and scenario testing, management review of activities, documentation of policies and procedures, contingency planning and embedding systems and controls within our key processes.

Group Risk

The Group consists of 26 operating entities and will continue to grow in line with its acquisitive strategy. Where Group entities fail to consider the impact of their activities on other parts of the Group, or the risks arising from these activities, there may be a potentially adverse impact on the Group's profitability. In addition to reputational risk, discussed above, there are two other components of group risk:

Strategic

This is the risk that the Group's strategy is inappropriate or that the Group is unable to implement its strategy.

Management stretch

Management stretch is the risk that business growth might cause the management structure to become overly complex, undermine accountability and control within the Group, and may make the identification, analysis and control of risks more complex.

The Executive Committee, which consists of four executive directors, retains close day-to-day contact with key management throughout the Group's entities and ensures that activities are appropriately coordinated and controlled in accordance with the Group's strategy. A clear, hierarchical monitoring and governance structure is in place to provide effective oversight throughout the Group and to provide a transparent mechanism for the escalation of issues.

7 Financial position

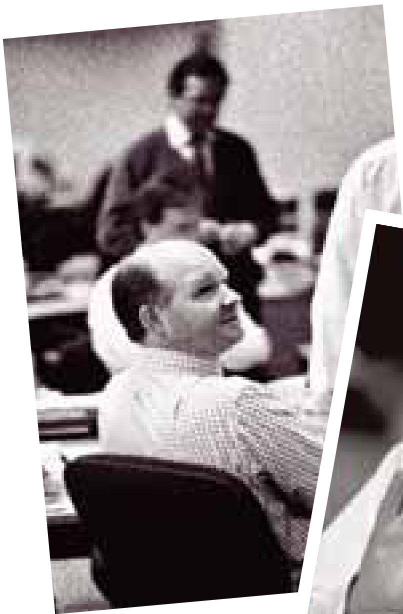
Group financial performance

Reported profit before tax for the year rose by 16.8% from £44.7 million in 2006 to £52.2 million in 2007 and reported basic earnings per share increased by 14.7% from 76.62p in 2006 to 87.88p in 2007.

Underlying profits before tax, which exclude gains on the disposal of London Stock Exchange Group plc shares, rose by 22.7% from £41.5 million in 2006 to £50.9 million in 2007. Underlying basic earnings per share rose by 20.3% from 71.28p in 2006 to 85.74p in 2007.

Operating income

Reported operating income has increased by 15.6% from £133.7 million in 2006 to £154.5 million in 2007. Excluding the disposal of the London Stock Exchange Group plc shares, underlying operating income increased by 17.4%. Operating income for each business area is referred to under 'Segmental performance' (pages 17 – 22).



Operating expenses

Operating expenses increased by 14.9% from £89.0 million in 2006 to £102.3 million in 2007. The acquisition of Federal Trust (Singapore) Pte Limited increased costs in the year by £0.7 million of which 14% is non-recurring.

Table 12. Operating expenses

	2007 £m	2006 £m
Staff costs		
– fixed	**46.2**	42.3
– profit related/variable	**22.7**	17.0
Total staff costs	**68.9**	59.3
Other operating expenses	**33.4**	29.7
Operating expenses	**102.3**	89.0
Underlying cost/income ratio[1]	**66.8%**	68.2%

1 Operating expenses divided by operating income excluding gains from disposal of available for sale securities (see table 14)

Staff costs have increased by 16.2% during the year. The increase of 9.2% in fixed staff costs from £42.3 million to £46.2 million reflects salary inflation and the increase in headcount (the average fulltime equivalent headcount increased by 5.9% from 750 to 794, in part due to the acquisition in Singapore which added 10 full time equivalent staff). Variable staff costs have increased by 33.5% from £17.0 million to £22.7 million due to the increase in the cost of profit sharing and new business incentive schemes, both of which reflect increased profits and net organic growth.

Other operating expenses have increased by 12.5% from £29.7 million in 2006 to £33.4 million in 2007. Excluding the impact of the acquisition in Singapore, the increase is 11.4% and is largely attributable to increased property and office costs, following the rent review in our London office and additional space being leased in Liverpool.

Operating expenses include an amortisation charge of £0.9 million (2006: £0.5 million) in relation to intangible assets arising from amounts paid to acquire investment management contracts.

Tax

The effective tax rate for the year is 28.4% (2006: 28.2%), calculated as the total tax charge of £14.8 million (2006: £12.6 million) divided by the profit before tax of £52.2 million (2006: £44.7 million). A full tax charge reconciliation is set out in note 11 to the accounts.

The effective rate of tax is lower than the UK standard rate of 30% due to corporation tax deductions in respect of exercised share options for which there is no related charge in the profit and loss account, and profits arising in lower tax jurisdictions, principally Jersey, that have not been remitted to the UK.

Dividend

An interim dividend of 16p per share was paid to shareholders on 10 October 2007 and the Board is recommending a final dividend of 25.0p, resulting in a total payment of 41.0p, an increase of 17.1% on 2006. This dividend is covered 2.1 times by reported earnings per share and 2.1 times by underlying earnings per share.

Capital

The introduction of the Capital Requirements Directive has increased the level of regulatory capital that we are required to hold after 1 January 2008. However, we continue to maintain a capital position that is in excess of the new regulatory capital requirement, although the available headroom has been reduced by the new regulations.

Table 13. Total shareholders' funds and return on capital employed

	2007 £m	2006 £m
Shareholders' funds at 1 January	**159.1**	130.4
Shareholders' funds at 31 December	**184.8**	159.1
Average shareholders' funds	**172.0**	144.8
Profits before tax	**52.2**	44.7
Profits after tax	**37.4**	32.1
Return on capital employed (pre-tax)	**30.3%**	30.9%
Return on capital employed (post-tax)	**21.7%**	22.2%

Treasury policy and objectives

Rathbone Investment Management Limited holds most of the Group's surplus liquidity on its balance sheet and this includes clients' cash that it holds in its capacity as a deposit taker which is authorised and regulated by the Financial Services Authority.

The treasury department of Rathbone Investment Management, reporting through the Banking Committee to the Board, operates in accordance with procedures set out in an approved treasury manual and monitors exposure to market, credit and liquidity risk, as set out in note 30 to the consolidated financial statements.

Cash flow

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

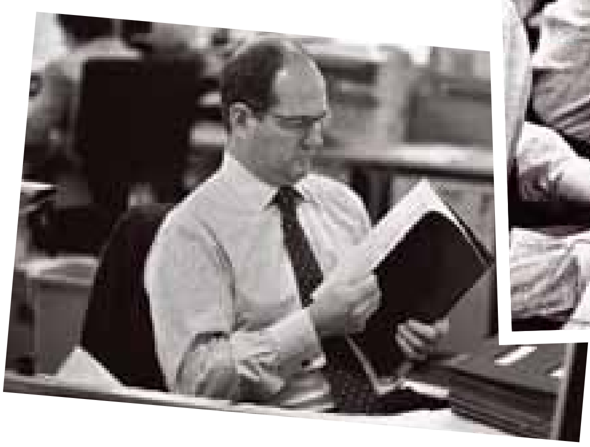
- Cash outflows relating to the payment of dividends of £15.9 million.
- £10.2 million of capital expenditure.

During the year, we drew down a further £3 million under the term loan facility from Barclays Bank PLC. A total of £15 million was drawn down under the facility, of which £2.7m was repaid during the year. The balance is repayable in six-monthly equal instalments ending on 4 April 2011.

Investment in London Stock Exchange Group plc

As at 31 December 2007, the Group held 300,000 shares in London Stock Exchange Group plc (2006: 400,000). These shares were acquired for a total cost of £2 but are carried at market value on the balance sheet (under the heading 'Investment securities – available for sale') with changes in value taken to a revaluation reserve. On the sale of shares, the difference between the sale proceeds and the original cost is recognised in the income statement.

In 2007, 100,000 shares were sold and the gain on sale of £1.3 million is included in the income statement under the heading 'Net income from sale of available for sale securities'.



Pensions

The Group operates two defined benefit schemes (both of which are closed to new members) and a defined contribution pension scheme. At 31 December 2007, the combined accounting deficit for the two defined benefit schemes totalled £6.5 million (2006: £10.8 million). The reduction in the combined deficit over the year has been driven by the increase in long-term interest rates during the year, which are used to discount the pension scheme liabilities, as well as improved market levels and increased contributions increasing the pension scheme assets.

During the year, the Group made special contributions of £3.9 million into the Rathbone 1987 Scheme, concluding the contribution schedule agreed by the Board to significantly reduce the deficit in the scheme by the end of 2007. During 2008, a triennial valuation of the Rathbone 1987 Scheme as at 31 December 2007 will be undertaken and a schedule of contributions will be agreed in relation to any further deficit in the scheme at the conclusion of the valuation process.

The triennial valuation as at 31 December 2005 of the Laurence Keen Scheme (which has no active members) was concluded during the year and as a result the level of funding of the deficit was reduced from £562,000 to £420,000 per annum for the next three years.

Table 14. Profit before tax (£m) and earnings per share

	Investment Management	Unit Trusts	Trust and Tax	Re-allocation[1]	Underlying totals	Non-segmental items[2]	As reported
2007							
Operating income	104.4	18.8	24.9	5.1	153.2	1.3	154.5
Operating expenses	(64.3)	(11.9)	(21.0)	(5.1)	(102.3)	–	(102.3)
Profit before tax	**40.1**	**6.9**	**3.9**	**–**	**50.9**	**1.3**	**52.2**
Earnings per share					**85.74p**		**87.88p**
	Investment Management	Unit Trusts	Trust and Tax	Re-allocation[1]	Underlying totals	Non-segmental items[2]	As reported
2006							
Operating income	90.9	14.0	21.2	4.4	130.5	3.2	133.7
Operating expenses	(56.8)	(8.9)	(18.9)	(4.4)	(89.0)	–	(89.0)
Profit before tax	34.1	5.1	2.3	–	41.5	3.2	44.7
Earnings per share					71.28p		76.62p

1 Central revenue (mainly interest) included in net central costs which is allocated to the business areas
2 Profit on sale of shares in London Stock Exchange Group plc

Directors

Chairman

Mark Powell
Mark Powell, aged 62, is the chairman with principal responsibility for the strategy of the Group. He moved to a non-executive role with effect from 1 January 2008 and is not considered to be independent for the purposes of the Combined Code.

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

Executive directors

Andy Pomfret*
Andy Pomfret, aged 47, is the chief executive. He is chairman of the Executive Committee which manages the day-to-day affairs of the Group and of the Group's Social and Environmental Committee. He qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG). Prior to joining Rathbones in July 1999, he spent over 13 years with Kleinwort Benson (now Dresdner Kleinwort) as a corporate financier, venture capitalist and latterly finance director of the investment management and private banking division. He was appointed to the Board in August 1999 and became chief executive in October 2004. He is also the senior independent director of Beazley Group plc and a director of the Association of Private Client Investment Managers & Stockbrokers (APCIMS).

Ian Buckley*
Ian Buckley, aged 57, is chief executive of the Group's trust and tax business and the director responsible for its pensions and advisory business. He is also chairman of the Group's IT Steering Committee and the director responsible for marketing. He qualified as a chartered accountant with Peat, Marwick, Mitchell & Co. (now KPMG) in 1975. He was chief executive of Smith & Williamson for ten years from 1985 to 1995, and subsequently chief executive of EFG Private Bank Limited and Tenon Group Plc. He was appointed to the Board in December 2001. He is the senior independent director of NXT Plc.

Paul Chavasse*
Paul Chavasse, aged 43, is the chief operating officer responsible for the Group's investment operations, IT infrastructure and facilities. He started his career working for the institutional fund management arm of NatWest, which was later merged with Gartmore. After a period in the private client businesses of NatWest and Coutts, his final role before joining the Group in 2001 was as head of NatWest Portfolio Management in Bristol. He was appointed to the Board in September 2001.


Mark Powell


Andy Pomfret


Ian Buckley


Paul Chavasse

Richard Lanyon*

Richard Lanyon, aged 56, is the director responsible for Rathbones' investment management business. Initially with Laurence Prust, he moved to Framlington Group Plc in 1986 where he was the Board member responsible for pension funds. Richard joined the Group in 1992 to concentrate on private client discretionary investment management and was appointed to the Board in March 1996.

Andrew Morris

Andrew Morris, aged 43, is the director responsible for Rathbones' investment management business in Liverpool, Edinburgh and Kendal. He also manages a large number of client portfolios. He has spent his entire working career at Rathbones in private client investment management and was appointed to the Board in November 2000. He is chairman of the Group's Training and Competence Committee.

Peter Pearson Lund

Peter Pearson Lund, aged 60, is the director responsible for Rathbones' unit trust business and is chief executive of Rathbone Unit Trust Management Limited. He was appointed to the Board in January 2005. Before joining Rathbones, Peter worked for Gartmore for 14 years where he was a group director and managing director of Gartmore Fund Managers, the unit trust division. Peter joined Rathbones in 1999 when the company decided to develop its unit trust activities and promote them externally.

Richard Smeeton

Richard Smeeton, aged 43, has, as his principal responsibility, the management of the Group's investment management business in London and Jersey. He also manages a large number of client portfolios. Having trained with County Bank, he joined Laurence Keen in 1988 prior to its acquisition by Rathbones in 1995. He was appointed to the Board in November 2000. He chairs the Group's Alternative Asset Committee.

* Members of the Executive Committee.

Richard Lanyon

Andrew Morris

Peter Pearson Lund

Richard Smeeton

Non-executive directors

Giles Coode-Adams
Giles Coode-Adams, aged 69, has over 40 years' experience in the City. In 1966 he became a partner in L. Messel & Co. which from 1986 was part of Lehman Brothers. He became a managing director of Lehman Brothers in 1987 and has advised a number of leading UK and US companies. Additionally, from 1991 to 1997 he was chief executive of the Royal Botanic Gardens, Kew Foundation. He is also a director of Guardian Media Group plc. He joined the Board in June 1999 and is the senior independent director and chairman of the Audit Committee.

James Barclay
James Barclay, aged 62, has many years' experience in the financial services and banking sector. As chairman and chief executive of Cater Allen Holdings Plc, he was responsible for creating a market leader that was ultimately sold to Abbey National in 1998. Currently, he is non executive chairman of M&G Equity Investment Trust PLC and a director of Thos. Agnew's and Sons Limited, a leading West End international art dealer. In 2000 he was appointed as an adviser to the UK Debt Management Office and was chairman of its audit committee for four years. He was appointed to the Board in November 2003 and is considered to be independent.

Caroline Burton
Caroline Burton, aged 58, is a highly experienced figure within the asset management industry. She spent 26 years with Guardian Royal Exchange Plc where she was executive director in charge of investments from 1990 until 1999. She was also a director of The Scottish Metropolitan Property Plc until June 2000 and was a member of the service authority for the National Crime Squad and National Criminal Intelligence Service until March 2006. She is a non-executive director of TR Property Investment Trust Plc. She was appointed to the Board in November 2003 and is considered to be independent. She is chairman of the Remuneration Committee.

Oliver Corbett
Oliver Corbett, aged 43, is group finance director of Novae Group plc. He is a chartered accountant and worked for SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein (now Dresdner Kleinwort), where he was managing director, emerging companies, before joining Novae Group (formerly SVB Holdings PLC) in October 2003. He was appointed to the Board on 7 March 2006 and is considered to be independent.

David Harrel
David Harrel, aged 59 was one of the founding partners of S J Berwin LLP in 1982, and was made senior partner in 1992. He relinquished this role in 2006 and is now a consultant to the firm. David has a variety of other appointments: he is a non-executive director of Wichford Plc, a member of the Board of the English National Opera and a trustee of the Clore Duffield and John Aspinall Foundations. He was appointed to the Board on 1 December 2007 and is considered to be independent.

John May
John May, aged 52 is an executive director at Caledonia Investments plc. He has almost 30 years' experience in advising, managing and investing in listed and unlisted companies, including more than 20 years with the Hambros Group, where he was joint managing director of Hambro Countrywide plc and an executive director of Hambros Bank, and subsequently with his own private equity investment and consultancy business.

He was appointed to the Board on 1 December 2007. He is a director of a major shareholder, Caledonia Investments plc, and it is recognised that he is not considered to be independent for the purposes of the Combined Code.

Mark Robertshaw
Mark Robertshaw, aged 39, is chief executive officer of The Morgan Crucible Company plc. Prior to joining Morgan Crucible in 2004 he was chief financial officer of Gartmore Investment Management Plc for four years. He previously worked for the NatWest Group and also spent nine years as a management consultant with Marakon Associates. He was appointed to the Board on 7 March 2006 and is considered to be independent.


Giles Coode-Adams


James Barclay


Caroline Burton


Oliver Corbett


David Harrel


John May


Mark Robertshaw

Governance

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Directors' report

Group activities

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

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

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

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

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

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

Business review

A full review of the Group's business activities are set out in the Business review on pages 10 to 31.

Post balance sheet events

Details of events after the balance sheet date are set out in note 35 to the accounts on page 110.

Group results and Company dividends

The Group profit after taxation for the year ended 31 December 2007 was £37,380,000 (2006: £32,138,000).
The directors recommend a final dividend of 25.0p (2006: 21.5p) payable on 14 May 2008 to shareholders on the register on 18 April 2008 and this, together with the interim dividend of 16.0p (2006: 13.5p), results in total dividends of 41.0p (2006: 35.0p) per ordinary share for the year. These dividends amount to £17,479,000 (2006: £14,786,000) – see note 12 on page 81.

Capital structure

The Company's share capital is comprised of one class of ordinary shares of 5p each. At 31 December 2007, 42,689,942 shares were in issue (2006: 42,276,852). The shares carry no rights to fixed income and each share carries the right to one vote at general meetings. All shares are fully paid.

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

The Board currently has the authority to allot 13.8 million shares (approximately 33% of the issued share capital at 28 February 2007). This authority is renewed annually at the AGM.

Voting rights of shares held by the trustees of the Company's Share Incentive Plan (SIP) are not exercised unless the trustee is directed to vote by the employee SIP participant. Voting rights of shares held by the trustees of the Company's long term incentive plan are not exercised and dividends are waived.

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

Directors and their interests

The directors at the year end and who served during the year, and their interests in the share capital of the Company are shown in Table 1. There were no changes between 31 December 2007 and 5 March 2008. Details of directors' share options are shown in Table 6 on page 50.

Table 1. Directors' shareholdings

	Number of 5p ordinary shares at 1 January 2007*		Number of 5p ordinary shares at 31 December 2007	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Chairman				
G M Powell	312,635	10,000	309,167	12,500
Executive				
I M Buckley	19,034	–	29,014	–
P D G Chavasse	10,671	–	20,394	–
R P Lanyon	217,868	–	229,900	–
A T Morris	29,577	–	48,609	–
P G Pearson Lund	7,475	–	11,007	–
A D Pomfret	43,854	–	61,565	–
R I Smeeton	117,791	–	122,823	–
Non-executive				
J C Barclay	1,647	–	2,130	–
C M Burton	1,647	–	2,130	–
J G S Coode-Adams	9,426	–	9,954	–
O R P Corbett	126	–	533	–
D T D Harrel	–	–	–	–
J M May	–	–	–	–
M Robertshaw	1,126	–	1,533	–

* or date of appointment if later

Executive directors

The directors with executive responsibilities are Andy Pomfret, Ian Buckley, Paul Chavasse, Richard Lanyon, Andrew Morris, Peter Pearson Lund and Richard Smeeton. Their biographies are on pages 32 and 33.

The finance director, Sue Desborough, very sadly died on 28 November 2007 after a brave fight against cancer.

Non-executive directors

The directors with non-executive responsibilities are Mark Powell, Giles Coode-Adams, James Barclay, Caroline Burton, Oliver Corbett, David Harrel, John May and Mark Robertshaw. David Harrel and John May were appointed to the Board on 1 December 2007. Their biographies are on pages 32 and 34.

Jamie Cayzer-Colvin and Roy Morris retired from the Board on 1 December 2007 and 31 December 2007 respectively. Mark Powell became non-executive chairman with effect from 1 January 2008.

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

Retirement and re-appointment of directors

Ian Buckley, Paul Chavasse, Peter Pearson Lund and Mark Powell retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Substantial shareholdings

At 5 March 2008, the Company had received notifications in accordance with the FSA's Disclosure and Transparency Rule 5.1.2 of the following interests of 3% or more in the issued ordinary share capital of the Company.

