Company No 01448919

Rathbone Investment Management Limited

Report and financial statements

for the year ended 31 December 2011

Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2011 for Rathbone Investment Management Limited (the Company)

Principal activity

The principal activity of Rathbone Investment Management Limited during the year was the provision of discretionary investment management services for private clients, charities and trusts This has remained unchanged from prior years

Business review

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

This Business review contains certain forward-looking statements which are made by the directors in good faith and are 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 Investment Management Limited to provide information to its shareholder, Rathbone Brothers Plc and should not be relied upon by any other party or for any other purpose

Year to date changes in the business' key performance indicators are shown in Table 1 below

Table 1 Funds under management

	2011	2010
Underlying rate of net organic growth in funds under management[1]	**5 5%**	5 2%
Underlying rate of total net growth in funds under management[1]	**7 3%**	10 3%
Funds under management at 31 December[1]	**£14 25bn**	£14 12bn
Average net operating basis point return[2]	**88bps**	90bps

Notes to Table 1

1 See Table 2
2 Net operating income (see Table 3) divided by average funds under management on the quarterly billing dates

Business environment

Rathbone Investment Management continues to principally provide discretionary investment management services to private clients, charities and trusts Despite the difficult economic and investment conditions during 2011 the business has continued to attract funds throughout the year, both organically and from acquired growth Organic inflows of funds under management represent the value of new funds introduced by new or existing clients Acquired growth represents new funds either from acquisitions or introduced by investment managers who have joined us recently

Table 2 Movement in funds under management

	2011 £bn	2010 £bn
As at 1 January	**14 12**	11 70
Inflows[1]	**1 87**	2 02
- organic	**1 61**	1 42
- acquired	**0 26**	0 60
Outflows[1]	**(0 84)**	(0 81)
Market adjustment[2]	**(0 90)**	1 21
As at 31 December	**14 25**	14 12
Net organic new business[3]	**0 77**	0 61
Underlying rate of net organic growth[4]	**5 5%**	5 2%
Underlying rate of total net growth[5]	**7 3%**	10 3%

Notes to Table 2

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

Gross organic inflows of £1 87 billion in 2011 represent 13 2% of funds under management at the start of the year (2010 17 3%) Net organic growth (stated after gross outflows) remained stable at 5 5% of opening funds under management (2010 5 2%) Outflows of funds principally arise as clients withdraw capital from portfolios to meet other financial requirements or close their account and these have continued at rates normally expected

Directors' report continued

Organic growth is largely due to referrals from existing clients, but there is an increasing amount of business referred to us from professional intermediaries

- Charity funds under management increased by 3 1% to £1 68 billion at 31 December 2011 from £1 63 billion at 31 December 2010,
- Panel relationship funds under management increased by 5 4% to £1 37 billion at 31 December 2011 from £1 30 billion at 31 December 2010, and
- SIPP funds under management increased by 2 0% to £343 million at 31 December 2011 from £334 million at 31 December 2010

Acquired funds under management totalled £260 million in 2011 and are principally from clients introduced by fund managers who have joined us recently Acquired growth in 2010 of £600 million included £421 million of funds resulting from the transaction with Lloyds Banking Group in 2009

Total net organic and acquired growth has added £1 0 billion of funds under management in 2011 representing a growth rate of 7 3% (2010 10 2%) Total net inflows throughout the year have grown funds under management to £14 25 billion at 31 December 2011, 0 9% higher than at the start of the year The FTSE 100 Index and the FTSE APCIMS Balanced Index dropped by 5 6% and 2 8% respectively over the same period

The financial performance of the business is driven to a large extent by the value of funds under management and the net growth in new funds Income is derived from

- investment management or advisory fees are charged on a sliding scale on the value of clients' funds under management at the end of each quarter,
- commissions are levied on transactions undertaken on behalf of clients, and
- interest margin is earned on the value of cash held in client portfolios

Financial performance

Table 3 Financial performance

	2011 £m	2010 £m
Fee income[1]	78 3	64 8
Commission	35 2	34 7
Interest and other income[2]	16.6	17 3
Net operating income	130 1	116 8
Underlying operating expenses	(89 0)	(84 7)
Underlying profit before tax	41 1	32 1
Levies for Financial Services' Compensation Scheme[3]	-	(3 4)
Amortisation of client relationships	(5 0)	(4 7)
Profit before tax	36.1	24 0
Underlying operating % margin[4]	31.6%	27 5%

Notes to Table 3

1 Fee and commission income is stated net after deducting fees and commission expenses paid to introducers
2 Interest and other income is presented net of interest expense paid on client accounts
3 Exceptional levies
4 Underlying profit before tax divided by net operating income

The principal driver of increased profit before tax and the improved underlying operating margin was higher fee income Net fee income increased by 20 8% to £78 3 million in the year ended 31 December 2011 from £64 8 million due to continuing growth in funds under management and higher charges which were introduced at the end of the first quarter of 2011 The largest element of these revisions was the introduction of an additional individual account fee which better reflect the costs associated with maintaining client accounts Having reviewed the marketplace, it is believed that charging structures continue to represent good value and there has been no significant loss of clients as a consequence of the charging review