Table 2. Substantial shareholdings at 5 March 2008

		Number of shares	Number of voting rights		% of voting rights	
Notifier	Date of notification	Direct	Direct	Indirect	Direct	Indirect
AEGON UK Group of Companies	19 Mar 2007	1,531,929	1,531,929	–	3.62	–
BlackRock Inc.	12 Apr 2007	–	–	2,204,447	–	5.19
Caledonia Investments plc	5 Feb 2007	4,562,000	4,562,000	–	10.79	–
Legal & General Group Plc	19 Nov 2007	1,742,369	1,742,369	–	4.08	–
Lloyds TSB Group plc	14 Mar 2007	1,347,780	1,347,780	130,032	3.19	0.31
Royal Bank of Scotland plc as Trustee of the Merrill Lynch UK Special Situations Fund	2 Oct 2007	1,290,701	1,290,701	–	3.02	–

Political and charitable donations

No contributions were made for political purposes during the year (2006: nil). Details of the Company's charitable donations can be found in the Corporate responsibility report on page 61.

Employees

Details of the Company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the Corporate responsibility report on pages 58 to 60.

Policy on the payment of creditors

Rathbones does not follow a published code or standard on payment practice. Its policy is to fix terms of payment with each supplier in accordance with its requirements and financial procedures. Rathbones ensures that suppliers are aware of those terms and abides by them subject to the resolution of any disagreement regarding the supply. In the majority of cases, the terms agreed with suppliers are for payment within 30 days of their invoice date. Trade creditors of the UK subsidiaries at 31 December 2007 represented 27 days of annual purchases (2006: 14 days). The Company itself has no trade creditors.

Financial instruments and risk management

The risk management objectives and policies of the Group are set out in note 30 to the accounts on pages 97 to 108.

Indemnification of directors

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

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

Share price

The mid market price of the Company's shares at 31 December 2007 was £10.50 (2006: £11.98) and the range during the year was £10.29 to £14.20 (2006: £9.91 to £12.40).

Auditors

The Audit Committee reviews the appointment of the external auditors and their relationship with the Group, including monitoring the Group's use of the auditors for non-audit services. Note 9 to the financial statements sets out details of the auditors' remuneration. Having reviewed the independence and effectiveness of the external auditors, the Audit Committee has recommended to the Board that the existing auditors, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2008 AGM.

Annual General Meeting

The 2008 Annual General Meeting will be held on Wednesday 7 May 2008 at 12.00 noon at 159 New Bond Street, London, W1S 2UD. The notice of the meeting is on pages 121 to 126 with details of the resolutions proposed and explanatory notes.

Special business

The resolutions proposed include an ordinary resolution classified by the Articles of Association as non-routine special business to renew the existing authority to the directors to allot up to 14 million shares (with an aggregate nominal amount of up to £700,000).

The Board are also seeking to renew, by special resolution, the existing authorities to waive pre-emption rights and to make market purchases of ordinary shares under certain stringent conditions (both subject to limits).

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

By Order of the Board

Richard Loader
Secretary

Registered Office
159 New Bond Street
London W1S 2UD
5 March 2008

Corporate governance report

In relation to compliance with the Combined Code this report together with the Directors' report states the position at 5 March 2008.

The Combined Code compliance statement

The revised Combined Code on Corporate Governance ('the Code') was issued in June 2006 by the Financial Reporting Council ('FRC') and applies for reporting periods beginning on or after 1 November 2006.

Explanations of how the Code principles and supporting principles have been applied are set out in the Governance sections of the report and accounts. The directors believe the Company was in compliance with Section 1 of the Code throughout the year with the following two exceptions:

Independence of the chairman on appointment

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

Composition of the Board

There are currently 15 directors of which six (40%) are independent non-executive directors. The Code requires that at least half the board excluding the chairman, should be independent non-executive directors.

The number of senior practitioners from within the operating subsidiaries on the Board does result in a sizeable number of executive directors, making the achievement of the Code target difficult.

Board meetings

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

Board membership

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

The Board considers that six of the eight non-executive directors are independent, the exceptions being Mark Powell (as explained above) and John May who is a director of a major shareholder, Caledonia Investments plc.

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

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

Board performance

The Board, Audit and Remuneration Committees carry out appraisals of their operation and performance on an annual basis. In 2007, an internal questionnaire was used. This was developed and executed with assistance from Lintstock Limited, a London based corporate advisory firm.

The results were discussed by the full Board and an action plan agreed. Areas for Board focus identified included succession planning, a review of Board paper content and format, and greater comparison of performance with the company's peers.

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

Board training

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

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

Board Committees

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

Executive Committee

The Executive Committee is chaired by the chief executive, Andy Pomfret and comprises Ian Buckley, Paul Chavasse, and Richard Lanyon. Mark Powell served on the Committee until his move to a non-executive role on 1 January 2008. The purpose of the Executive Committee is to monitor every aspect of the Group businesses on a continuing basis and to analyse and plan all business proposals in detail for submission to and consideration by the Board. The Executive Committee meets monthly and more frequently when required.

Audit Committee

Members of the Audit Committee are Giles Coode-Adams (chairman), James Barclay, Caroline Burton, Oliver Corbett, David Harrel and Mark Robertshaw. David Harrel joined the Committee on his appointment to the Board on 1 December 2007. Details of its work are set out in the Audit Committee report.

Remuneration Committee

Members of the Remuneration Committee are Caroline Burton (chairman), James Barclay, Giles Coode-Adams, Oliver Corbett, David Harrel (from 1 December 2007) and Mark Robertshaw. Full details of its role are set out in the Remuneration report.

Nomination Committee

Members of the Nomination Committee are Mark Powell (chairman), James Barclay, Caroline Burton, Giles Coode-Adams, Oliver Corbett, David Harrel (from 1 December 2007), Andy Pomfret and Mark Robertshaw. Full details of its role are set out in the Nomination Committee report.

Other Board issues

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

Other Board issues continued

Table 1. Board meeting and committee attendance in 2007

	Plc Board*	Executive Committee**	Audit Committee	Remuneration Committee	Nomination Committee
J C Barclay	7/7	–	5/5	5/5	3/3
I M Buckley	7/7	12/12	–	–	–
C M Burton	7/7	–	4/5	5/5	3/3
J M B Cayzer-Colvin	7/7	–	–	–	–
P D G Chavasse	7/7	11/12	–	–	–
J G S Coode-Adams	6/7	–	5/5	5/5	3/3
O R P Corbett	7/7	–	5/5	5/5	3/3
D T D Harrel	–	–	0/1	–	–
R P Lanyon	7/7	12/12	–	–	–
J M May	–	–	–	–	–
A T Morris	7/7	–	–	–	–
R A Morris	5/7	–	–	–	–
P G Pearson-Lund	7/7	–	–	–	–
A D Pomfret	6/7	12/12	–	–	2/3
G M Powell	7/7	11/12	–	–	3/3
R I Smeeton	7/7	–	–	–	–
M Robertshaw	7/7	–	5/5	5/5	3/3

* Scheduled bi-monthly meeting
** Scheduled monthly meeting

Shareholder relations

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

Meetings with major shareholders provide an opportunity to discuss governance and strategy issues, and provide an opportunity to introduce other directors including non-executive directors. All shareholders have the opportunity to meet non-executive directors at the AGM. Feedback from these meetings is reported to the Board. At least 20 business days' notice of the AGM is given to allow time for proper consideration of the resolutions by shareholders. Separate resolutions are proposed for each substantially separate issue. Every effort is made to ensure that all Board members, and in particular committee chairmen, are at the meeting. The Board welcomes questions and comments from shareholders.

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

Risk management and internal control

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

The Risk Management Committee reports to the Board and comprises members of the Executive Committee together with the Group heads of personnel, compliance and internal audit. This committee is an important element in the Group's overall control system and undertakes a review of risk within the Group at its quarterly meetings. It reports on a regular basis to the Board both on the identification of risks and the steps being taken to control or mitigate such risks. Risk review procedures have been in place throughout the year and up to 5 March 2008.

Risk management and internal control continued

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

- a formal structure of committees and subsidiary company boards where senior staff oversee the operation of the business on a regular basis;
- an annual budgeting, regular forecasting and monthly financial reporting system for all Group divisions, which enables trends to be evaluated and variances to be acted upon;
- an internal capital adequacy assessment process (ICAAP) required by FSA prudential rules which requires regular assessments of the amounts, types and distribution of capital that the Group considers adequate to cover the nature and level of the risks to which it is or might be exposed;
- a defined set of policies and procedures for treasury operations with limits set by the Banking Committee;
- a confidential reporting policy, which encourages employees to raise serious concerns about a colleague's or Group company's practice; and
- the Audit Committee which, on the Board's behalf, examines the effectiveness of the systems of control as explained below.

On behalf of the Board, the Audit Committee confirms that it has reviewed the effectiveness of the systems of internal control in existence in the Group for the year ended 31 December 2007 and has taken account of material developments since the year end. Necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. This process meets the requirements of the 'Guidance on Internal Control (The Turnbull Guidance)' published in September 1999 and revised in October 2005.

Going concern

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

Regulation

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

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

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

Rathbone Insurance Limited is regulated by the Guernsey Financial Services Commission.

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

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

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

Rathbone Trust (Singapore) Pte Limited is regulated by the Monetary Authority of Singapore.

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

Model Code

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

Remuneration report

The Board presents the Remuneration report for the year ended 31 December 2007.

Remuneration policy for executive directors

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

The stated policy shall apply in 2008 and, subject to review, in subsequent financial years.

Remuneration packages

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

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

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

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

Basic salary and benefits

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

Board salary and fee costs were £2.07 million in 2007 compared with £1.93 million in 2006 (adjusted to reflect the retirement of James Lifford on 31 December 2006), an overall increase of 7.3%.

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

All directors are entitled to take part in the Share Incentive Plan (SIP) on the same terms as all other employees. This allows all employees to purchase shares in the Company and currently these are matched on a one-for-one basis by the Company. Performance shares are also offered to employees based on earnings per share growth. In addition Rathbones provides a range of benefits, the most significant of which is a company car (or cash alternative). With effect from 1 January 2008, the provision of cars will be phased out as lease arrangements end.

Profit share

Certain executive directors on the Executive Committee are eligible for a discretionary profit share payment from a pool based on approximately 1% of Group pre-tax profits. Directors with direct responsibility for investment management, unit trust or trust and tax departments receive a profit share payment based on the profits of the department concerned. This may be supplemented by a payment from the pool. Profit share payments are not capped and are not pensionable. Details of payments for 2007 are shown in Table 1.

Table 1. Directors' remuneration (audited information)

	Salary or fee[1] £'000	Payment in lieu of pension contri-butions £'000	Profit sharing[2] £'000	Benefits[3] £'000	2007 total £'000	2006 total £'000	2007 Pension contri-butions[4] £'000	2006 Pension contri-butions[4] £'000
Chairman								
G M Powell	233	27	143	12	415	363	–	7
Executive								
A D Pomfret (Chief Executive)	283	–	220	1	504	384	32	29
I M Buckley	193	–	59	1	253	223	21	21
P D G Chavasse	218	–	110	1	329	274	–	–
S M Desborough	184	–	25	1	210	268	–	–
R P Lanyon	205	–	248	1	454	370	–	–
A T Morris	175	–	118	17	310	289	–	–
P G Pearson Lund	168	4	866	1	1,039	666	–	–
R I Smeeton	188	–	242	1	431	330	–	–
Non-executive								
J C Barclay	30	–	–	–	30	29	–	–
C M Burton	35	–	–	–	35	34	–	–
J M B Cayzer-Colvin	28	–	–	–	28	29	–	–
J G S Coode-Adams	35	–	–	–	35	34	–	–
O R P Corbett	30	–	–	–	30	24	–	–
D T D Harrel	3	–	–	–	3	–	–	–
J M May	3	–	–	–	3	–	–	–
R A Morris	30	–	–	–	30	29	–	–
M Robertshaw	30	–	–	–	30	24	–	–
Former executive directors	–	–	–	–	–	319	–	21
Former non-executive directors	–	–	–	–	–	–	–	–
	2,071	31	2,031	36	4,169	3,689	53	78

1 Reviewed annually on 1 January.
2 £429,013 of P G Pearson Lund's profit share is deferred and is receivable in January 2010.
3 Benefits include the provision of a company car and medical insurance.
4 During the year, retirement benefits accrued under money purchase schemes in relation to two directors (2006: four).

Long Term Incentive Plan (LTIP)

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

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

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

Long Term Incentive Plan (LTIP) continued

2001/03 and 2002/04 plan cycles

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

2003/05 plan cycle

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

2004/06 plan cycle

The performance targets for the 2004/06 plan cycle were unchanged and are set out in Table 3. Actual awards of 100% of the provisional award (before any pro rata service related adjustment) totalling 150,752 ordinary shares were made in March 2007 as both EPS and TSR performance conditions were fully satisfied. Awards were made in the form of 75,206 ordinary shares and the cash equivalent value of 75,546 shares at £11.75 (the closing mid-market value on 6 March 2007).

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

2005/07 plan cycle

The performance targets for 2005/07 onwards were changed taking into consideration feedback from shareholders and changes to expectations of best market practice. The Committee particularly took note of the preference for the use of a relative rather than an absolute TSR measure and considered that the revised targets are as demanding then as those put in place for earlier cycles were considered to be at the time.

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

EPS increased from 48.99p in 2004 to 87.88p in 2007, an increase of 79% which triggered a 100% award for this element of the Plan. A 100% award is made for this element of the Plan if the relevant percentage exceeds 37.5%.

The TSR for the three-year period was 34.9% which ranked the Company at the 59th percentile relative to the constituents of the FTSE All Share Index. As this was below median, no award from this element of the Plan was triggered.

2006/08, 2007/09 and 2008/10 plan cycles

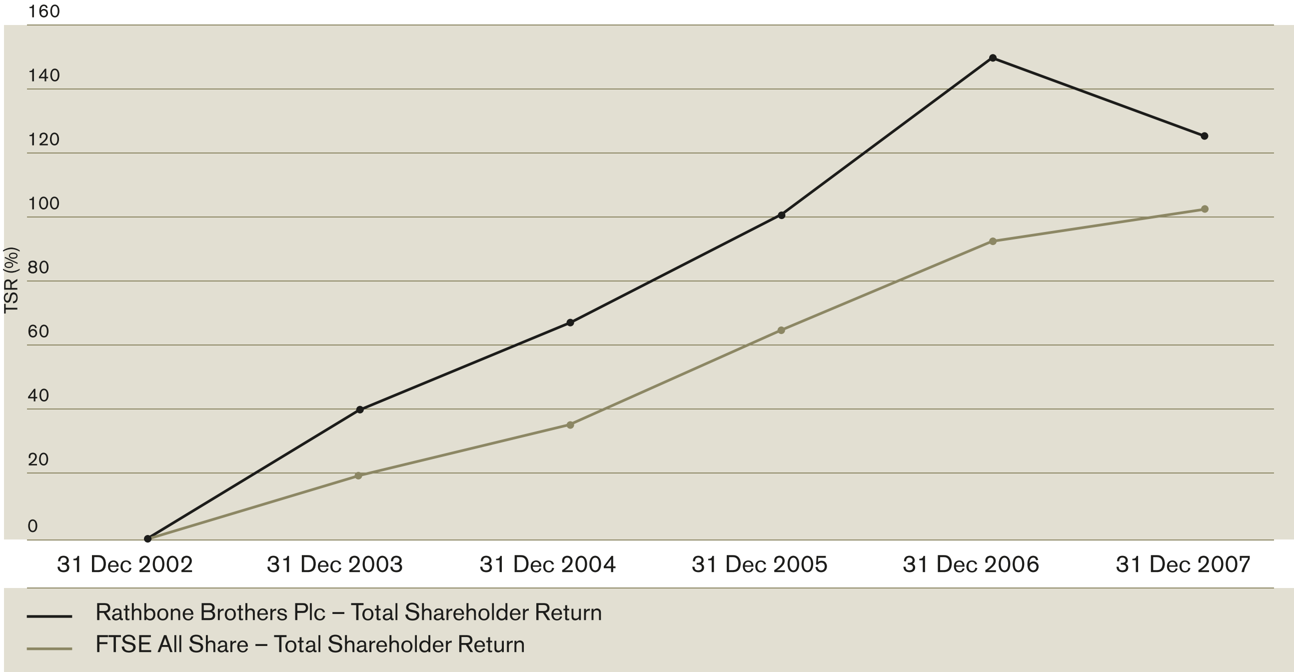
Details of the provisional awards for the 2006/08, 2007/09 and 2008/10 plan cycles are set out in Table 5.

On 31 December 2006, the trustee held 100,000 Rathbone Brothers Plc ordinary shares. On 7 March 2007, 75,206 were awarded to 2004/06 Plan participants. On 20 March 2007, the trustee acquired a further 50,000 ordinary shares at £12.44 to be held for future actual awards. 74,794 shares were held as at 31 December 2007. Dividend entitlements in respect of this holding have been waived and voting rights will not be exercised.

Were the maximum possible provisional awards to be made to current and former directors, 331,245 ordinary shares (2006: 400,727) would be awarded, representing 0.8% (2006: 0.9%) of the issued share capital at 31 December 2007.

Performance graph

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



Source: Datastream

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

Long-term incentive arrangements for Peter Pearson Lund

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

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

Long-term incentive arrangements for Peter Pearson Lund continued

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

Year of award	Awards outstanding at 1 January 2007 (£ value on award)	Award made in 2007 (£ value on award)	Awards vesting in 2007 (£ value on award)	Awards vesting in 2007 (£ value of funds released)	Awards outstanding at 31 December 2007 (£ value on award)	Release dates
2003	17,715	–	17,715	23,716	–	2006/07
2004	119,185	–	59,593	65,748	59,592	2007/08
2005	218,675	–	–	–	218,675	2008/09
2006	317,317	–	–	–	317,317	2009/10
2007	–	462,557	–	–	462,557	2010/11
Total	672,892	462,557	77,308	89,464	1,058,141	

Long-term incentive arrangements – other

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

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

(a) TSR

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

(b) EPS

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

Table 4. 2005/07, 2006/08, 2007/09 and 2008/10 LTIP performance targets

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

(a) TSR

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

(b) EPS

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

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

Plan cycle Status End of performance period	2005/07 Actual award 31 December 2007	2006/08 Maximum provisional award 31 December 2008	2007/09 Maximum provisional award 31 December 2009	2008/10 Maximum provisional award 31 December 2010
I M Buckley	7,888	14,113	11,673	14,825
P D G Chavasse	7,424	13,721	13,179	16,220
R P Lanyon	8,120	14,898	12,364	16,220
A T Morris	6,960	12,545	10,418	12,697
A D Pomfret	10,673	19,210	17,259	22,151
G M Powell	10,673	18,034	16,317	–
R I Smeeton	6,960	12,545	10,418	14,825
Former directors	14,692	27,991	12,238	–
Total	73,390	133,057	103,866	96,938
Market value of shares at date of provisional award	£8.08	£9.56	£11.95	£10.75

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

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

Share options

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

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

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

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

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

Share options continued

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

	At 1 January 2007	Exercised in 2007	At 31 December 2007	Date of grant	Earliest exercise date	Latest exercise date	Exercise price	Exercise date	Market value at date of exercise
Grant prior to Board appointment									
P D G Chavasse	15,491	–	15,491	25/09/01	25/09/04	25/09/11	665.33p		
A T Morris	10,000	–	10,000	10/04/00	10/04/03	10/04/10	932.50p		
P G Pearson Lund	11,350	–	11,350	09/09/99	09/09/02	09/09/09	814.17p		
P G Pearson Lund	9,966	–	9,966	24/04/01	24/04/04	24/04/11	827.50p		
P G Pearson Lund	5,000	–	5,000	24/04/02	24/04/05	24/04/12	810.00p		
P G Pearson Lund	10,000	–	10,000	14/03/03	14/03/06	14/03/13	415.00p		
P G Pearson Lund	10,000	–	10,000	16/03/04	16/03/07	16/03/14	743.50p		
R I Smeeton	12,000	–	12,000	10/04/00	10/04/03	10/04/10	932.50p		
Grant on or after Board appointment									
P D G Chavasse	33,334	–	33,334	14/03/03	14/03/06	14/03/13	415.00p		
A T Morris	33,333	16,666	16,667	14/03/03	14/03/06	14/03/13	415.00p	19/03/07	1239p
P G Pearson Lund	10,000	–	10,000	15/03/05	15/03/08	15/03/15	852.00p		
A D Pomfret	50,000	3,000	47,000	09/09/99	09/09/02	09/09/09	814.17p	26/09/07	1268p
A D Pomfret	62,500	–	62,500	14/03/03	14/03/06	14/03/13	415.00p		
	272,974	**19,666**	**253,308**						

(a) No options lapsed in 2007 or 2006.
(b) The mid-market closing price of the Company's shares on 31 December 2007 was £10.50 (2006: £11.98) and the range during the year was £10.29 to £14.20 (2006: £9.91 to £12.40).
(c) Options granted to P D G Chavasse, A T Morris and A D Pomfret in 2003 vest in one-third phases, on the third, fourth and fifth anniversaries of grant (subject to the performance condition being met).

Dilution

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

In the ten years to 31 December 2007, options over 2,775,787 ordinary shares (2006: 3,126,037) have been granted which represents 6.5% of the issued share capital at that date (2006: 7.4%). 905,367 ordinary shares (2006: 849,674) have been allotted in respect of the SIP, representing 2.1% of the issued share capital at 31 December 2007 (2006: 2.0%). No shares have been allotted for the LTIP to date.

Pension arrangements

UK employees who joined Rathbones prior to 1 April 2002 were offered membership of the Rathbone 1987 Pension Scheme (the Scheme). The Scheme provides for members to retire at the age of 60 with a pension based on final pensionable salary.

Prior to 1 April 2006, the accrual rate was 1/60th for each year of membership. With effect from 1 April 2006, employees were given the choice of either remaining on a 1/60th accrual rate (but increasing their contribution rate from 5% to 6.5% at 1 April 2006 and to 8% from 1 January 2008) or switching to a 1/70th accrual rate for future pensionable service (but continuing to contribute at 5%). Details of the Company's contributions are set out in note 27 to the accounts.

Since1 April 2002, new employees have been offered membership of a Group defined contribution plan, established with Scottish Widows. In the case of certain directors and senior staff, the Group contributes to their personal pension arrangements.

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

In the case of Mark Powell and Peter Pearson Lund, employer pension contributions and death in service benefits ceased on 31 March 2006 and 31 October 2007 respectively. Additional payments are now made in lieu with no overall increase in cost to the Company.

The changes in pension entitlements arising in the financial year, required to be disclosed by the UK Listing Authority, are shown in Table 7. There have been no changes in the terms of directors' pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

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

Table 7. Directors' accrued benefits under defined benefit schemes (audited information)

	Age at 31.12.07 Years	Years of pensionable service at 31.12.07	(1) Accrued benefit at 31.12.07 £	(2) Increase in accrued benefits excluding inflation £	(3) Increase in accrued benefits including inflation £	Transfer value of (2) less directors' contri-butions £	Transfer value of accrued benefits at 31.12.07 £	Transfer value of accrued benefits at 31.12.06 £	(4) Increase in transfer value less directors' contri-butions £
P D G Chavasse	43	7	20,682	4,980	5,526	19,449	143,840	101,073	28,629
R P Lanyon	56	16	49,897	3,969	5,565	37,996	816,092	696,375	106,912
A T Morris	43	19	49,357	4,109	5,681	17,937	432,162	366,598	54,481
P G Pearson Lund	60	8	21,622	3,266	3,904	50,974	394,504	309,574	75,857
R I Smeeton	43	19	52,506	5,406	7,043	24,717	384,541	316,886	55,435

During 2007, six directors (2006: six) accrued benefits under defined benefit schemes.

Notes
1 The pension entitlement shown above for the five participating directors is that which would be paid annually on retirement at age 60 based on service to 31 December 2007 (or normal retirement date, if earlier).
2 The additional pension earned in the year excluding UK inflation.
3 The additional pension earned in the year including UK inflation.
4 The increase in transfer value represents the additional capital amount less directors' contributions necessary to fund the increase in the accrued pension that a director would take with him as part of the total transfer value if he were to leave the Company and move his benefits to another scheme.

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

Service contracts for executive directors

The Company has service contracts with its executive directors. It is company policy that such contracts should not normally contain notice periods of more than 12 months. Details of the contracts of employment of directors serving during the year are as follows:

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

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

Shareholdings

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

External appointments

Executive directors are encouraged to take on external appointments as non-executive directors, but are discouraged from holding more than one position in a major company. Prior approval of any new appointment is required by the Board with fees generally being payable to the Company. An exception is Ian Buckley, who was appointed to the board of NXT Plc prior to joining Rathbones. In 2007, Ian Buckley received fees of £25,000 from NXT Plc.

Remuneration Committee

The current members of the Remuneration Committee are the independent non-executive directors Caroline Burton (chairman), James Barclay, Giles Coode-Adams, Oliver Corbett, David Harrel (who joined the Committee on his appointment to the Board on 1 December 2007) and Mark Robertshaw. The chairman and chief executive, at the invitation of the Committee, attend the meetings but are not present when their own remuneration is discussed.

The Committee met on five occasions in 2007. Details of attendance at meetings are shown on page 42.

Advisers to the Remuneration Committee

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

Non-executive directors

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

The basic non-executive director fee was increased from £30,000 per annum to £35,000 per annum with effect from 1 December 2007. An additional payment of £5,000 per annum is made to the chairmen of the Audit and Remuneration Committees.

Annual General Meeting (AGM)

The Committee considers that, taken together, these various remuneration components help to align the interests of directors with those of shareholders and conform to the principles laid down in the revised Combined Code on Corporate Governance published in June 2006 and effective for accounting periods beginning on or after 1 November 2006.
The Board will move at the AGM an ordinary resolution seeking approval of the Directors' Remuneration Report for 2007. Notice of the AGM is on pages 121 to 126.

Approved by the Board on 5 March 2008 and signed on its behalf by:

Caroline Burton
Chairman of the Remuneration Committee

Audit committee report

Committee members

The current members of the Audit Committee are the independent non-executive directors Giles Coode-Adams (chairman), James Barclay, Caroline Burton, Oliver Corbett, David Harrel (who joined the Committee on his appointment to the Board on 1 December 2007) and Mark Robertshaw. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience.

The Committee met on five occasions in 2007. Details of attendance by members are set out on page 42.

Role of the Committee

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

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

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

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

The Audit Committee reviews the independence and the nature of non-audit services supplied and non-audit fee levels relative to the audit fee. Prior approval by the Audit Committee is required where the fee for an individual non-audit service is anticipated to exceed £25,000. Fees for non-audit services paid to the auditors should not, in aggregate, exceed 50% of the audit fee in any year without prior approval of the Audit Committee. The Committee recognises that, given their knowledge of the business, there are often advantages in using the auditors to provide certain non-audit services. The Committee is satisfied that the independence of the auditors has not been impaired by providing these services. Details of the auditors' fees are shown in note 9 on page 80. The Audit Committee also approves significant changes to the Group's Public Interest Disclosure Act confidential reporting (or whistle blowing) policy.

During 2007, the Committee received presentations on Group information security policy, the financial risk management disclosures required by IFRS7 and on the activities of the VCT and EIS investment management team. Presentations were received from the auditors on the 2006 audit progress and findings, and on their 2007 audit plans and interim findings. A meeting was also held with the auditors with no management present to discuss the audit process and interface with management. Members of the Committee visited our offices in Singapore, Jersey, Liverpool and London.

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

Nomination committee report

Committee members

Members of the Nomination Committee are Mark Powell (chairman), James Barclay, Caroline Burton, Giles Coode-Adams, Oliver Corbett, Andy Pomfret and Mark Robertshaw (who all served on the Committee throughout 2007), and David Harrel (who joined the Committee on his appointment to the Board on 1 December 2007).

The Committee met formally on three occasions in 2007. Details of attendance by members are set out on page 42. It also met informally on a number of occasions, particularly in connection with the arrangements for the chairman to become non-executive with effect from 1 January 2008 and as part of the director selection processes referred to below.

Role of the Committee

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

The Committee considered short-term cover arrangements in the finance team and the recruitment of a finance director in light of the serious illness and subsequent tragic death of Sue Desborough. Towards the end of the year, the Committee recommended the appointment of David Harrel and John May as new non-executive directors to the Board. A specialist non-executive search firm was used rather than open advertising. Their appointments coincided with the departures from the Board of Jamie Cayzer-Colvin and Roy Morris. The Committee was keen to maintain the balance of executive and non-executive directors, and was mindful of the need to ensure adequate succession planning for non-executive directors.

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

The Committee also discussed the retirement and re-election of directors at the AGM. All directors are required to seek election by the members at the AGM following their appointment, and re-election every three years. A non-executive director is not appointed for a fixed term but would not normally serve as a director for more than nine years. The Committee are mindful of the Combined Code requirement that any term beyond six years for a non-executive director should be subject to particularly vigorous review and should take into account the need for progressive refreshing of the Board.

Corporate responsibility report

Our social and environmental policy aims to ensure that social, environmental and ethical considerations are taken into account in all aspects of our activities. The Social & Environmental Committee (SEC) oversees the continual development and implementation of the Group's environmental, social and community policies.

Through this work, the SEC is also able to identify and communicate any potential areas of non-financial risk. The SEC has responsibility for ongoing development of the social and environmental policy framework, and its implementation, improvement, management and monitoring. The Committee is chaired by the Group's chief executive; it meets on a quarterly basis and reports to the Board. The implementation of the social and environmental policy is managed on a day-to-day basis by committee members and a network of site-based personnel.

During 2007, we were pleased to see that our efforts in addressing social, environmental and ethical challenges continued to be recognised by the FTSE4Good policy committee, and that the Company remains a constituent of the FTSE4Good Index Series.

Socially responsible investment (SRI)

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

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

During 2007, the Group continued to implement its policy on proxy voting, which covers all companies in the FTSE 350 and those where it holds 3% or more of the issued share capital (with the exception of Rathbone Brothers Plc). Voting is also undertaken on any company if requested by an underlying shareholder.

In 2007, Rathbones participated as a signatory to the Carbon Disclosure Project's (CDP) fifth request for information from the world's largest companies about their greenhouse gas emissions, together with the risks and opportunities presented by climate change. Along with other institutional investors, Rathbone Greenbank Investments is lending its support to the sixth iteration of this project in February 2008.

This year, financial research firm Innovest rated firms participating in the CDP according to their net carbon exposure across the various regulatory frameworks in which they operate. For the FTSE 350, a ranking was compiled based on respondents' carbon intensity – their direct and indirect emissions per unit of turnover. Based on its submission, Rathbone Brothers plc was ranked tenth in the list of 'Least Carbon Intensive' FTSE 350 companies.

Environmental policy

Rathbones aims to reduce the environmental impact of its operational activities through a reduction in consumption and the conservation of resources. Efficient resource usage to deliver environmental benefits and cost savings will be achieved through using energy and natural resources economically and efficiently, and by reducing emissions and waste levels.

Where reducing consumption is not a viable option, we aim to utilise materials derived from sustainable or recycled sources. We recognise the need to reduce greenhouse gas emissions and support the UK Government's commitment to do this. We are demonstrating our commitment to this in our aim to develop systems to monitor energy use, promote more efficient use of energy in all buildings and encourage practices which reduce energy consumption.

Environmental performance

Waste management and recycling

During 2007, Rathbones made further progress in understanding the primary sources of its waste and methods of its disposal. A survey of UK offices showed that collection systems are in place across all offices for about three-quarters of the most common types of recyclable waste such as newspapers, magazines, cardboard, glass and cans. In our Bristol office, a pilot scheme to monitor waste was conducted over a three-month period. This revealed that, on average, 90 per cent of all waste collected was recycled.

UK regional and Jersey offices maintained their arrangements for the shredding of confidential waste (as required by the Data Protection Act) with the additional benefit that this office grade paper is sent for recycling.

Environmental performance continued

Waste management and recycling continued

Rathbones' London office continued to recycle significant quantities of paper and other types of waste. At present, segregated data for different recycled waste streams – as provided by our supplier, Paper Round Ltd – are only available for this office. However, we are able to include, for the first time, data for confidential shredded waste from our Liverpool office.

Table 1. Rathbones: recycling data

Type of waste	Office	**Mass collected (kg)**	**2007 Proportion of total**	Mass collected (kg)	2006 Proportion of total
Mixed & white paper	London	**39,390**	**35.9%**	31,440	32.6%
Security shredding	London	**7,098**	**6.5%**	9,140	9.5%
Security shredding	Liverpool	**53,840**	**49.0%**	48,240	50.0%
Cardboard	London	**5,110**	**4.7%**	3,445	3.5%
Cans/plastic bottles	London	**344**	**0.3%**	322	0.3%
Glass	London	**4,005**	**3.6%**	3,945	4.1%
Total (kgs)		**109,787**		96,532	

During March and April 2007, a sampling exercise was carried out in our London office to ascertain an estimate of the total amount of waste sent to landfill over the course of a year. This produced an approximate figure of non-recyclable waste for 2007 of 30,420 kgs, giving an estimated recycling rate for this office of 65%.

Over the year, we have continued to work in conjunction with our chosen supplier, EOL IT Services (an approved WEEE disposal agent) to ensure compliance with regulations relating to the Waste Electrical and Electronic Equipment Directive, which came into effect on 1 January 2007. EOL exercises a zero landfill policy; all equipment it collects is cleansed of any confidential data before being scanned to test for suitability for re-use. EOL works with a number of local charities and educational facilities close to its base in Essex to provide IT equipment for worthwhile causes.

In 2007, redundant IT equipment sent for refurbishment included 103 CRT monitors, 280 PCs, 14 servers and seven printers. All PCs were replaced with low energy HP Compaq models as part of a group-wide refurbishment programme; monitors were replaced with Energy Star accredited LCD screens. Shared multi-functional devices continue to be installed as replacements where appropriate for desktop printers.

Where possible, we also continue to recycle fluorescent tubes, printer toner cartridges, mobile telephones and batteries.

Objectives for 2008

Our Liverpool office is in the process of engaging a supplier to handle all types of waste and provide relevant data for the volumes handled and intends to have a contract in place during 2008.

Our Jersey office also hopes to have similar arrangements in place during the course of the year.

Further sampling exercises will be carried out in our London offices to verify the accuracy of this year's estimate of waste sent to landfill as a proportion of total waste generated.

Resource usage

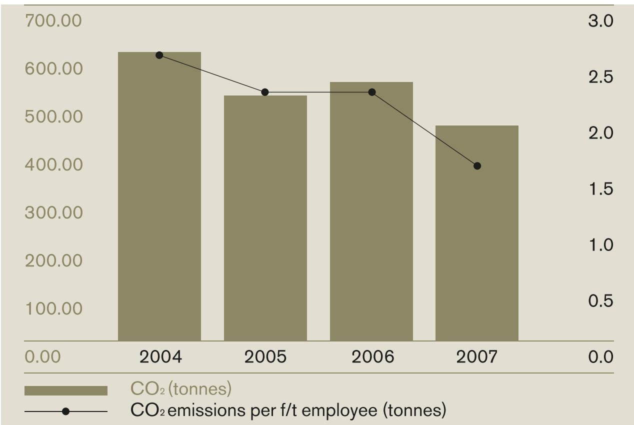
We are pleased to report an overall fall of 17% in CO_2 emissions at our London office, where 34% of the Group's UK & Channel Islands staff were located during 2007; per head of full-time staff, this represented a decrease of 30%. This was largely due to a 38% reduction in gas usage following maintenance work in one of our buildings during the summer of 2006 and the conclusion of a major refurbishment programme. Electricity usage also fell by 11% during the year, reflecting the impact of continuing investment in energy efficiency measures.

Table 2. London office: total energy consumption

	Usage (kWh)			**CO_2 (tonnes)**			**CO_2/emp (tonnes)**		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005
Electricity	**728,729**	822,519	812,030	**381.13**	430.18	424.69	**1.34**	1.79	1.82
Gas	**354,412**	573,505	482,026	**65.57**	106.10	89.18	**0.23**	0.44	0.38
	1,083,141	1,396,024	1,294,056	**446.70**	536.28	513.87	**1.57**	2.23	2.20

NB Due to a conversion error in previous years in calculating gas usage for our London office, total CO_2 emissions for electricity and gas combined have been restated as 514 tonnes and 536 tonnes for 2005 and 2006 (previously stated as 352 tonnes and 358 tonnes respectively).

Chart 1. London office CO_2 emissions



Following further analysis of historical utility data, we are able to publish comparative figures for electricity consumption from our London, Liverpool, Bristol and Winchester offices, where some 75% of the Group's UK and Channel Islands staff are located. We are also able to include electricity data from the first full year of operation of our new Jersey office, where a further 18% of staff are based.

Table 3. Electricity consumption for major offices (where data available)

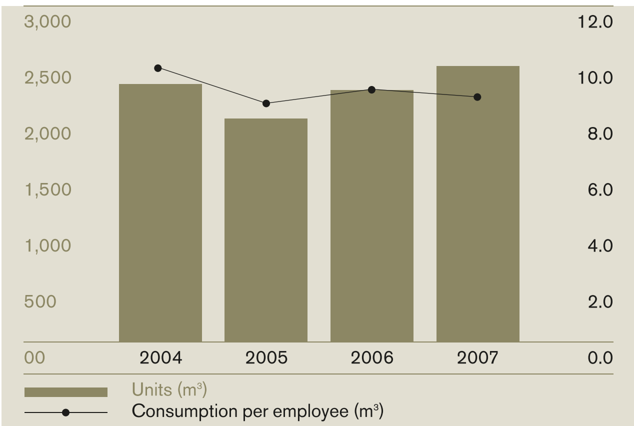
	Usage (kWh)		CO_2 (tonnes)		CO_2/emp (tonnes)	
	2007	2006	**2007**	2006	**2007**	2006
Liverpool	**753,640**	735,432	**394.15**	384.63	**1.30**	1.27
London	**728,729**	822,519	**381.13**	430.18	**1.34**	1.79
Jersey	**650,586**	–	**340.26**	–	**2.15**	–
Bristol	**25,411**	33,872	**13.29**	17.72	**0.46**	0.61
Winchester	**73,011**	107,237	**38.18**	56.08	**1.74**	2.55
	2,231,377	1,699,060	**1,167.01**	888.61	**1.40**	1.56

NB CO_2 emissions per employee for Jersey reflect the use of electricity as the primary energy source for heating at this location.

In refurbishing both the London and Liverpool offices, Rathbones has invested in the most up to date lighting technology incorporating only energy efficient fluorescent or LED lighting. Halogen or diachronic lights using 50W bulbs have been replaced by 9W LED lights. In addition all lighting systems are PIR (passive infrared) switched, ensuring lights are turned off when buildings are unoccupied. The Liverpool building refurbishment also includes investment in a replacement energy efficient heat recovery air-conditioning system. Both of these investments should be reflected in further reductions in future energy usage.

Actual water usage for the London office showed an increase of just under 10% for the year, while consumption per head fell by 4%.

Chart 2. London office: water consumption



Environmental performance continued

Objectives for 2008

During the year, we aim to further improve the quality of resource usage data and expand its collection around the Group. We will examine ways of extracting data for energy used for heating offices where these occupy leased or shared premises. We also intend to evaluate our performance against standard benchmarks for similar organisations of a comparable size which are engaged in a similar business activity.

Business travel

Rathbones acknowledges that business travel represents one of the major environmental impacts within its control. Group employees continue to use teleconferencing and videoconferencing facilities extensively in an effort to reduce the need to travel for internal business purposes.

Further to our statement in last year's report, the Group began the phasing out of the provision of non-essential company cars in February 2007 and it is envisaged that the vast majority of the remaining 35 vehicles will be phased out over the next four years.

Objectives for 2008

During the year we will aim to begin collating data on business travel to understand the extent to which different forms of transport are used by employees for business purposes.

Ethical purchasing

The most significant use of paper within Rathbones continues to be in the production of investment management reports for clients. During 2007, these reports continued to be printed using 100% recycled paper.

The vast majority (if not all) of the company's printed output including marketing publications, investor communications, client account documentation and printed stationary are being produced using FSC certified paper containing a high percentage of post-consumer waste, and we are now using recycled copier paper.

We continue to support the use of Fairtrade products with several offices regularly purchasing tea, coffee and sugar from certified sources.

Employees

Our employees are vital to the Group's continuing success and ongoing work is taking place to ensure that our staff continue to choose to develop their careers at Rathbones. We are mindful of changing legislation, especially in the area of age discrimination and family friendly practices, which has led to a review of all policies and procedures.

Health and welfare

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

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

With the help of external consultants a revised Health and Safety Policy has been developed for the UK offices and a range of training courses have been delivered to those staff with Health and Safety responsibilities. A Health and Safety Steering Group has been formed to ensure that standards are maintained.

Equality and diversity

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

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

Employees continued

Work-life balance

Rathbones has made significant progress in reviewing and implementing new work-life balance policies. The childcare voucher scheme has been running for three years and 36 employees currently take the opportunity to purchase vouchers through salary deduction. We have revised our holiday entitlement policy and with effect from 2008 all UK full time staff will have 25 days holiday, increasing to 30 days on the fifth anniversary of joining. The popular holiday purchase scheme will be run again in 2008, with 102 employees opting to buy up to five additional days of leave, but we are mindful that this can lead to greater pressure on other staff.

Maternity benefits remain considerably in excess of those required under statutory provisions. In 2007, only two women out of the 14 on maternity leave chose not to return to work. Career breaks of up to two years are also available for those with childcare responsibilities. Flexible working policies are offered with a high number of successful applications.

Another new initiative for 2008 will be the opportunity for staff to take up to three months unpaid leave once in every ten years in order to pursue external interests without any loss of service-related benefits such as pension or insurance cover.

Data to monitor the uptake and effectiveness of these policies, together with other indicators of staff satisfaction levels, such as average annual sickness rates and staff turnover, are regularly reported and reviewed. Work is continuing to produce more sophisticated management information and metrics to identify trends.

Training and development

Rathbones insists on high standards throughout all areas of the business and particular care is taken to ensure that we employ the right people in the right jobs, not just in terms of their capabilities but also their attitude. Enhanced contribution to the business combined with staff development and the provision of a stimulating working environment, is key to the culture of Rathbones and, where possible, we progress and promote from within.

We recognise the ideal that members of the business will play a part in its future at all stages of their careers; thus 2006 saw the implementation of a formal development programme, which will continue with two groups of staff from around the business participating in 2007.

Furthermore, in September 2007, our first formal graduate training programme began with eight recruits following a year-long programme covering theoretical and practical training in investment management.

Rathbones recognises that training, competence and development have a clear benefit for the business and encourage personal growth. We are committed to the training and development of all employees, and will support participation in appropriate programmes, whether externally or internally provided.

A new director of training joined early in 2007 and has assisted in the delivery of middle and senior management development programmes as well as launching a range of short courses. A dedicated IT trainer has also been recruited.

Rewards and benefits

Employees are encouraged to identify and to become involved with the financial performance of the Group. We have used equity as part of the package for investment managers bringing business into the firm and, in 2001, Rathbones was one of the first companies in the country to launch a Share Incentive Plan (SIP). Under the SIP, which is open to all employees, the Company matches every share purchased by individual employees with another free of charge. Shares are also given free of charge if earnings growth conditions are achieved. Take-up of the SIP is high, with employees at all levels and in all locations participating. A member of staff who has been in the SIP since launch and has made the maximum monthly contributions now owns 3,823 shares which were valued at £40,141 as at 31 December 2007.

In relation to 2007, as a result of the significant increase in earnings per share, staff will receive a further allocation of free shares with a value of £1,070 to full-time employees (2006: £2,310).

To encourage the use of public transport, we offer interest-free loans for season tickets to all staff on satisfactory completion of their probationary period. Research is currently ongoing to establish interest amongst staff who may wish to participate in a Cycle to Work scheme and, if it proves a popular idea, this will be put in place in 2008 and investment will be made in the provision of more bike racks and storage. In addition, the advances and loans policy has been revised to allow staff meeting certain criteria to apply for small interest-free loans.

Employees continued

Pension

Rathbones recognises its responsibility to assist in the financial welfare of its employees when they reach retirement age and pays contributions to provide death in service cover and benefits on retirement. It has encouraged staff to review their personal arrangements on an ongoing basis in light of the pension simplification changes that came into effect in April 2006. The opportunity to sacrifice profit share payments into pension arrangements is now available to staff.

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

Employee involvement

Communication with staff takes place through a variety of means including internal email, a developing electronic document library and a quarterly internal newsletter to which all staff are actively encouraged to contribute both information and news about business issues, as well as articles on social, environmental and community issues.

All company announcements are emailed to staff in a timely fashion, a summary of the Group's corporate strategy is updated and given to staff annually. At the full and half year, the chairman and/or the chief executive also present the Group's summary results in person to UK offices.

An addition, all investment managers across Rathbone Investment Management's eight offices in the UK and an office in Jersey are linked by a tannoy system on a daily basis to hear key market news and by telephone and video conference weekly to discuss market trends, individual investments and related matters. Non-investment management staff are also welcome to attend these meetings.

In 2007 SharePoint was made available to all UK staff enabling them to have quick and easy access to policies, procedures and other relevant documents and announcements. A project is also underway to examine how this resource can be used more effectively to support communication.

Consultation with staff takes place when major changes to benefits such as pensions are required and a range of internal committees and working parties draw in participation from across the firm on key issues such as IT, training, business continuity and marketing.

Community

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

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

Donations and fundraising

During the year, the Group made charitable donations of £205,000 representing 0.39% of pre-tax profits (2006: £68,000, representing 0.15% of pre-tax profits). The significant increase included payments totalling £62,500 – part of a commitment made to support four Liverpool secondary schools in their bids for Specialist Schools and Academies Trust status (the total commitment £150,000 over four years). Throughout 2007 three of these schools have successfully achieved specialist status in their chosen disciplines.

In addition to this financial support, a number of individuals from our Liverpool office have been appointed to the governing bodies of the four schools; thus helping to forge strong working relationships with each school whilst bringing a range of skills to their committees. It also provides the members of staff involved with the opportunity to develop their wider professional and management skills.

A number of initiatives have been implemented with the individual schools to cater to their particular needs and we have agreed to provide two work experience places for each school annually. Additionally, as part of our contribution to the celebrations for the Liverpool Capital of Culture, we are hosting a Summer Exhibition of artistic works during July 2008 in conjunction with the four schools, which we hope will showcase the creative talents of Liverpool's youth across many different and diverse artistic media. Information is available at www.summerexhibition.rathbones.com.

In 2007, the REACH Leukaemia Appeal within the Great Ormond Street Hospital Children's Charity was selected by employee ballot as our charity of the year. Payments of £500 each were made to 15 charities that were not selected. Employees were encouraged to support the charity through participating in events such as sweepstakes and Christmas party raffles, and raised £4,485.

In early 2008, two new charities have been chosen by employee ballot from a selection of local, national and international charities nominated by employees. These charities will be the focus of a range of group-wide activities for two years.

Staff are encouraged to donate to charity in a tax efficient manner through the Give As You Earn (GAYE) payroll giving scheme. In 2007, Rathbone staff made regular payments totalling £66,879 (2006: £46,750) through this scheme, which is administered by the Charities Aid Foundation. The Company matched staff donations of up to £100 per month made through GAYE and in 2007 donated £40,729 (2006: £22,250) to causes chosen by employees through this method. From January 2008, the scheme has been enhanced with the Group now matching donations of up to £200 per month per employee.

Sponsorships

As well as direct charitable donations, Rathbones provides support in the form of sponsorship, advertising and attendance at events organised by charities and arts organisations.

Rathbone Greenbank Investments continues to support Schumacher UK in its aims to promote sustainable development through its co-sponsorship of the organisation's Bristol series of lectures. Rathbone Greenbank Investments has also maintained its sponsorship of The Funding Network, a UK-based organisation which brings people together in a marketplace to help fund charitable projects.

Statement of directors' responsibilities

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

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

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

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

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

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

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

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

In the case of persons who were directors of the Company at the date when this report was approved:
- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Consolidated accounts

Contents

Independent auditors’ report to the members of Rathbone Brothers Plc

We have audited the Group financial statements of Rathbone Brothers Plc for the year ended 31 December 2007, which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

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

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

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

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

We review whether the Corporate governance statement reflects the Company’s compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman’s statement, Chief executive’s statement, Business review, Directors’ report, Corporate governance report, the unaudited part of the Remuneration report, Audit committee report, Nomination committee report, the Corporate responsibility report and the Statement of directors’ responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements and the part of the Remuneration report described as audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
5 March 2008

Consolidated income statement

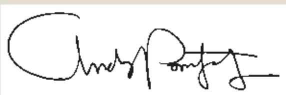
for the year ended 31 December 2007

	Note	**2007 £'000**	2006 £'000
Interest and similar income	5	**52,058**	37,335
Interest expense and similar charges	5	**(32,568)**	(21,297)
Net interest income		**19,490**	16,038
Fee and commission income	6	**141,929**	120,039
Fee and commission expense	6	**(11,499)**	(8,365)
Net fee and commission income		**130,430**	111,674
Dividend income	7	**67**	117
Net trading income	8	**1,676**	1,285
Net income from sale of available for sale securities		**1,297**	3,196
Other operating income		**1,565**	1,376
Operating income		**154,525**	133,686
Operating expenses	9	**(102,301)**	(88,966)
Profit before tax		**52,224**	44,720
Taxation	11	**(14,844)**	(12,582)
Profit for the year attributable to equity holders of the company		**37,380**	32,138
Dividends paid and proposed for the year per ordinary share (p)	12	41.00p	35.00p
Dividends paid and proposed for the year (£'000)	12	17,479	14,786
Earnings per share attributable to equity holders of the company for the year:	13		
Basic (p)		**87.88p**	76.62p
Diluted (p)		**86.46p**	74.71p

Consolidated balance sheet
as at 31 December 2007

	Note	**2007 £'000**	2006 £'000 restated (note 1)
Assets			
Cash and balances at central banks	14	**275**	281
Settlement balances		**21,573**	19,628
Loans and advances to banks	15	**250,103**	119,247
Loans and advances to customers	16	**39,380**	77,360
Investment securities			
– available for sale	17	**6,948**	6,152
– held to maturity	17	**765,274**	558,368
Intangible assets	18	**85,734**	81,248
Property, plant and equipment	19	**8,131**	6,463
Deferred tax asset	20	**3,528**	5,321
Prepayments, accrued income and other assets	21	**45,677**	38,551
Total assets		**1,226,623**	912,619
Liabilities			
Deposits by banks	22	**12,460**	12,119
Settlement balances		**19,926**	18,078
Due to customers	24	**946,608**	664,762
Accruals, deferred income, provisions and other liabilities	25	**49,637**	39,605
Current tax liabilities		**6,790**	8,143
Retirement benefit obligations	27	**6,452**	10,763
Total liabilities		**1,041,873**	753,470
Equity			
Share capital	28	**2,134**	2,114
Share premium	28	**27,758**	24,518
Other reserves	29	**54,181**	53,488
Retained earnings	29	**100,677**	79,029
Total equity		**184,750**	159,149
Total equity and liabilities		**1,226,623**	912,619

Approved by the Board of Directors on 5 March 2008 and signed on its behalf by



AD Pomfret
Chief Executive

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000 restated (note 1)
Cash flows from operating activities			
Profit before tax		**52,224**	44,720
Net interest income		**(19,490)**	(16,038)
Net income from sale of available for sale securities		**(1,297)**	(3,196)
Impairment losses on loans and advances		**130**	323
Profit on disposal of plant and equipment		**(17)**	(49)
Depreciation and amortisation		**4,723**	3,418
Defined benefit pension scheme charges		**2,554**	3,448
Share-based payment charges		**2,692**	2,080
Interest paid		**(31,811)**	(20,655)
Interest received		**47,457**	30,728
		57,165	44,779
Changes in operating assets and liabilities			
– net decrease in loans and advances to banks and customers		**14,280**	18,158
– net (increase) in settlement balance debtors		**(1,945)**	(5,611)
– net (increase) in prepayments, accrued income and other assets		**(2,269)**	(6,881)
– net increase in amounts due to customers and deposits by banks		**280,791**	129,407
– net increase in settlement balance creditors		**1,848**	1,946
– net increase in accruals, deferred income, provisions and other liabilities		**8,697**	5,296
Cash generated from operations		**358,567**	187,094
Defined benefit pension contributions paid		**(6,595)**	(5,927)
Tax paid		**(13,773)**	(10,609)
Net cash inflow from operating activities		**338,199**	170,558
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired		**(422)**	(5,786)
Purchase of property, equipment and intangible assets		**(10,199)**	(5,690)
Proceeds from sale of property and equipment		**44**	113
Purchase of investment securities		**(1,276,420)**	(1,453,970)
Proceeds from sale and redemption of investment securities		**1,070,811**	1,294,798
Net cash used in investing activities		**(216,186)**	(170,535)
Cash flows from financing activities			
Repayments of debt securities		**–**	(141)
Purchase of shares for share-based schemes		**(3,210)**	(3,407)
Issue of ordinary shares	34	**2,963**	6,715
Dividends paid	12	**(15,914)**	(13,449)
Net cash used in financing activities		**(16,161)**	(10,282)
Net increase/(decrease) in cash and cash equivalents		**105,852**	(10,259)
Cash and cash equivalents at the beginning of the year		**108,343**	118,883
Effect of exchange rate changes on cash and cash equivalents		**25**	(281)
Cash and cash equivalents at the end of the year	34	**214,220**	108,343

Consolidated statement of recognised income and expense

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Profit after taxation		**37,380**	32,138
Exchange translation differences		**14**	(240)
Actuarial gain on retirement benefit obligation	27	**270**	5,468
Revaluation of available for sale investment securities:			
– net gain from changes in fair value	17	**2,069**	4,202
– net profit on disposal transferred to income during the period	17	**(1,297)**	(3,196)
		772	1,006
Deferred tax on equity items:			
– available for sale investment securities		**(93)**	(302)
– actuarial gains and losses		**34**	(1,640)
– share-based payments		**694**	362
	20	**635**	(1,580)
Net income recognised directly in equity		**1,691**	4,654
Recognised income and expense for the year attributable to equity holders of the company		**39,071**	36,792

Notes to the consolidated accounts

1 Principal accounting policies

Rathbone Brothers Plc is a public company incorporated in Great Britain.

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its individual accounts in accordance with generally accepted accounting principles in the UK (UK GAAP); these are presented on pages 114 to 120.

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but that the Group has not early adopted:

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU but is currently not applicable to the Group as there are no qualifying assets.

IAS 27 (revised), 'Consolidated and separate financial statements' requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. It is not expected that this revised standard, which applies with effect from 1 July 2009, will have any impact on the Group's financial statements.

IFRS 3 (revised), 'Business combinations' introduces some significant changes for acquisition accounting. The changes impact on the initial and subsequent valuation of purchase consideration, the calculation of goodwill and the treatment of transaction costs. The revised standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009 and will be applied by the Group from that date. The impact of the standard on future acquisitions is not readily determinable.

IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires segment information to be presented on the same basis as that used for internal reporting purposes. Implementation of the standard is not expected to have a material impact on the Group's accounts. Some amendments to the disclosures made for segmental performance are likely although it is not expected that the number of reportable segments will change.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 March 2007) provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of any surplus in the Group's defined benefit pension schemes that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

Changes in accounting policies and disclosures

During the year, the Group has adopted IFRS 7 Financial instruments: Disclosures and the related amendments to IAS 1 on capital disclosures. Accordingly, the Group has made additional disclosures in relation to capital, financial instruments and risk management policies and procedures. Adoption of this standard does not have any impact on the classification and valuation of the Group's financial instruments. As required by IFRS 7, comparative disclosures have also been made.

The Group has also adopted IFRIC 8, Scope of IFRS 2 and IFRIC 10, Interim Financial Reporting and Impairment during the year. Adoption of either interpretation has had no impact on the Group's accounts in the current or prior years.

The comparative balances have been restated to be consistent with the current year presentation of the Translation Reserve as a component of Other Reserves. In prior years, the Translation Reserve was included as a component of retained earnings. Comparative balances have also been restated to reflect the exclusion of held to maturity debt securities from cash equivalents in the cash flow statement. This amendment has had no impact on profit or equity.

Basis of presentation

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

Basis of consolidation

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

Subsidiaries are all entities in which the Company has a controlling interest, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity is a subsidiary of the Company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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

Impairment

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

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

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

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

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

Interest income and expenses

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

1 Principal accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intangible assets continued

(b) Computer software and software development costs

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

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

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

(c) Client relationships

Client relationships acquired are shown at historical cost. Those in respect of business combinations are initially recognised at fair value. Client relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the client lists over their estimated useful lives (5 – 15 years).

Financial assets

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

(a) Financial assets at fair value through profit or loss

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

(b) Loans and receivables

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

(c) Held-to-maturity

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

(d) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

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

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

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

1 Principal accounting policies continued

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised within interest expense.

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

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

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

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

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

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

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

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

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

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

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

Taxation continued

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

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

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

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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

Cash and cash equivalents

Cash comprises cash on hand and demand deposits which may be accessed without penalty.

Cash equivalents comprise short-term highly liquid investments with a maturity of less than three months from the date of acquisition.

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

Share-based payments

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

The Group engages in equity settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the vesting period, with a corresponding credit to equity.

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

Segmental reporting

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

Fiduciary activities

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

1 Principal accounting policies continued

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

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

2 Critical accounting judgements and key sources of estimation and uncertainty

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

Retirement benefit obligations
The Group makes estimates about a range of long-term trends and market conditions to determine the value of the deficit on its retirement benefit schemes, based on the Group's expectations of the future and advice taken from qualified actuaries. The principal assumptions underlying the reported deficit of £6,452,000 are given in note 27.

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

Impairment of goodwill
The Group makes estimates in relation to the value in use of the cash generating units to which goodwill has been allocated in determining whether goodwill is impaired. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £70,536,000. The assumptions underlying the value in use calculation are set out in note 18. There has been no impairment of goodwill in prior years.

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

Income recognition
Revenue in the Trust and Tax business is calculated by reference to the estimated stage of completion of the service rendered. Estimates are also made as to the recoverability of work in progress and debtors in relation to this income. At the year end, total work in progress and debtors for Trust and Tax services amounted to £13,363,000 (2006: £11,372,000).

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

3 Segmental information

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

Transactions between the business segments are on normal commercial terms and conditions. Intra-segment income constitutes trail commission. Revenues and expenses are allocated to the business segment that originated the transaction. Revenues and expenses that are not directly orginated by a business segment are reported as unallocated. Centrally incurred expenses are allocated to business segments on an appropriate pro-rata basis. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and borrowings.

3 Segmental information continued

At 31 December 2007	Investment management £'000	Unit trusts £'000	Trust and tax services £'000	Eliminations £'000	Total £'000
External revenues	141,078	30,303	25,914	–	197,295
Revenues from other segments	1,606	–	–	(1,606)	–
	142,684	30,303	25,914	(1,606)	197,295
Unallocated external revenues					1,297
Total gross revenues (note 3c)					**198,592**
Segment result	40,091	6,880	3,956		50,927
Unallocated items					1,297
Profit before tax					52,224
Taxation					(14,844)
Profit for the year					**37,380**
Segment assets	1,115,899	27,837	59,722		1,203,458
Unallocated assets					23,165
Total assets					**1,226,623**
Segment liabilities	974,760	21,390	18,462		1,014,612
Unallocated liabilities					27,261
Total liabilities					**1,041,873**
Other segment items:					
Capital expenditure	8,718	262	912		9,892
Depreciation and amortisation	3,724	148	850		4,722
Other non-cash expenses	1,852	256	714		2,822
Provisions charged in the year	1,080	–	911		1,991
Provisions utilised in the year	5,512	–	922		6,434

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

Unallocated external revenues comprise gains on disposal of available for sale securities.

3 Segmental information continued

(b) Geographical segments

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

Total gross revenues by geographical market

	2007 £'000	2006 £'000
United Kingdom	**171,556**	140,666
Jersey	**21,686**	18,421
Rest of the world	**5,350**	4,261
	198,592	163,348

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

Assets allocated to business segments

	2007 £'000	2006 £'000
United Kingdom	**1,145,684**	826,822
Jersey	**37,123**	31,448
Rest of the world	**20,651**	19,827
	1,203,458	878,097

Additions to property, plant and equipment and intangible assets

	2007 £'000	2006 £'000
United Kingdom	**9,790**	12,421
Jersey	**296**	2,122
Rest of the world	**23**	39
	10,109	14,582

(c) Total gross revenues and operating income

	2007 £'000	2006 £'000
Interest and similar income	**52,058**	37,335
Fee and commission income	**141,929**	120,039
Dividend income	**67**	117
Net trading income	**1,676**	1,285
Net income from sale of available for sale securities	**1,297**	3,196
Other operating income	**1,565**	1,376
Total gross revenues	**198,592**	163,348
Interest expense and similar charges	**(32,568)**	(21,297)
Fee and commission expense	**(11,499)**	(8,365)
Operating income	**154,525**	133,686

4 Business combinations

On 2 April 2007, the Group acquired the entire share capital of Federal Trust (Singapore) Pte Limited for cash consideration of £496,000 and contingent, deferred consideration of up to £249,000. The acquired business' net assets at the acquisition date were as follows:

	Recognised values £'000	Fair value adjustments £'000	Carrying amounts £'000
Cash and cash equivalents	198	–	198
Other current assets	170	–	170
Property, plant and equipment	9	–	9
Client relationships	93	93	–
Current liabilities	(293)	–	(293)
Net identifiable assets acquired	177	93	84
Goodwill on acquisition	568		
Total net assets acquired	**745**		

Included within the consolidated income statement for the year is a loss before tax, including acquisition costs, of £290,000 relating to the acquired business. If the business had been acquired on 1 January 2007, consolidated profit before tax for the Group would have been £52,255,000.

The goodwill arising on the acquisition is attributable to the anticipated profitability of incorporating the business into the Group's operating model.

5 Net interest income

Interest income

	2007 £'000	2006 £'000
Investment securities	**34,327**	25,018
Other	**17,731**	12,317
	52,058	37,335

Interest expense

	2007 £'000	2006 £'000
Banks and customers	**32,568**	21,272
Debt securities in issue	**–**	3
Other	**–**	22
	32,568	21,297

6 Net fee and commission income

Fee and commission income

	2007 £'000	2006 £'000
Investment management	**90,166**	78,343
Unit trusts	**27,057**	20,410
Trust and tax	**24,706**	21,286
	141,929	120,039

Fee and commission expense

	2007 £'000	2006 £'000
Investment management	**1,559**	1,164
Unit trust	**9,940**	7,201
	11,499	8,365

7 Dividend income

Dividend income comprises income from available for sale securities of £67,000 (2006: £117,000).

8 Net trading income

	2007 £'000	2006 £'000
Unit trust net dealing profits	**1,721**	1,255
(Decrease)/increase in value of derivative financial instruments (note 23)	**(45)**	30
	1,676	1,285

9 Operating expenses

	2007 £'000	2006 £'000
Staff costs (note 10)	**68,875**	59,307
Depreciation of property, plant and equipment (note 19)	**2,720**	1,927
Amortisation of internally generated intangible assets included in operating expenses (note 18)	**228**	192
Amortisation of purchased intangible assets included in operating expenses (note 18)	**1,775**	1,299
Auditors' remuneration (see below)	**664**	590
Impairment losses on loans and advances (note 16)	**130**	323
Operating lease rentals	**4,569**	3,573
Other operating expenses	**23,340**	21,755
	102,301	88,966

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

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**122**	113
Fees payable to the Company's auditors and their associates for other services to the Group:		
– audit of the Company's subsidiaries pursuant to legislation	**330**	268
– other services pursuant to legislation	**94**	99
– tax services	**2**	22
– other services	**116**	88
Total	**664**	590

10 Staff costs

	2007 £'000	2006 £'000
Wages and salaries	**56,272**	47,863
Social security costs	**6,079**	4,805
Share-based payments	**2,692**	2,080
Pension costs (note 27):		
– defined benefit schemes	**2,554**	3,448
– defined contribution schemes	**1,278**	1,111
	3,832	4,559
	68,875	59,307

10 Staff costs continued

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

	2007	2006
Investment management	**521**	494
Unit trusts	**36**	31
Trust and tax	**212**	203
Shared services	**25**	22
	794	750

11 Taxation

	2007 £'000	2006 £'000
Current tax	**12,371**	10,820
Adjustments in respect of previous years	**45**	64
Deferred tax (note 20)	**2,428**	1,698
	14,844	12,582

The tax charge for the year is lower (2006: lower) than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained below:

	2007 £'000	2006 £'000
Tax on profit from ordinary activities at the standard rate of 30% (2006 – 30%)	15,667	13,416
Effects of:		
UK dividend income	–	(23)
Disallowable expenses	617	257
Share-based payments	(854)	(649)
Trading losses	83	–
Tax relief on purchased goodwill	–	79
Lower tax rates on overseas earnings	(1,161)	(719)
Under provision for tax in previous years	45	221
Effect of change in corporation tax rate	447	–
Income tax expense	14,844	12,582

In addition to the amount charged to the income statement, deferred tax relating to actuarial gains and losses, share-based payments and gains and losses arising on available for sale investment securities amounting to £635,000 has been credited directly to equity (2006: £1,580,000 charged to equity).

12 Dividends

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2006 of 21.5p (2005: 18.5p) per share	**9,107**	7,753
– interim dividend for the year ended 31 December 2007 of 16.0p (2006: 13.5p) per share	**6,807**	5,696
	15,914	13,449
Proposed final dividend for the year ended 31 December 2007 of 25.0p (2006: 21.5p) per share	10,672	9,090

The interim dividend of 16.0p per share was paid on 10 October 2007 to shareholders on the register at the close of business on 21 September 2007.

The final dividend declared of 25.0p per share is payable on 14 May 2008 to shareholders on the register at the close of business on 18 April 2008. The final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13 Earnings per share

Basic earnings per share has been calculated by dividing the profits attributable to shareholders of £37,380,000 (2006: £32,138,000) by the weighted average number of shares in issue throughout the year of 42,536,821 (2006: 41,946,781).

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).

	2007	2006
Weighted average number of ordinary shares in issue during the year – basic	**42,536,821**	41,946,781
Effect of ordinary share options	**461,167**	580,127
Effect of dilutive shares issuable under the Share Incentive Plan	**85,535**	152,580
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	**148,431**	334,720
Diluted weighted average number of ordinary shares	**43,231,954**	43,014,208

14 Cash and balances at central banks

	2007 £'000	2006 £'000
Cash in hand (note 34)	**4**	5
Mandatory reserve deposits	**271**	276
	275	281

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

15 Loans and advances to banks

	2007 £'000	2006 £'000
Repayable:		
– on demand or at short notice	**101,774**	62,295
– 3 months or less excluding on demand or at short notice	**143,329**	51,820
– 1 year or less but over 3 months	**5,000**	5,132
	250,103	119,247
Amounts include loans with:		
– variable interest rates	**38,794**	23,825
– fixed interest rates	**211,014**	95,266
– non-interest bearing	**295**	156
	250,103	119,247

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

Loans and advances to banks included in cash and cash equivalents at 31 December 2007 were £214,216,000 (2006: £108,338,000).

The Group's exposure to credit risk arising from loans and advances to banks is described in note 30.

16 Loans and advances to customers

	2007 £'000	2006 £'000
Repayable:		
– on demand or at short notice	**20,402**	22,077
– 3 months or less excluding on demand or at short notice	**11,268**	29,790
– 1 year or less but over 3 months	**7,835**	14,239
– 5 years or less but over 1 year	**514**	5,344
– over 5 years	**–**	6,600
Less: allowance for losses on loans and advances	**(639)**	(690)
	39,380	77,360
Amounts include loans with:		
– variable interest rates	**21,510**	61,002
– fixed interest rates	**4,918**	4,646
– non-interest bearing	**12,952**	11,712
	39,380	77,360

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

No banking loans and advances to customers were impaired as at 31 December 2007 (2006: nil). The allowance for losses on loans and advances relate to debtors for trust and pension services. The total debtors in relation to trust and pension services included in loans and advances to customers as at 31 December 2007 amount to £11,034,000 (2006: £10,103,000).

Allowance for losses on loans and advances

	2007 £'000	2006 £'000
At 1 January	**690**	605
Exchange rate adjustment	**13**	(26)
Amounts written off	**(194)**	(212)
Charge to the income statement	**130**	323
At 31 December	**639**	690

The Group's exposure to credit risk arising from loans and advances to customers is described in note 30.

17 Investment securities

Available for sale securities

	2007 £'000	2006 £'000
Equity securities – at fair value:		
– listed	**5,934**	5,236
– unlisted	**1,014**	916
	6,948	6,152

Held to maturity securities

	2007 £'000	2006 £'000
Debt securities – at amortised cost:		
– listed	**10,061**	–
– unlisted	**755,213**	558,368
	765,274	558,368

17 Investment securities continued

Maturity of debt securities

	2007 £'000	2006 £'000
Due within 1 year	**765,274**	550,944
Due after more than 1 year	**–**	7,424
	765,274	558,368

Debt securities comprise bank and building society certificates of deposit or UK government issued bonds and have fixed coupons. The fair value of debt securities at 31 December 2007 was £780,444,000 (2006: £568,937,000). Fair value for held to maturity assets is based on market bid prices.

Available for sale securities are all non-current assets. Equity securities do not bear interest. The Group has not reclassified any financial asset from being measured at amortised cost to being measured at fair value through profit and loss during the year (2006: nil). The Group has not designated at initial recognition any financial asset as at fair value through profit or loss.

Realised gains on disposal of available for sale securities in the year were £1,297,000 (2006: £3,196,000) arising from the sale of 100,000 shares of London Stock Exchange Group plc (2006: 300,000 shares). The Group continues to hold 300,000 shares in London Stock Exchange Group plc.

The movement in investment securities may be summarised as follows:

	Available for sale £'000	Held to maturity £'000	Total £'000
At 1 January 2006	5,157	396,000	401,157
Exchange rate adjustment	(11)	–	(11)
Additions	–	1,453,970	1,453,970
Disposals (sale and redemption)	(3,196)	(1,291,602)	(1,294,798)
Gains from changes in fair value	4,202	–	4,202
At 1 January 2007	6,152	558,368	564,520
Exchange rate adjustment	24	–	24
Additions	–	1,276,420	1,276,420
Disposals (sale and redemption)	(1,297)	(1,069,514)	(1,070,811)
Gains from changes in fair value	2,069	–	2,069
At 31 December 2007	**6,948**	**765,274**	**772,222**

18 Intangible assets

	2007 £'000	2006 £'000
Goodwill	**70,536**	69,965
Other intangible assets	**15,198**	11,283
	85,734	81,248

Goodwill

	2007 £'000	2006 £'000
Cost		
At 1 January	**69,965**	57,739
Exchange rate adjustment	**20**	(4)
Adjustment to goodwill	**(17)**	–
Additions (note 4)	**568**	12,230
	70,536	69,965
Accumulated impairment losses		
At 1 January and 31 December	**–**	–
Carrying amount at 31 December	**70,536**	69,965

Goodwill arising on the acquisition of the investment management business of Dexia Banque International à Luxembourg S.A., London Branch in 2006 was reduced in line with the final payments made in relation to the acquisition. The disposal of the private banking business acquired from Dexia Banque International à Luxembourg S.A., London Branch during the year did not impact on the carrying value of goodwill.

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

	2007 £'000	2006 £'000
Investment Management	**44,405**	44,423
Trust (Jersey)	**23,590**	23,588
Trust (Liverpool)	**1,954**	1,954
Trust (International)	**587**	–
	70,536	69,965

The recoverable amounts of goodwill allocated to the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management extrapolated based on a growth rate of 3% (2006: 3%). The pre-tax rate used to discount the forecast cash flows is 10.55% (2006: 9.69%).

18 Intangible assets continued

Other intangible assets

	Acquired client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2006	642	817	7,377	8,836
Internally developed in year	–	283	–	283
Purchased in year	5,419	–	748	6,167
Acquired through business combinations	3,962	–	–	3,962
At 31 December 2006	10,023	1,100	8,125	19,248
Exchange adjustment	4	–	–	4
Internally developed in year	–	325	–	325
Purchased in year	4,261	–	1,235	5,496
Acquired through business combinations (note 4)	93	–	–	93
At 31 December 2007	**14,381**	**1,425**	**9,360**	**25,166**

	Acquired client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Amortisation				
At 1 January 2006	32	451	5,991	6,474
Charge for the year	475	192	824	1,491
At 31 December 2006	507	643	6,815	7,965
Charge for the year	989	228	786	2,003
At 31 December 2007	**1,496**	**871**	**7,601**	**9,968**
Carrying amount at 31 December 2007	**12,885**	**554**	**1,759**	**15,198**
Carrying amount at 31 December 2006	9,516	457	1,310	11,283
Carrying amount at 1 January 2006	610	366	1,386	2,362

Purchased software with a cost of £5,948,000 (2006: £3,827,000) has been fully amortised but is still in use.

19 Property, plant and equipment

	Short term leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2006	3,186	17,272	20,458
Exchange adjustments	(11)	(58)	(69)
Additions	2,009	2,070	4,079
Acquired through business combinations	–	91	91
Disposals	–	(1,936)	(1,936)
At 31 December 2006	5,184	17,439	22,623
Exchange adjustment	7	44	51
Additions	2,429	1,967	4,396
Acquired through business combinations (note 4)	–	9	9
Disposals	(245)	(4,776)	(5,021)
At 31 December 2007	**7,375**	**14,683**	**22,058**
Depreciation			
At 1 January 2006	1,609	14,554	16,163
Exchange adjustments	(8)	(50)	(58)
Charge for the year	419	1,508	1,927
Disposals	–	(1,872)	(1,872)
At 31 December 2006	2,020	14,140	16,160
Exchange adjustments	4	38	42
Charge for the year	920	1,800	2,720
Disposals	(243)	(4,752)	(4,995)
At 31 December 2007	**2,701**	**11,226**	**13,927**
Carrying amount at 31 December 2007	**4,674**	**3,457**	**8,131**
Carrying amount at 31 December 2006	3,164	3,299	6,463
Carrying amount at 1 January 2006	1,577	2,718	4,295

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

20 Deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2006: 30%).

The movement on the deferred tax account is as follows:

	2007 £'000	2006 £'000
At 1 January	**5,321**	8,599
Adjustments in respect of prior years:		
– charged to the income statement	**(4)**	(234)
– credited directly to equity	**160**	30
Other movements in deferred tax:		
– amounts charged to the income statement	**(1,977)**	(1,464)
– actuarial gains and losses	**(75)**	(1,640)
– share based payments	**588**	332
– available for sale securities:		
– fair value measurement	**(621)**	(1,261)
– transfer to net profit	**389**	959
Effect of change in corporation tax rate on deferred tax:		
– charged to the income statement	**(447)**	–
– credited directly to equity	**194**	–
At 31 December	**3,528**	5,321

Deferred tax assets

	2007 £'000	2006 £'000
Excess of depreciation	**220**	1,089
Share-based payments	**1,833**	1,306
Staff related costs	**2,381**	2,103
Pensions	**1,806**	3,229
Deferred income	**462**	473
	6,702	8,200

Deferred tax liabilities

	2007 £'000	2006 £'000
Available for sale securities	**1,926**	1,845
Goodwill	**848**	534
Unremitted overseas earnings	**400**	500
	3,174	2,879

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

	2007 £'000	2006 £'000
Excess of depreciation	**854**	35
Share-based payments	**117**	1,141
Staff related costs	**(449)**	(718)
Pensions	**1,131**	744
Deferred income	**(21)**	(47)
Goodwill	**362**	534
Other provisions	**(13)**	9
Effect of change in corporation tax rate	**447**	–
	2,428	1,698

21 Prepayments, accrued income and other assets

	2007 £'000	2006 £'000
Trust work in progress	**3,661**	2,101
Derivative financial instruments (note 23)	**–**	23
Prepayments	**9,629**	8,751
Accrued income	**32,387**	27,676
	45,677	38,551

22 Deposits by banks

Included within deposits by banks is a term loan of £12,267,000 (2006: £12,000,000) which is repayable in eight, six-monthly instalments ending on 4 April 2011. Interest is payable on the loan at 0.7% above the London Inter-Bank Offer Rate.

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

23 Derivative financial instruments

The Group uses over-the-counter Forward Rate Agreements (FRAs) to manage its net exposure to interest rate risk. The Group's interest in these contracts does not meet the requirements of IAS 39 to qualify for hedge accounting.

FRAs with a total nominal amount of £10,000,000 were outstanding at 31 December 2007 (2006: £40,000,000). The total liability recognised in relation to contracts with a negative fair value at 31 December 2007 was £22,000 (2006: £nil) (note 25). The total asset recognised in relation to contracts with a positive fair value at 31 December 2007 was £nil (2006: £23,000) (note 21).

24 Due to customers

	2007 £'000	2006 £'000
Repayable:		
– on demand or at short notice	**639,880**	474,204
– 3 months or less excluding on demand or at short notice	**305,381**	184,745
– 1 year or less but over 3 months	**1,302**	5,745
– 5 years or less but over 1 year	**45**	68
	946,608	664,762
Amounts include:		
– variable interest rates	**554,640**	406,412
– fixed interest rates	**382,931**	249,813
– non interest bearing	**9,037**	8,537
	946,608	664,762

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

25 Accruals, deferred income, provisions and other liabilities

	2007 £'000	2006 £'000
Creditors	**10,097**	9,793
Derivative financial instruments (note 23)	**22**	–
Accruals and deferred income	**31,359**	21,364
Other provisions (note 26)	**8,159**	8,448
	49,637	39,605

26 Other provisions

	Deferred contingent consideration £'000	Client compensation £'000	Litigation related £'000	Total £'000
At 1 January 2007	6,407	1,525	516	8,448
Exchange adjustments	(3)	–	–	(3)
Charged to the income statement		1,308	683	1,991
Unused amount credited to the income statement		(134)	(86)	(220)
Net charge to the income statement (i)		1,174	597	1,771
Capitalised during the year (ii)	4,377			4,377
Utilised/paid during the year	(4,938)	(724)	(772)	(6,434)
At 31 December 2007	**5,843**	**1,975**	**341**	**8,159**
Current	3,834	1,935	341	6,110
Non-current	2,009	40	–	2,049
	5,843	**1,975**	**341**	**8,159**

(i) In addition to the net charge of £1,771,000 (2006: £1,551,000) to the income statement in the above table, a net credit of £723,000 (2006: £179,000) has been recognised in the income statement during the period in relation to expected insurance recoveries resulting in a net charge to the income statement for other provisions of £1,048,000 (2006: £1,372,000).

(ii) Amounts capitalised during the period comprise £249,000 deferred consideration in relation to the acquisition of Federal Trust (Singapore) Pte Limited (see note 4) and £4,128,000 in relation to deferred payments to investment managers under earn-out schemes. The amount of the deferred consideration arising on earn-out schemes is contingent on the value of funds attracted and is payable in cash.

At 31 December 2007, anticipated insurance recoverables relating to client compensation and litigation related provisions of £477,000 (2006: £436,000) were included within other assets.

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

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

27 Retirement benefit obligations

The Group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to this scheme during the year was £697,000 (2006: £594,000). The Group also operates defined contribution schemes for overseas employees, for which the total contributions were £581,000 (2006: £517,000).

The Group operates two funded pension schemes providing benefits based on final pensionable pay for executive directors and staff employed by the Company in the UK (the Rathbone 1987 Scheme and the Laurence Keen Scheme). The schemes are currently both clients of Rathbone Investment Management Limited, with investments managed on a discretionary basis, in accordance with the statement of investment principles agreed by the trustees. Scheme assets are held separately from those of the Group.

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

The scheme operated by Rathbone Stockbrokers Limited (the Laurence Keen Scheme) was closed to new entrants and future pension accrual for the current membership with effect from 1 October 1999. As from that date all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002. Both schemes continue on a closed basis with the existing assets remaining invested thereunder.

27 Retirement benefit obligations continued

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

	Last full actuarial valuation as at:
Rathbone 1987 Scheme	31 December 2004
Laurence Keen Scheme	31 December 2005

The actuarial valuation of the Rathbone 1987 Scheme as at 31 December 2007 is in progress but has not yet been completed.

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

	2007 Laurence Keen Scheme	2006 Laurence Keen Scheme	**2007 Rathbone 1987 Scheme**	2006 Rathbone 1987 Scheme
Rate of increase in salaries	**4.55%**	4.15%	**4.55%**	4.15%
Rate of increase in pensions in payment	***3.60%**	*3.50%	***3.20%**	*2.90%
Rate of increase of deferred pensions	**3.30%**	2.90%	**3.30%**	2.90%
Discount rate	**5.70%**	5.20%	**5.70%**	5.20%
Expected return on scheme assets	**6.10%**	6.21%	**7.10%**	7.09%
Inflation assumption	**3.30%**	2.90%	**3.30%**	2.90%

* 5% for service prior to April 2001

The assumed duration of the liabilities for both schemes is 25 years (2006: 25 years). The overall expected return on scheme assets is a weighted average of the returns expected on each class of asset held by the scheme, as disclosed below.

Normal retirement age is 65 for members of the Laurence Keen Scheme and 60 for members of the Rathbone 1987 Scheme. The assumed life expectancy for the membership of both schemes is based on the PA92 actuarial tables. In 2007, the assumption for life expectancy was updated to take account of recent and expected future improvements in life expectancy by using the 'Medium Cohort' projection, rated up by 2 years. The assumed life expectations on retirement were:

		2007 Males	**2007 Females**	2006 Males	2006 Females
Retiring today	– aged 60	**24.7**	**27.7**	24.7	27.6
	– aged 65	**20.0**	**22.9**	20.0	22.9
Retiring in 20 years	– aged 60	**25.9**	**28.7**	25.9	28.7
	– aged 65	**21.1**	**23.9**	21.1	23.9

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

	2007 Laurence Keen Scheme £'000	**2007 Rathbone 1987 Scheme £'000**	**2007 Total £'000**	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000
Present value of defined benefit obligations	**(10,301)**	**(60,274)**	**(70,575)**	(10,423)	(53,982)	(64,405)
Fair value of scheme assets	**9,708**	**54,415**	**64,123**	8,996	44,646	53,642
Deficit in schemes	**(593)**	**(5,859)**	**(6,452)**	(1,427)	(9,336)	(10,763)

27 Retirement benefit obligations continued

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

	2007 Laurence Keen Scheme £'000	2007 Rathbone 1987 Scheme £'000	2007 Total £'000	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000
Current service cost	**–**	**3,083**	**3,083**	–	3,445	3,445
Interest cost	**532**	**2,897**	**3,429**	567	2,571	3,138
Expected return on scheme assets	**(551)**	**(3,407)**	**(3,958)**	(480)	(2,655)	(3,135)
	(19)	**2,573**	**2,554**	87	3,361	3,448

Actuarial gains and losses have been reported in the statement of recognised income and expense. The actual return on scheme assets was £621,000 (2006: £565,000) for the Laurence Keen Scheme and £3,317,000 (2006: £3,381,000) for the Rathbone 1987 Scheme.

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

	2007 Laurence Keen Scheme £'000	2007 Rathbone 1987 Scheme £'000	2007 Total £'000	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000
At 1 January	**245**	**201**	**446**	(1,432)	(3,590)	(5,022)
Actuarial gains/(losses) recognised in the year	**348**	**(78)**	**270**	1,677	3,791	5,468
At 31 December	**593**	**123**	**716**	245	201	446

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

	2007 Laurence Keen Scheme £'000	2007 Rathbone 1987 Scheme £'000	2007 Total £'000	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000
At 1 January	**10,423**	**53,982**	**64,405**	11,697	50,501	62,198
Service cost (employer's part)	**–**	**3,083**	**3,083**	–	3,445	3,445
Interest cost	**532**	**2,897**	**3,429**	567	2,571	3,138
Contributions from members	**–**	**1,030**	**1,030**	–	959	959
Actuarial gains	**(278)**	**(12)**	**(290)**	(1,592)	(3,038)	(4,630)
Benefits paid	**(376)**	**(706)**	**(1,082)**	(249)	(456)	(705)
At 31 December	**10,301**	**60,274**	**70,575**	10,423	53,982	64,405

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

	2007 Laurence Keen Scheme £'000	2007 Rathbone 1987 Scheme £'000	2007 Total £'000	2006 Laurence Keen Scheme £'000	2006 Rathbone 1987 Scheme £'000	2006 Total £'000
At 1 January	**8,996**	**44,646**	**53,642**	8,118	35,370	43,488
Expected return on scheme assets	**551**	**3,407**	**3,958**	480	2,655	3,135
Actuarial gains/(losses)	**70**	**(90)**	**(20)**	85	753	838
Contributions from the sponsoring companies	**467**	**6,128**	**6,595**	562	5,365	5,927
Contributions from scheme members	**–**	**1,030**	**1,030**	–	959	959
Benefits paid	**(376)**	**(706)**	**(1,082)**	(249)	(456)	(705)
At 31 December	**9,708**	**54,415**	**64,123**	8,996	44,646	53,642

27 Retirement benefit obligations continued

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

Laurence Keen Scheme

	1.1.07 Expected return %	1.1.06 Expected return %	2007 Fair value £'000	2006 Fair value £'000	2007 Current allocation %	2006 Current allocation %
Equity instruments	**7.60**	7.50	**5,180**	5,047	**53**	56
Debt instruments	**4.40**	4.30	**4,161**	3,738	**43**	42
Cash	**4.40**	4.30	**367**	211	**4**	2
			9,708	8,996		

Rathbone 1987 Scheme

	1.1.07 Expected return %	1.1.06 Expected return %	2007 Fair value £'000	2006 Fair value £'000	2007 Current allocation %	2006 Current allocation %
Equity instruments	**7.60**	7.50	**42,099**	35,515	**77**	80
Debt instruments	**5.70**	5.20	**9,323**	8,649	**17**	19
Cash	**4.40**	4.30	**2,993**	482	**6**	1
			54,415	44,646		

The expected return on equities was assumed to be 3.20% above the return on long dated Gilts (2006: 3.25% above). The expected rate of return on debt instruments is based on long-term yields at the start of the year, with an adjustment for the risk of default and future downgrade in relation to corporate bonds. Cash has been assumed to generate a similar return to short dated government bonds.

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

	Laurance Keen Scheme	Rathbone 1987 Scheme
UK equities	35% – 55%	43% – 57%
Overseas equities	0% – 15%	21% – 35%
Fixed interest stocks	45% – 65%*	14% – 28%
Cash deposits		0% – 8%

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

In the Rathbone 1987 Scheme, not more than 85% of the assets may be held in equities. A maximum of 5% of UK equities may be invested in companies outside the FTSE 350 and not more than 5% of total equity assets can be invested in hedge funds.

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

	Impact on Scheme Liabilities (Decrease)/ Increase £'000	Impact on Scheme Liabilities (Decrease)/ Increase %
0.5% increase to:		
– Discount rate	(7,400)	(10.50)
– Rate of inflation	5,400	7.70
– Rate of salary growth	2,600	3.70
1 year increase to longevity at 60	2,000	2.80

27 Retirement benefit obligations continued

The history of experience adjustments is as follows:

Laurence Keen Scheme

	2007	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(10,301)**	(10,423)	(11,697)	(9,552)
Fair value of scheme assets (£'000)	**9,708**	8,996	8,118	6,836
Deficit in the scheme (£'000)	**(593)**	(1,427)	(3,579)	(2,716)
Experience adjustments on scheme liabilities:				
– amount (£'000)	**104**	1,592	1,864	466
– percentage of scheme liabilities (%)	**1%**	15%	16%	5%
Experience adjustments on scheme assets:				
– amount (£'000)	**70**	85	539	359
– percentage of scheme assets (%)	**1%**	1%	7%	5%

Rathbone 1987 Scheme

	2007	2006	2005	2004
Present value of defined benefit obligations (£'000)	**(60,274)**	(53,982)	(50,501)	(38,214)
Fair value of scheme assets (£'000)	**54,415**	44,646	35,370	25,947
Deficit in the scheme (£'000)	**(5,859)**	(9,336)	(15,131)	(12,267)
Experience adjustments on scheme liabilities:				
– amount (£'000)	**1,264**	3,038	7,138	1,881
– percentage of scheme liabilities (%)	**2%**	6%	14%	5%
Experience adjustments on scheme assets:				
– amount (£'000)	**90**	753	4,297	1,132
– percentage of scheme assets (%)	**–**	2%	12%	4%

The total regular contributions made by the Group to the Rathbone 1987 Scheme during the year were £2,238,000 (2006: £2,365,000) based on 13.9% of pensionable salaries (1 January to 31 March 2006: 11.5%, 1 April to 24 August 2006: 15.5%, 25 August to 31 December 2006: 13.9% of pensionable salaries). Additional lump sum contributions amounting to £3,890,000 were also paid in 2007 (2006: £3,000,000). After 31 March 2002 the Rathbone 1987 Scheme was closed to new entrants and, consequently, the current pension cost will increase as the members of the Scheme approach retirement.

The total contributions made by the Group to the Laurence Keen Scheme during the year were £467,000 (2006: £562,000). Annual contributions of £420,000 will continue to be made to the Laurence Keen Scheme. As the scheme was closed to new entrants with effect from 1 October 1999, the current pension cost will increase as the members of the scheme approach retirement.

28 Share capital

	Ordinary shares (thousands)	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 January 2006	41,266,323	2,063	17,487	19,550
Issued during the year	1,010,529	51	7,031	7,082
At 1 January 2007	42,276,852	2,114	24,518	26,632
Issued during the year	413,090	20	3,240	3,260
At 31 December 2007	**42,689,942**	**2,134**	**27,758**	**29,892**

The total authorised number of ordinary shares at 31 December 2007 was 100,000,000 (2006: 100,000,000) with a par value of £0.05 per share. All issued shares are fully paid.

28 Share capital continued

The following movements in share capital occurred during the period:

	Number of shares issued	Exercise price Pence	Share capital £'000	Share premium £'000	Total consideration £'000
Issue of shares in relation to:					
– share incentive plan	55,693	1,174.0	3	651	654
– exercise of options	357,397	372.0 – 1,172.0	17	2,589	2,606
	413,090		20	3,240	3,260

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

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

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

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

Details of the general terms of the Long Term Incentive Plan are set out in the remuneration report on pages 45 to 46.

As at 31 December 2007, the trustees of the Share Incentive Plan held 1,275,224 (2006: 1,142,915) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £13,389,852 (2006: £13,692,000). No dividends on these shares have been waived. Of the total number of shares held by the trustees 505,001 (2006: 495,429) have been conditionally gifted to employees.

At 31 December 2007, the trustees of the Long Term Incentive Plan held 74,794 (2006: 100,000) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £785,337 (2006: £1,198,000). Dividends on these shares have been waived by the Trustees.

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

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

	2007 Number of share options	**2007 Weighted average exercise price (£)**	2006 Number of share options	2006 Weighted average exercise price (£)
At 1 January	**1,413,651**	**7.56**	2,283,932	7.13
Granted in the year	**–**	**–**	48,109	11.60
Forfeited in the year	**(7,155)**	**8.45**	(12,642)	8.09
Exercised in the year	**(357,397)**	**7.29**	(905,748)	6.69
At 31 December	**1,049,099**	**7.64**	1,413,651	7.56

The weighted average share price at the dates of exercise for share options exercised during the year was £12.76 (2006: £11.87). The options outstanding at 31 December 2007 had a weighted average contractual life of 4.9 years (2006: 5.6 years). In 2006, options were granted on 29 March 2006 and 22 August 2006. The aggregate of the estimated fair values of the options granted on those dates determined using the binomial valuation model, including expected dividends, is £139,000. Options exercisable at 31 December 2007 had a weighted average exercise price of £7.12 (2006: £7.13).

28 Share capital continued

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

Year of grant	Exercise price (p)	Exercise period	**2007 No.**	2006 No.
1997	372.00	2000 – 2007	**–**	30,000
1998	643.30	2001 – 2008	**7,000**	21,700
1999	732.50	2002 – 2009	**34,090**	57,900
1999	733.50	2002 – 2009	**–**	4,095
1999	814.17	2002 – 2009	**58,350**	61,350
2000	932.50	2003 – 2010	**101,810**	157,020
2001	985.00	2004 – 2011	**22,500**	33,000
2001	827.50	2004 – 2011	**70,059**	105,214
2001	915.80	2004 – 2011	**40,004**	54,328
2001	665.33	2004 – 2011	**20,000**	25,000
2002	810.00	2005 – 2012	**77,851**	108,079
2003	415.00	2006 – 2013	**202,031**	239,836
Exercisable at 31 December 2006				897,522
2004	743.50	2007 – 2014	**90,084**	181,760
2004	715.00	2007 – 2014	**–**	2,032
2004	690.00	2007 – 2014	**35,000**	35,000
Exercisable at 31 December 2007			**758,779**	
2005	852.00	2008 – 2015	**243,884**	250,584
2006	1172.00	2009 – 2016	**36,436**	36,753
2006	1116.00	2009 – 2016	**10,000**	10,000
			1,049,099	1,413,651

The Group recognised total expenses of £2,692,000 in relation to equity-settled share-based payments transactions in 2007 (2006: £2,080,000).

29 Reserves and retained earnings

	Merger reserve £'000	Available for sale reserve £'000	Translation reserve £'000	Total other reserves £'000	Retained earnings £'000
At 1 January 2006	49,428	3,585	11	53,024	57,843
Profit for the year					32,138
Translation differences arising in the year			(240)	(240)	
Dividends paid					(13,449)
Actuarial gains and losses					5,468
Revaluation of investment securities		4,202		4,202	
Net gains transferred to net profit on disposal of available for sale investment securities		(3,196)		(3,196)	
Share-based payments					
– value of employee services					2,080
– cost of shares issued/purchased					(3,773)
Tax on equity items		(302)		(302)	(1,278)
At 1 January 2007	49,428	4,289	(229)	53,488	79,029
Profit for the year					37,380
Translation differences arising in the year			14	14	
Dividends paid					(15,914)
Actuarial gains and losses					270
Revaluation of investment securities		2,069		2,069	
Net gains transferred to net profit on disposal of available for sale investment securities		(1,297)		(1,297)	
Share-based payments					
– value of employee services					2,692
– cost of shares issued/purchased					(3,508)
Tax on equity items		(93)		(93)	728
At 31 December 2007	**49,428**	**4,968**	**(215)**	**54,181**	**100,677**

The Merger reserve represents share premium that was not recognised on the issue of shares as consideration for an acquisition prior to the adoption of IFRS on 1 January 2004, in accordance with the Companies Act.

30 Financial risk management

The Group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the Group's Internal Capital Adequacy Assessment Process, prepared in accordance with the requirements of the Financial Services Authority (the FSA) in its application of the Capital Requirements Directive.

The Group categorises its financial risks into three areas:
(i) credit risk;
(ii) liquidity risk; and
(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, currency risk and price risk).

The sections below outline the Group's risk appetite and explain how it defines and manages each category of financial risk.

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

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

30 Financial risk management continued

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

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its Banking, Treasury, Trust and Pensions advisory activities. The principal source of credit risk arises from placing funds with other banks and holding interest bearing securities. The Group also has exposure to credit risk through its loan books and guarantees given on clients' behalf.

It is the Group's policy to place funds generated internally and from deposits by clients with a range of high quality financial institutions. Investments are spread to avoid excessive exposure to any individual counterparty. Loans made to clients are fully secured against clients' assets that are held and managed by Group companies.

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

The Group does not employ a formalised internal ratings system for the assessment of credit exposures, but categorises its exposures based on the long-term ratings awarded to counterparties by Fitch Ratings Ltd ('Fitch'). Each exposure is assessed individually, both at inception and in ongoing monitoring.

Settlement balances

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

The Investment Management and Unit Trust businesses have exposure to market counterparties in the settlement of trades. Settlement balances of £1,123,000 were past due but not impaired at 31 December 2007 (2006: £2,309,000). No settlement balances were impaired at the balance sheet date (2006: nil).

Loans and advances to banks and debt securities

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

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

Loans and advances to customers

The Group provides loans to clients through its Investment Management operations (the Investment Management loan book) and via Rathbone International Finance B.V. (the Rathbone International Finance loan book). The Group is also exposed to credit risk on trade debtors arising from the Trust and Tax and Pensions Advisory businesses (Trust and pension debtors).

(a) Overdrafts

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

(b) Investment management loan book

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

A total lending exposure limit is set for the Investment Management loan book. The Banking Committee reviews all loans on a monthly basis and approves all loan extensions. Where necessary, repayment plans are established with clients before the loan becomes overdue or uncovered.

30 Financial risk management continued

(i) Credit risk continued

At 31 December, the total lending exposure limit for the Investment Management loan book was £25,000,000 (2006: £75,000,000) of which £11,889,000 had been advanced (2006: £48,177,000) and a further £4,492,000 had been committed (2006: £14,768,000).

(c) Rathbone International Finance loan book

Loans are also provided to non-UK borrowers to assist trust structures where the Group acts as trustee or provides some form of advisory role. Such loans are backed by loans to the Group from third parties which are on identical repayment and interest rate repricing terms. Loans are secured either by a legal charge over client cash or other assets under the Group's control, or by waiver of right of recall from the third-party lender in the event that the borrower is unable to repay.

New loan applications and applications to extend existing facilities under the Rathbone International Finance loan book are reviewed by the directors of Rathbone International Finance B.V. and require pre-approval by the chief executive of the trust and tax business.

At 31 December loans outstanding in the Rathbone International Finance loan book totalled £14,343,000 (2006: £14,247,000).

(d) Trust and pension debtors

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

Derivatives

The Group makes use of derivative financial instruments to manage interest rate risk (see note 23). The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. contracts with a positive fair value), which in relation to derivatives is only a small fraction of the notional value of the contract.

Impairment and provisioning policies

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

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

Impairment provisions for credit risk, which relate solely to trust and pension debtors, are set out in note 16.

Maximum exposure to credit risk

	2007 £'000	2006 £'000
Credit risk relating to on-balance sheet exposures:		
Settlement balances	**21,573**	19,628
Loans and advances to banks	**250,103**	119,247
Loans and advances to customers		
– Overdrafts	**2,753**	5,523
– Investment Management loan book	**11,889**	48,177
– International Finance loan book	**14,343**	14,247
– Trust and pension debtors	**11,034**	10,103
Investment securities		
– Unlisted debt securities	**755,213**	558,368
– Listed debt securities	**10,061**	–
Other financial assets	**35,871**	29,714
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**4,492**	14,768
Financial guarantees	**724**	411
	1,118,056	820,186

30 Financial risk management continued

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 25.9% of the total maximum exposure is derived from loans and advances to banks and customers (2006: 24.1%) and 68.4% represents investments in debt securities (2006: 68.1%).

Included within the investment management loan book at 31 December 2006 were mortgage loans of £6,486,000, which were secured against properties. The mortgages were acquired with the banking book of the private banking business of Dexia Banque Internationale à Luxembourg S.A., London Branch on 6 April 2006. These loans were not impaired at 31 December 2006 and no collateral thereon had been repossessed. There were no outstanding mortgages at 31 December 2007 following the sale in the year of the private banking business acquired from Dexia Banque International à Luxembourg S.A., London Branch.

Loans and advances

Loans and advances are summarised as follows:

	2007 Loans and advances to banks £'000	**2007 Loans and advances to customers £'000**	2006 Loans and advances to banks £'000	2006 Loans and advances to customers £'000
Neither past due nor impaired	**250,103**	**35,241**	119,247	72,867
Past due but not impaired	**–**	**3,792**	–	4,272
Impaired	**–**	**986**	–	911
Gross carrying value	**250,103**	**40,019**	119,247	78,050
Less: allowance for impairment (note 16)	**–**	**(639)**	–	(690)
Net carrying value	**250,103**	**39,380**	119,247	77,360

No loans and advances have been renegotiated.

(a) Neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired at 31 December, which are all externally unrated, is analysed below between those loans that remain within the standard lending criteria required at the inception of the loan, which are described on page 98, and those loans that no longer meet the initial lending criteria. An exposure is reported as past due when the contractual due date for settlement has passed and the balance has not been repaid, except in the case of trust and pension debtors where a normal settlement period of 7 days is expected.

At 31 December 2007	**Overdrafts £'000**	**Investment Management loan book £'000**	**International Finance loan book £'000**	**Trust and pension debtors £'000**	**Total loans and advances to customers £'000**
Standard lending criteria	2,753	11,889	11,725	6,424	32,791
Outside standard lending criteria	–	–	2,450	–	2,450
	2,753	**11,889**	**14,175**	**6,424**	**35,241**

At 31 December 2006	Overdrafts £'000	Investment Management loan book £'000	International Finance loan book £'000	Trust and pension debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	5,523	48,177	11,144	5,776	70,620
Outside standard lending criteria	–	–	2,247	–	2,247
	5,523	48,177	13,391	5,776	72,867

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

	2007 £'000	2006 £'000
AA– to AA+	**159,970**	69,139
A– to A+	**90,087**	50,052
Other	**46**	56
	250,103	119,247

30 Financial risk management continued

(i) Credit risk continued

(b) Past due but not impaired

Loans and advances that are past due are not considered impaired unless other information is also available to indicate the contrary. The gross amount of loans and advances by class to customers that were past due but not impaired at 31 December were:

At 31 December 2007	Overdrafts £'000	Investment Management loan book £'000	International Finance loan book £'000	Trust and pension debtors £'000	Total loans and advances to customers £'000
< 90 days overdue	–	–	–	1,478	1,478
90 – 180 days overdue	–	–	–	1,016	1,016
180 – 270 days overdue	–	–	168	491	659
270 – 365 days overdue	–	–	–	392	392
> 365 days overdue	–	–	–	247	247
	–	**–**	**168**	**3,624**	**3,792**

At 31 December 2006	Overdrafts £'000	Investment Management loan book £'000	International Finance loan book £'000	Trust and pension debtors £'000	Total loans and advances to customers £'000
< 90 days overdue	–	–	–	1,160	1,160
90 – 180 days overdue	–	–	–	862	862
180 – 270 days overdue	–	–	856	636	1,492
270 – 365 days overdue	–	–	–	518	518
> 365 days overdue	–	–	–	240	240
	–	–	856	3,416	4,272

(c) Impaired

Allowance has been made for individually impaired trust and pension debtors. The balance of individually impaired trust and pension debtors is £986,000 (2006: £911,000). There were no other impaired credit exposures at 31 December 2007 (2006: none).

Debt securities

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

	2007 Government securities £'000	2007 Certificates of deposit £'000	2007 Total £'000	2006 Government securities £'000	2006 Certificates of deposit £'000	2006 Total £'000
AAA	**10,061**	**–**	**10,061**	–	–	–
AA– to AA+	**–**	**455,201**	**455,201**	–	333,368	333,368
A– to A+	**–**	**300,012**	**300,012**	–	225,000	225,000
	10,061	**755,213**	**765,274**	–	558,368	558,368

30 Financial risk management continued

Concentration of credit risk

The Group has counterparty concentration risk within its Treasury assets in that exposure is to a number of similar credit institutions. The Banking Committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal Fitch rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

(a) Geographical sectors

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

At 31 December 2007	United Kingdom £'000	Jersey £'000	Rest of the the world £'000	Total £'000
Settlement balances	20,109	–	1,464	21,573
Loans and advances to banks	147,387	1,881	100,835	250,103
Loans and advances to customers				
– Overdrafts	1,623	329	801	2,753
– Investment Management loan book	9,329	359	2,201	11,889
– International Finance loan book	–	–	14,343	14,343
– Trust and pension debtors	1,271	6,176	2,948	10,395
Investment securities				
– Unlisted debt securities	316,328	–	438,885	755,213
– Listed debt securities	10,061	–	–	10,061
Other financial assets	25,813	80	9,978	35,871
	531,921	**8,825**	**571,455**	**1,112,201**

At 31 December 2006	United Kingdom £'000	Jersey £'000	Rest of the the world £'000	Total £'000
Settlement balances	18,003	–	1,625	19,628
Loans and advances to banks	80,297	1,133	37,817	119,247
Loans and advances to customers				
– Overdrafts	4,313	8	1,202	5,523
– Investment Management loan book	40,661	1,188	6,328	48,177
– International Finance loan book	–	–	14,247	14,247
– Trust and pension debtors	1,252	6,078	2,083	9,413
Investment securities				
– Unlisted debt securities	213,037	–	345,331	558,368
– Listed debt securities	–	–	–	–
Other financial assets	20,685	570	8,459	29,714
	378,248	8,977	417,092	804,317

30 Financial risk management continued

(b) Industry sectors

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

At 31 December 2007	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	–	21,573	–	21,573
Loans and advances to banks	–	250,103	–	250,103
Loans and advances to customers				
– Overdrafts	–	–	2,753	2,753
– Investment Management loan book	–	–	11,889	11,889
– International Finance loan book	–	–	14,343	14,343
– Trust and pension debtors	–	–	10,395	10,395
Investment securities				
– Unlisted debt securities	–	755,213	–	755,213
– Listed debt securities	10,061	–	–	10,061
Other financial assets	87	19,713	16,071	35,871
	10,148	**1,046,602**	**55,451**	**1,112,201**

At 31 December 2006	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	–	19,628	–	19,628
Loans and advances to banks	–	119,247	–	119,247
Loans and advances to customers				
– Overdrafts	–	–	5,523	5,523
– Investment Management loan book	–	–	48,177	48,177
– International Finance loan book	–	–	14,247	14,247
– Trust and pension debtors	–	–	9,413	9,413
Investment securities				
– Unlisted debt securities	–	558,368	–	558,368
– Listed debt securities	–	–	–	–
Other financial assets	–	27,896	1,818	29,714
	–	725,139	79,178	804,317

(ii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due.

The primary objective of the Group's treasury policy is to manage short-term liquidity requirements in such as way as to minimise financial risk. The Treasury Department has primary responsibility for ensuring compliance with the Group's liquidity policy, which requires that Rathbone Investment Management (the Bank) maintains a surplus of immediately realisable assets over its liabilities such that all known and potential cash obligations can be met. Liquidity mismatches are monitored on a daily basis against the liquidity limits set by the Banking Committee and the FSA's liquidity mismatch guidelines. Liquidity risk is primarily managed by holding marketable instruments which are realisable at short notice. The Group operates a strict set of criteria for counterparties to ensure that investments are liquid and are with high quality counterparties, defined as those who have been awarded a long-term rating of 'A' or above by Fitch.

30 **Financial risk management** continued

Non-derivative cash flows

The table below presents the cash flows receivable and payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual, undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

At 31 December 2007	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Assets						
Cash and balances at central banks	4	274	–	–	–	278
Settlement balances	–	21,573	–	–	–	21,573
Loans and advances to banks	102,001	145,154	5,132	–	–	252,287
Loans and advances to customers	7,190	16,946	12,328	5,494	856	42,814
Investment debt securities	11,606	509,601	269,238	–	–	790,445
Other financial assets	142	17,352	193	360	–	18,047
Total financial assets	120,943	710,900	286,891	5,854	856	1,125,444
Liabilities						
Deposits by banks	193	1,534	2,061	10,094	–	13,882
Settlement balances	–	19,926	–	–	–	19,926
Due to customers	637,991	300,551	5,765	5,166	–	949,473
Other financial liabilities	38	27,610	340	10,152	–	38,140
Total financial liabilities	638,222	349,621	8,166	25,412	–	1,021,421
Net liquidity gap	**(517,279)**	**361,279**	**278,725**	**(19,558)**	**856**	**104,023**

At 31 December 2006	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Assets						
Cash and balances at central banks	5	276	–	–	–	281
Settlement balances	–	19,628	–	–	–	19,628
Loans and advances to banks	62,353	59,327	5,387	–	–	127,067
Loans and advances to customers	6,425	25,695	23,189	16,954	10,165	82,428
Investment debt securities	5,044	215,857	352,788	7,779	–	581,468
Other financial assets	119	15,945	–	436	–	16,500
Total financial assets	73,946	336,728	381,364	25,169	10,165	827,372
Liabilities						
Deposits by banks	119	1,200	1,651	10,663	–	13,633
Settlement balances	–	18,078	–	–	–	18,078
Due to customers	469,068	184,043	4,356	9,779	181	667,427
Other financial liabilities	20	15,712	2,680	10,003	–	28,415
Total financial liabilities	469,207	219,033	8,687	30,445	181	727,553
Net liquidity gap	(395,261)	117,695	372,677	(5,276)	9,984	99,819

Included within the amounts due to customers due on demand disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short-term.

Derivative cash flows (derivatives settled on a net basis)

As described in note 23 the Group employs Forward Rate Agreements in managing interest rate risk. The Group's liquidity risk in relation to net settled derivative contracts is limited to the fair value of unsettled contracts. All unsettled derivative contracts at 31 December 2007 and 31 December 2006 settled within 3 months.

30 Financial risk management continued

(ii) Liquidity risk continued

Off balance sheet items

Cash flows arising from the Group's off balance sheet financial liabilities (note 32) are summarised in the table below.

The contractual value of the Group's commitments to extend credit to clients and maximum potential value of financial guarantees are analysed by the duration of the commitment. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates. Capital commitments are summarised by the earliest expected date of payment.

At 31 December 2007	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	4,492	–	–	–	4,492
Financial guarantees	709	–	15	–	724
Operating lease commitments	286	4,438	14,000	9,037	27,761
Capital commitments	1,189	–	–	–	1,189
Total off balance sheet items	**6,676**	**4,438**	**14,015**	**9,037**	**34,166**

At 31 December 2006	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	14,768	–	–	–	14,768
Financial guarantees	411	–	–	–	411
Operating lease commitments	937	3,019	10,918	2,936	17,810
Capital commitments	1,016	–	–	–	1,016
Total off balance sheet items	17,132	3,019	10,918	2,936	34,005

Total liquidity requirement

At 31 December 2007	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Total financial liabilities	638,222	349,621	8,166	25,412	–	1,021,421
Net derivative cash outflows	–	22	–	–	–	22
Total off balance sheet items	–	6,676	4,438	14,015	9,037	34,166
	638,222	**356,319**	**12,604**	**39,427**	**9,037**	**1,055,609**

At 31 December 2006	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Total financial liabilities	469,207	219,033	8,687	30,445	181	727,553
Net derivative outflows	–	–	–	–	–	–
Total off balance sheet items	–	17,132	3,019	10,918	2,936	34,005
	469,207	236,165	11,706	41,363	3,117	761,558

(iii) Market risk

Interest rate risk

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

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

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

30 Financial risk management continued

(iii) Market risk continued

At 31 December 2007	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	271	–	–	–	–	4	275
Settlement balances	–	–	–	–	–	21,573	21,573
Loans and advances to banks	244,808	5,000	–	–	–	295	250,103
Loans and advances to customers	25,439	602	67	320	–	12,952	39,380
Investment securities							
– equity securities	–	–	–	–	–	6,948	6,948
– debt securities	500,085	214,173	51,016	–	–	–	765,274
Other financial assets	–	–	–	–	–	35,871	35,871
Total financial assets	770,603	219,775	51,083	320	–	77,643	1,119,424
Liabilities							
Deposits by banks	12,460	–	–	–	–	–	12,460
Settlement balances	–	–	–	–	–	19,926	19,926
Due to customers	934,542	2,372	245	45	367	9,037	946,608
Other financial liabilities	–	–	–	–	–	40,447	40,447
Total financial liabilities	947,002	2,372	245	45	367	69,410	1,019,441
Nominal value of interest rate derivatives	10,000	–	–	–	–	–	10,000
Interest rate repricing gap	**(166,399)**	**217,403**	**50,838**	**275**	**(367)**	**8,233**	**109,983**

At 31 December 2006	Not more than 3 months £'000	More than 3 months but not more than 6 months £'000	More than 6 months but not more than 1 year £'000	More than 1 year but not more than 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	276	–	–	–	–	5	281
Settlement balances	–	–	–	–	–	19,628	19,628
Loans and advances to banks	113,959	5,132	–	–	–	156	119,247
Loans and advances to customers	62,688	2,566	6	68	320	11,712	77,360
Investment securities							
– equity securities	–	–	–	–	–	6,152	6,152
– debt securities	215,084	140,854	195,006	7,424	–	–	558,368
Other financial assets	–	–	–	–	–	29,714	29,714
Total financial assets	392,007	148,552	195,012	7,492	320	67,367	810,750
Liabilities							
Deposits by banks	12,119	–	–	–	–	–	12,119
Settlement balances	–	–	–	–	–	18,078	18,078
Due to customers	653,736	2,213	6	68	202	8,537	664,762
Other financial liabilities	–	–	–	–	–	30,174	30,174
Total financial liabilities	665,855	2,213	6	68	202	56,789	725,133
Nominal value of interest rate derivatives	40,000	–	–	–	–	–	40,000
Interest rate repricing gap	(233,848)	146,339	195,006	7,424	118	10,578	125,617

30 Financial risk management continued

(iii) Market risk continued

The Banking Committee has set an overall pre-tax interest rate exposure limit of £2,500,000 (2006: £2,500,000) for the total profit or loss resulting from an unexpected immediate and sustained 1% movement in sterling interest rates for the Bank, the principal operating subsidiary. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest bearing liabilities compared with the period to repricing on a corresponding amount of interest bearing assets.

At 31 December 2007, the Bank had £902.3 million (2006: £626.0 million) of sterling liabilities averaging 3 days (2006: 4 days) to repricing which were matched by sterling assets averaging 50 days (2006: 96 days) to repricing, creating an exposure of 47 days (2006: 92 days). The total potential impact on profit after tax and equity was £825,000 (2006: £1,105,000) at the balance sheet date for a 1% decrease or increase in interest rates. The impact of the Group's forward rate agreements is to reduce this exposure by £35,000 (2006: £193,000).

Foreign exchange risk

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

The Group does not have any material exposure to transactional foreign currency risk and, therefore, no sensitivity analysis is presented. The table below summarises the Group's exposure to foreign currency translation risk at 31 December. Included in the table are the Group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2007	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	3	271	1	–	275
Settlement balances	20,001	921	544	107	21,573
Loans and advances to banks	230,150	8,399	9,133	2,421	250,103
Loans and advances to customers	21,447	225	14,525	3,183	39,380
Investment securities					
– equity securities	5,939	–	1,009	–	6,948
– debt securities	765,274	–	–	–	765,274
Other financial assets	34,828	53	930	60	35,871
	1,077,642	9,869	26,142	5,771	1,119,424
Liabilities					
Deposits by banks	12,267	–	1	192	12,460
Settlement balances	18,555	567	791	13	19,926
Due to customers	912,591	5,496	26,213	2,308	946,608
Other financial liabilities	38,726	270	1,403	48	40,447
	982,139	6,333	28,408	2,561	1,019,441
Net on-balance sheet position	**95,503**	**3,536**	**(2,266)**	**3,210**	**99,983**
Loan commitments	4,492	–	–	–	4,492

At 31 December 2006	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Total financial assets	775,485	9,146	22,277	3,842	810,750
Total financial liabilities	(696,003)	(7,358)	(20,767)	(1,005)	(725,133)
Net on-balance sheet position	79,482	1,788	1,510	2,837	85,617
Loan commitments	14,768	–	–	–	14,768

30 Financial risk management continued

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 17).

At 31 December 2007, the fair value of equity securities recognised on the balance sheet was £6,948,000 (2006: £6,152,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £695,000 (2006: £615,000) there would be no impact on profit after tax.

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values, with the exception of held to maturity investment securities (note 17).

31 Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 December 2007 was £184,750,000 (2006: £159,149,000). Regulatory capital is determined in accordance with the requirements of the FSA in the UK.

The Group's objectives when managing capital are:
- to comply with the capital requirements set by the regulators of the banking and other regulated markets where the entities within the Group operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the FSA in the UK, for supervisory purposes. The FSA requires each bank and banking group to maintain a ratio of total regulatory capital to risk-weighted assets at or above a level individually determined for each institution.

The Group's regulatory capital as managed by its central Group Treasury is divided into two tiers:
- Tier 1 capital, which is the total of issued share capital, retained earnings and reserves created by appropriations of retained earnings, net of the book value of goodwill and other intangible assets; and
- Tier 2 capital, which is unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

In addition, other regulatory capital requirements are imposed on certain of the Group's subsidiaries by regulatory authorities responsible for supervisory matters in other markets and jurisdictions in which those subsidiaries operate. These regulatory requirements are principally expenditure-based requirements, which require the individual subsidiaries to maintain a level of regulatory capital in excess of a set percentage of annual qualifying expenditure.

With effect from 1 January 2008, the Group is required to comply with the requirements of the Capital Requirements Directive (also known as Basel II), which has affected the methodology used to determine the Group's regulatory capital requirements.

32 Contingent liabilities and commitments

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

(b) Capital expenditure authorised and contracted for at 31 December 2007 but not provided in the accounts amounted to £1,189,000 (2006: £1,016,000).

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

	2007 £'000	2006 £'000
Guarantees	**724**	411
Undrawn commitments to lend of 1 year or less	**4,492**	14,768
	5,216	15,179

The fair value of the guarantees is £nil (2006: £nil).

(d) The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The future minimum lease payments under non-cancellable operating leases were as follows:

	2007 £'000	2006 £'000
No later than 1 year	**4,724**	3,956
Later than 1 year and no later than 5 years	**14,000**	10,918
Later than 5 years	**9,037**	2,936
	27,761	17,810

33 Related party transactions

Certain of the directors of Rathbone Trust Company Jersey Limited are also partners of Nigel Harris & Partners. During the year £684,595 (2006: £562,548) was paid to Nigel Harris & Partners for services supplied to Rathbone Trust Company Jersey Limited for the year ended 31 December 2007. At 31 December 2007 £365,192 (2006: £253,322) was due from Nigel Harris & Partners.

Certain of the directors of Rathbone Trust Company Jersey Limited are also partners of Galsworthy & Stones. During the year £335,841 (2006: £351,946) was received from Galsworthy & Stones for services supplied by Rathbone Trust Company Jersey Limited. At 31 December 2007 £541,109 (2006: £414,366) was due from Galsworthy & Stones.

The remuneration of the key management personnel of the Group, who are defined as the Company's directors, is set out in the audited part of the Remuneration report on pages 44 to 52. At 31 December 2007 key management and their close family members had outstanding deposits of £381,000 (2006: £843,000) and outstanding loans of £181,000 (2006: £178,000), which were made on normal business terms. A number of the Company's directors and their close family members make use of the services provided by companies within the Group. Charges for such services are made at various staff rates.

Mrs Carole Pomfret, the wife of the Group's chief executive, was employed as a consultant from 1 November 2002 at an annual fee of £7,500 (2006: £7,500) – her employment ended during March 2007 and she received £1,307 during the year. The amount received by her, net of tax, will be invested in ordinary shares of Rathbone Brothers Plc.

One of the Group's non-executive directors is an executive director of Novae Group Plc, a related entity of which underwrites part of the Group's professional indemnity insurance policy.

The Group's transactions with the pension funds are described in note 27. At the year end, £3,230 was owed by the pension schemes to the Group (2006: £46,833, owed to the pension schemes).

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

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

34 Consolidated cash flow statement

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

	2007 £'000	2006 £'000 restated (note 1)
Cash and balances at central banks (note 14)	**4**	5
Loans and advances to banks (note 15)	**214,216**	108,338
	214,220	108,343

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

	2007 £'000	2006 £'000
Cash inflow – share capital	**20**	51
Cash inflow – share premium	**3,240**	7,031
Cash outflow – financing of shares in relation to share-based schemes	**(297)**	(367)
	2,963	6,715

35 Events after the balance sheet date

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

Company accounts

Contents

Independent auditors' report to the members of Rathbone Brothers Plc

We have audited the Company financial statements of Rathbone Brothers Plc for the year ended 31 December 2007, which comprise the Company balance sheet, Statement of total recognised gains and losses and the related notes. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Rathbone Brothers Plc for the year ended 31 December 2007.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the Company financial statements and the part of the Remuneration report described as audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
5 March 2008

Company balance sheet

as at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible fixed assets	39	**7,478**	5,240
Investments in subsidiaries	40	**30,856**	30,834
Available for sale equity securities	40	**6,948**	6,147
Total fixed assets		**45,282**	42,221
Current assets			
Debtors			
Amounts owed by subsidiary undertakings		**12,639**	23,118
Other debtors	41	**2,680**	2,609
Prepayments and accrued income		**81**	135
		15,400	25,862
Cash at bank and in hand		**54**	20
Total current assets		**15,454**	25,882
Creditors: amounts falling due within one year			
Bank loans	42	**(12,267)**	(12,000)
Amounts owed to subsidiary undertakings		**(96)**	(242)
Other taxes and social security costs		**(1,127)**	(1,214)
Other creditors		**–**	(16)
Accruals and deferred income		**(604)**	(689)
Total current liabilities		**(14,094)**	(14,161)
Net current assets		**1,360**	11,721
Total assets less current liabilities		**46,642**	53,942
Pension liability	43	**(4,646)**	(7,534)
Net assets		**41,996**	46,408
Called up share capital	44	**2,134**	2,114
Share premium account	45	**27,758**	24,518
Available for sale reserve	45	**6,900**	6,128
Profit and loss account	45	**5,204**	13,648
Equity shareholders' funds		**41,996**	46,408

Approved by the Board of Directors on 5 March 2008 and signed on its behalf by

AD Pomfret
Chief Executive

Statement of total recognised gains and losses

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Profit after taxation for the year	37	**7,288**	13,271
Actuarial gains and losses	43	**270**	5,468
Share-based payments	44	**(816)**	(1,693)
Gain on available for sale equity securities	40	**2,069**	5,332
Tax taken directly to equity shareholders' funds		**728**	(1,278)
Total recognised gains and losses		**9,539**	21,100

36 Significant accounting policies

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

The Company has taken advantage of the exemption conferred by FRS 29 not to present the disclosures required by that standard relating to financial risks in the Company's solus accounts.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

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

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

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

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

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

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

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

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

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

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

36 Significant accounting policies continued

Share-based payments

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

Post retirement benefits

The Company operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full, net of any related deferred tax asset or liability. The movement in the scheme surplus/deficit is split between operating charges, finance items and actuarial gains and losses.

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

Deferred taxation

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

Guarantees

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

37 Profit for the year

As permitted by Section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Rathbone Brothers Plc reported a profit after tax for the financial year ended 31 December 2007 of £7,288,000 (2006: £13,271,000).

Auditors' remuneration for audit and other services to the Company are set out in note 9.

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

	2007	2006
Investment management	**515**	488
Unit trusts	**36**	31
Trust and tax	**57**	58
Shared services	**25**	22
	633	599

38 Dividends

Details of the Company's dividends paid and proposed for approval at the Annual General Meeting are set out in note 12.

39 Tangible fixed assets

	Short term leasehold property £'000	Plant and equipment £'000	Total £'000
Cost at 1 January 2007	3,726	22,682	26,408
Additions	2,125	3,078	5,203
Disposals	(232)	(4,776)	(5,008)
Cost at 31 December 2007	**5,619**	**20,984**	**26,603**
Depreciation at 1 January 2007	1,869	19,299	21,168
Charge for the year	881	2,058	2,939
Disposals	(230)	(4,752)	(4,982)
Depreciation at 31 December 2007	**2,520**	**16,605**	**19,125**
Net book value at 31 December 2007	**3,099**	**4,379**	**7,478**
Net book value at 1 January 2007	1,857	3,383	5,240

40 Investments

	Investments in subsidiaries £'000	Available for sale equity securities £'000	Total £'000
At 1 January 2007	30,834	6,147	36,981
Exchange rate adjustment	–	24	24
Additions	22	5	27
Disposals	–	(1,297)	(1,297)
Gains from change in fair value	–	2,069	2,069
At 31 December 2007	**30,856**	**6,948**	**37,804**

On 14 March 2007, the Company acquired all of the share capital of Rathbone Brothers & Co (UK) Limited, a non-trading company registered in the UK for cash consideration of £10,000. On 31 October 2007, the Company acquired all of the share capital of Rathbone Trust International BV, an intermediate holding company registered in the Netherlands for cash consideration of £12,000.

At 31 December 2007, the principal subsidiary undertakings, all of which were wholly owned, were as follows:

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

* Held by subsidiary undertaking
† Formerly Federal Trust (Singapore) Pte Limited

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

41 Other debtors

	2007 £'000	2006 £'000
Deferred tax asset	**2,539**	2,103
Corporation tax debtor	**141**	506
	2,680	2,609

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2006: 30%).

The movement on the deferred tax account is as follows:

	2007 £'000	2006 £'000
At 1 January	**2,103**	2,870
Charged to the profit and loss account	**(258)**	(1,129)
Taken to equity – share-based payments	**694**	362
	2,539	2,103

The deferred tax asset is attributable to the following items:

	2007 £'000	2006 £'000
Excess of depreciation	**705**	797
Share-based payments	**1,834**	1,306
	2,539	2,103

42 Bank loans

The Company has drawn down a term loan of £12,267,000 (2006: £12,000,000) which is repayable in eight, six-monthly instalments ending on 4 April 2011. Interest is payable on the loan at 0.7% above the London Inter-Bank Offer Rate.

43 Pension liability

Details of the defined benefit pension schemes operated by the Company and changes thereto are materially similar to those of the Group, which are provided in note 27 to the consolidated accounts.

44 Share capital

Details of the share capital of the Company together with changes thereto, options thereon and share-based payments are provided in note 28 to the consolidated accounts.

45 Reserves

	Share premium £'000	Available for sale reserve £'000	Profit and loss account £'000
At 1 January 2007	24,518	6,128	13,648
Profit for the year			7,288
Dividends paid			(15,914)
Shares issued	3,240		
Actuarial gains and losses			270
Revaluation of investment securities		2,069	
Net gains transferred to net profit on disposal of available for sale investment securities		(1,297)	
Share-based payments			
– value of employee services			2,692
– cost of shares issued/purchased			(3,508)
Tax on equity items			728
At 31 December 2007	**27,758**	**6,900**	**5,204**

46 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Opening shareholders' funds	**46,408**	31,675
Profit for the year	**7,288**	13,271
Dividends paid	**(15,914)**	(13,449)
Other recognised gains and losses relating to the year	**1,076**	9,160
Share based payments	**(122)**	(1,331)
Share capital issued	**3,260**	7,082
Net (reduction in)/addition to shareholders' funds for the year	**(4,412)**	14,733
Closing shareholders' funds	**41,996**	46,408

47 Contingent liabilities and commitments

The Company's obligations under operating leases are borne by a subsidiary undertaking.

48 Related party transactions

The Company has taken advantage of the exemption given by FRS 8 not to disclose transactions and balances with its subsidiaries.

The remuneration of the key management personnel of the Company, who are defined as the directors, is set out in the audited part of the Remuneration report on pages 44 to 52. At 31 December 2007, key management and their close family members had outstanding deposits of £381,000 (2006: £843,000) and outstanding loans of £181,000 (2006: £178,000), which were made on normal business terms. A number of the Company's directors and their close family members make use of the services provided by companies within the Group. Charges for such services are made at various staff rates.

Mrs Carole Pomfret, the wife of the Group's chief executive, has been employed as a consultant from 1 November 2002 at an annual fee of £7,500 (2006: £7,500) – her employment ended during March 2007 and she received £1,307 during the year. The amount received by her, net of tax, will be invested in ordinary shares of Rathbone Brothers Plc.

One of the Company's non-executive directors is an executive director of Novae Group Plc, a related entity of which underwrites part of the Company's professional indemnity insurance policy.

The Company's transactions with the pension funds are described in note 27 to the consolidated financial statements. At the year end, £3,230 was owed by the pension schemes to the Company (2006: £46,833, owed to the pension schemes).

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.

Notice of Annual General Meeting

Notice is hereby given that the thirty-seventh Annual General Meeting of the Company will be held at 159 New Bond Street, London W1S 2UD on Wednesday 7 May 2008 at 12.00 noon to consider and, if thought fit, pass the following resolutions.

Resolutions 1 to 13 are ordinary resolutions requiring a majority of more than 50%. Resolution 13 is an ordinary resolution but is classified by Article 61 of the Articles of Association of the Company as non-routine, special business.

Resolutions 14 to 17 are special resolutions requiring a majority of 75% or more.

2007 Report and Accounts

1 To adopt the Report of the Directors and the Audited Accounts for the year ended 31 December 2007.

2 To approve the Remuneration report for the year ended 31 December 2007.

The Remuneration report can be found on pages 44 to 52. The Companies Act 1985 requires the preparation of this report which must be approved by shareholders in general meeting. This does not affect the directors' entitlements to remuneration and the result of this resolution is advisory only.

Final dividend

3 To approve the final dividend of 25p per share for the year ended 31 December 2007.

The payment of the final dividend requires the approval of shareholders in general meeting.

Election and re-election of directors

4 To elect Mr D T D Harrel as a director of the Company.

5 To elect Mr J M May as a director of the Company.

6 To re-elect Mr I M Buckley as a director of the Company.

7 To re-elect Mr P D G Chavasse as a director of the Company.

8 To re-elect Mr P G Pearson Lund as a director of the Company.

9 To re-elect Mr G M Powell as a director of the Company.

Biographical details of the directors seeking election or re-election can be found on pages 32 to 34. David Harrel and John May were appointed to the Board on 1 December 2007. Article 95 of the Company's Articles of Association requires that each director who has not been elected or re-elected by the members at either of the two immediately previous Annual General Meetings shall retire from office and seek election or re-election. Following formal performance evaluation of the Board and individual appraisal by the Chairman, all directors seeking election or re-election continue to be effective and demonstrate commitment to the role.

Auditors

10 To appoint PricewaterhouseCoopers LLP as auditors until the conclusion of the next Annual General Meeting before which accounts are laid.

11 To authorise the directors to agree the remuneration of the auditors.

The auditors of a public company must be appointed for each financial year at the meeting at which the accounts for the previous financial year are laid.

Political donations

12 That in accordance with section 366 of the Companies Act 2006 the Company and any company which is or becomes a subsidiary of the Company during the period to which this resolution relates be and is hereby authorised:

(a) to make Political Donations to political parties, Political Organisations or independent election candidates; and

(b) to incur Political Expenditure

Provided that:

(i) the authority conferred by this resolution shall commence on the date on which it is passed and expire 15 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution;

(ii) the aggregate amount of such donations and expenditure made by the Company shall not exceed £50,000; and

(iii) in this resolution the expressions 'Political Donation', 'Political Organisation' and 'Political Expenditure' have the meanings set out in sections 363 to 365 of the Companies Act 2006.

Section 378 of the Companies Act 2006 prohibits the Company and its subsidiaries from making donations of more than £5,000 in any twelve month period to a political party or other political organisations or to an independent election candidate unless they have been authorised to make donations by the Company's shareholders.

The Company has a policy that it does not make donations to political parties, political organisations or independent election candidates and the Board will not use these authorities, if given, to do so. However, the Companies Act 2006 includes broad and ambiguous definitions of political donations and expenditure, which may have the effect of covering some normal business activities, and therefore presents potential for inadvertent or technical breach. The Board therefore considers that it would be prudent to obtain shareholder approval for the Company to make donations to political parties, political organisations and independent election candidates and to incur political expenditure up to the specified limit in the forthcoming year.

Authority to allot relevant securities

13 That the directors be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (as defined in the said section 80) up to an aggregate nominal amount of £700,000. Such authority shall expire 15 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution. Notwithstanding such expiry, the authority shall still permit the Company to make allotments of relevant securities in respect of offers or agreements made before such expiry, which would or might require relevant securities to be allotted after such expiry. All previous authorities to directors to allot relevant securities are hereby revoked without prejudice to any allotment of securities pursuant thereto.

This ordinary resolution is proposed annually in order to provide a measure of authority to the directors to allot ordinary shares, limited to approximately 33% of the issued share capital of the Company at 5 March 2008, in circumstances defined by the resolution so as to enable them to respond, in the interests of the Company, to any appropriate opportunities that may arise.

Power to waive pre-emption rights

14

(a) That the directors be and they are hereby empowered in accordance with section 95 of the Companies Act 1985 (the Act) to allot equity securities (as defined in section 94 of the Act), payment for which is to be wholly in cash:

(i) in connection with a rights issue; and

(ii) otherwise than in connection with a rights issue, up to an aggregate nominal amount of £100,000

as if section 89(1) of the Act did not apply to any such allotment. References herein to the allotment of equity securities shall include the sale of treasury shares (within the meaning of section 162A of the Act).

(b) The power in paragraph (a) above, insofar as it relates to the allotment of equity securities rather than the sale of treasury shares, is granted pursuant to the resolution conferring authority under section 80 of the Act passed on the date hereof.

(c) For the purposes of this resolution 'rights issue' means an offer of equity securities open for acceptance for a period fixed by the directors to holders (other than the Company) on the register on a record date fixed by the directors of ordinary shares in proportion to their respective holdings (for which purpose holdings in certificated and uncertificated form may be treated as separate holdings) but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

(d) The powers given by this resolution shall expire 15 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution. Notwithstanding such expiry, the authority shall still permit the Company to make allotments of relevant securities in respect of offers or agreements made before such expiry which would or might require relevant securities to be allotted after such expiry. All previous disapplications of section 89(1) of the Act are hereby revoked without prejudice to any allotment of securities pursuant thereto.

This first special resolution seeks authority, limited to approximately 5% of the issued share capital of the Company at 5 March 2008, regarding allotments, other than to members proportionately to their respective shareholdings and for which payment is to be wholly in cash. Additionally, the resolution seeks authority for the Company to sell or otherwise deal with treasury shares (being shares acquired and held by the Company) without necessarily involving shareholders. Over the three years to 31 December 2007, shares with a nominal value of £91,056 were allotted for cash, representing 4.3% of the issued share capital at that date. This compares with institutional shareholder guideline limits of 7.5% in any three-year period.

Renewal of this limited authority will enable the directors to issue shares, in the interests of the Company, in response to any appropriate opportunities that may arise. For transactions of a substantial nature involving the allotment of shares, it is normal for the UK Listing Authority or company law to require shareholder approval for the specific transaction notwithstanding this general authority.

Authority to purchase ordinary shares

15 That the directors be and they are hereby granted pursuant to Article 12 of the Articles of Association of the Company general and unconditional authority to make market purchases (as defined by section 163(3) of the Companies Act 1985) of any of its ordinary shares of 5p each upon and subject to the following conditions:

(a) the maximum number of ordinary shares in the Company hereby authorised to be acquired is 2,000,000 shares (being approximately 5% of the issued share capital of the Company at 5 March 2008);

(b) the minimum price which may be paid for an ordinary share is 5p;

(c) the maximum price which may be paid for an ordinary share is the higher of (i) an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased and (ii) the amount stipulated by Article 5(i) of the Buy-back and Stabilisation Regulation 2003 (in each case, exclusive of expenses); and

(d) the authority hereby conferred shall (unless previously renewed) expire 15 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting (or adjournment thereof) after the passing of this resolution except that the Company may at any time prior to the expiry of such authority enter into a contract for the purchase of ordinary shares which would or might be completed wholly or partly after the expiry of such authority and may complete a purchase of ordinary shares in pursuance of any such contract.

This second special resolution is to renew the authority granted to the directors at the Annual General Meeting on 2 May 2007 to purchase the Company's own ordinary shares under certain stringent conditions. The authority will be used only when the directors consider that it would be advantageous to the Company and the effect would be to enhance earnings per share. Shares purchased will be held as treasury shares as defined in section 162A of the Companies Act 1985.

At 5 March 2008 there were options outstanding to subscribe for 1,049,099 new ordinary shares in the Company. This represents approximately 2.5% of the issued ordinary capital of the Company at that date and would represent approximately 2.6% if the authority to buy back shares under this resolution were used in full.

Amendments to the Articles of Association

16 That amendments to the Articles of Association of the Company be and hereby are made to reflect the implementation of the Companies Act 2006 as set out in the document produced to the Meeting marked 'A' and signed by the Chairman for the purpose of identification.

A copy of the current Articles of Association marked to show the changes being proposed by this resolution will be available for inspection as noted in the Notes below.

This third special resolution amends the Articles of Association with immediate effect in order to make various amendments which are either required by or consequential to provisions of the Companies Act 2006 which are already in force at the date of the Meeting. These include the following:

(i) section 301 of the Companies Act 2006 requires that both the requirements under Part 13 of the Companies Act 2006 and the Company's Articles of Association in relation to resolutions and meetings be satisfied before a resolution can be validly passed at general meetings. In light of this dual requirement, it is proposed that a new provision be added to ensure that, in the case of any conflict between the Company's Articles of Association and Part 13 of the Companies Act 2006, the latter prevails;

(ii) it is proposed that the provisions in the Articles of Association dealing with the convening of general meetings and the length of notice required to convene general meetings be amended to conform to the new provisions in the Companies Act 2006. In particular, a general meeting (other than an Annual General Meeting) to consider a special resolution can be convened with 14 days' notice whereas previously 21 days' notice was required;

(iii) the references to the Companies Act 1985 in the Articles of Association are to be updated where necessary with references to the new corresponding sections in the Companies Act 2006; and

(iv) section 284 of the Companies Act 2006 provides that proxies are entitled to vote on a show of hands and on a poll whilst the Company's current Articles of Association only permit a proxy to vote on a poll. It is proposed that the Articles of Association are amended to conform with section 284 of the Companies Act 2006.

Directors' interests

17 That, with effect from 1 October 2008, the Articles of Association of the Company be amended in accordance with the document produced to the Meeting marked 'B' and signed by the Chairman for the purpose of identification.

Under the Companies Act 2006, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows the Board to authorise a director's conflict or potential conflict of interest where the Articles of Association contain a provision to this effect. The Companies Act 2006 also allows the Articles of Association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. This fourth special resolution amends the Company's Articles of Association with effect on and from 1 October 2008 to give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

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

From 1 October 2008, it is also proposed to include provisions relating to confidential information to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is also proposed to include new provisions relating to directors' duties to disclose interests in proposed and existing transactions or arrangements with the Company.

A copy of the current Articles of Association marked to show the changes being proposed by this resolution will be available for inspection as noted in the Notes below.

By Order of the Board

Richard Loader
Company Secretary

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

27 March 2008

Notes

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and subject to the provisions for proxies, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 5 May 2008 (or, if the meeting is adjourned, 6pm on the day two days prior to the day fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Subsequent changes to the entries on the register will be disregarded in determining the rights of any person to attend or vote at the meeting.

2 Members entitled to attend, speak and vote are entitled, if they so wish, to appoint one or more proxies to attend, speak and vote in their stead provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member. Proxy forms should be completed and returned to the Company's Registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by no later than 12.00 noon on 5 May 2008. The completion and return of the form of proxy will not prevent you from attending and voting at the Annual General Meeting if you so wish.

The 'vote withheld' option is provided on the proxy card to enable you to abstain on any particular resolution. However, it should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

3 CREST members who wish to appoint a proxy or proxies through CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on Wednesday 7 May 2008 and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID 7RA01) by no later than 12.00 noon on 5 May 2008. No message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which our registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5) (a) of the Uncertificated Securities Regulations 2001.

4 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

5 The statement of rights of members in relation to the appointment of proxies in paragraphs 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

6 As at 12 March 2008 (being the last practicable date prior to the printing of this Notice) the Company's issued share capital consists of 42,689,942 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 12 March 2008 are 42,689,942.

7 A memorandum of the terms of all contracts of service between Directors and the Company (or any of its subsidiaries) is available for inspection at the Registered Office during business hours on any weekday (public holidays excluded). The memorandum will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to the meeting, and during the meeting. In addition, a copy of the revised Articles of Association of the Company marked to show the changes being proposed by resolution 16 together with a copy of the revised Articles of Association of the Company marked to show the changes being proposed by resolution 17 will be available for inspection at the Registered Office during business hours on any weekday (public holidays excluded) from 27 March 2008 to the date of the meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to the meeting, and during the meeting.

8 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure.

Five year record

	IFRS 2007 £'000	IFRS 2006 £'000	IFRS 2005 £'000	IFRS 2004 £'000	UK GAAP 2003 £'000
Total revenue	**198,592**	163,348	135,064	110,280	91,973
Operating income	**154,525**	133,686	113,185	95,527	81,777
Operating profit before goodwill amortisation	**52,224**	44,720	36,679	28,492	19,745
Goodwill amortisation	**–**	–	–	–	(5,580)
Operating profit	**52,224**	44,720	36,679	28,492	14,165
Exceptional items	**–**	–	(1,381)	–	1,088
Profit before tax	**52,224**	44,720	35,298	28,492	15,253
Tax	**(14,844)**	(12,582)	(10,617)	(8,540)	(5,685)
Profit after tax	**37,380**	32,138	24,681	19,952	9,568
Equity dividends paid and proposed	**(17,479)**	(14,786)	(12,351)	(11,221)	(10,524)
Basic earnings per share	**87.88p**	76.62p	60.13p	48.99p	
– after goodwill amortisation					24.07p
– before goodwill amortisation					38.11p
Diluted earnings per share	**86.46p**	74.71p	58.84p	48.07p	
– after goodwill amortisation					23.86p
– before goodwill amortisation					37.77p
Net dividends per ordinary share	**41.0p**	35.0p	30.0p	27.5p	26.0p
Equity shareholders' funds	**184,750**	159,149	130,417	117,440	105,902
Total funds under management	**£13.12bn**	£12.24bn	£9.48bn	£7.68bn	£6.76bn

The amounts disclosed for 2003 are stated on the basis of UK GAAP in force at that time. The principal differences between UK GAAP and IFRS are explained in note 35 to the 2005 accounts, which provides an explanation of the transition to IFRS.

Corporate information

Company secretary and registered office

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London W1S 2UD

Company No. 1000403

www.rathbones.com

richard.loader@rathbones.com

Registrars and transfer office

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

www.equiniti.com

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
Cert no. SGS-COC-003114
www.fsc.org
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