Table 4 Average funds under management

	2011 £bn	2010 £bn
Valuation dates for billing		
- 5 April	14 52	12 57
- 30 June	14 75	11 98
- 30 September	13 55	13 13
- 31 December	14 25	14 12
- Average	14 27	12 95
- Average FTSE 100 level	5663	5528

Average funds under management on our principal billing dates in 2011 were £14 27 billion, up 10 2% from 2010, as shown in table 4 The average FTSE 100 Index (measured on the same dates) was 5663 in 2011 compared with an average of 5528 in 2010, an increase of 2 4% whilst the FTSE APCIMS Balanced Index increased 2 6%, calculated on a comparable basis

Table 5 Revenue margins

	2011 basis pts	2010 basis pts
Basis point return from		
Fee income	53	50
Commission	24	27
Interest and other income	11	13
Total basis point return[1]	88	90

Notes to Table 5

1 Net operating income (see Table 3) divided by the average funds under management on the quarterly billing dates (see Table 4)

Total 2011 revenue margins reduced to 88 basis points in 2011 from 90 basis points in 2010 Overall fee and commission margins were unchanged at 77 basis points The business expects the fee basis point return to marginally increase next year as the 2011 fee increases only took effect from the end of the first quarter The basis point return on commission is largely dependent on investment transactions In the absence of significant changes in transaction levels the overall basis point return on fees and commissions is likely to remain constant In 2011 basis point return on interest and other income reduced by 2 points as the 2010 margins included a dividend of £2 4m from Rathbone Investment Management International Limited which was not repeated in 2011 Average liquidity in 2011 of £904 million was down 4 4% compared to 2010 All of the above factors are reflected in the change to total revenue margin shown in Table 5

Table 6 Operating expenses

	2011 £m	2010 £m
Total staff costs	50 7	48 8
Other operating expenses	38 4	35 9
Underlying operating expenses	89 1	84 7
Exceptional Financial Services Compensation Levy	-	3 3
Amortisation of client relationships	5 0	4 7
Operating expenses	94 1	92 7
Underlying operating % margin[1]	70 9%	72 5%

Notes to Table 6

1 Underlying operating expenses divided by net operating income

Total operating expenses for 2011 were £94 1 million, compared to £92 7 million in 2010 an increase of 1 5% Total staff costs increased by 3 9% to £50 7 million, average full-time equivalent headcount of investment managers and teams involved in client-facing activities increased to 277 in 2011 compared to 258 in 2010

Other operating expenses of £38 4 million include property, depreciation settlement, IT, finance and other central support services costs The year-on-year increase of £2 5 million (6 9%) largely reflects general inflation and the higher operational costs associated with general growth

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

Amortisation charges in respect of client relationship intangibles have increased from £4 7 million to £5 0 million due to additional acquired growth

Directors' report continued

Operations and property
The information technology department has continued to provide a robust operations infrastructure There have been a large number of developments in our investment and our support systems to drive the business forward and improve efficiency This ensures that we can provide "whole of market" choice for investment managers and clients Some of the more significant examples in 2011 include

- improving our on-line reporting functionality for clients and their advisors,
- outsourcing our data centre,
- implementing a new Treasury system, and
- preparing for moving our London offices

In 2012 we plan to further invest in our core investment management systems and in February 2012 the Group is relocating its two London office to No 1 Curzon Street

Taxation
The effective tax rate for the year is 27 4% (2010 25 8%), calculated as the total tax charge of £9 9 million (2010 £6 2million) divided by the profit before income tax of £36 1 million (2010 £24 0 million)

A full reconciliation of income tax expense is included in note 8 to the accounts

Dividend
Dividends of £12,000,000 were paid to shareholders during 2011 (2010 £31,840 000) The Board has not recommended a final dividend to be paid This results in a total payment of 800 0p per share (2010 2122 7p) for the year

Capital management
The company has accounting capital, which is the total of share capital share premium and retained earnings, as at 31 December 2011 of £111,887,000 (2010 £97,773,000)

The company is also required to maintain regulatory capital in accordance with the rules issued by our regulator, the Financial Services Authority The regulatory capital requirement is calculated on a daily basis The businesses objectives when managing capital are

- to comply with its regulatory requirements,
- to maintain a strong capital base to support the development of the business,
- to safeguard the businesses ability to continue as a going concern so that it can continue to provide returns for its shareholder and benefits for other stakeholders

The company remains well capitalised and continues to not rely on the wholesale market to fund its operations On a Basel III basis, the tier 1 ratio, calculated as shareholders equity as a proportion of total risk weighted assets was 16 57% at 31 December 2011 (2010 12 60%)

Treasury and financing
As a bank, the company holds the Group's surplus liquidity on its balance sheet together with any client deposits which represent the cash element within client portfolios

The Treasury department, reporting through the Banking Committee to the Board, operates in accordance with procedures set out in a treasury manual that is approved by the board The Treasury department monitors exposure to market, credit and liquidity risk, as set out in note 25 of the financial statements

The Treasury department invests in a range of liquid instruments issued by a relatively wide number of counterparties Counterparties must be rated A or higher by Fitch and are regularly reviewed to ensure ratings remain appropriate The business continues to be a net provider of liquidity to the banking markets and does not rely on wholesale funding to finance its operations and does not anticipate that this will change

Outstanding loans to clients totalled £45 8 million at the end of 2011 (£39 0 million at the end of 2010) The business has very conservative lending policies and loans are generally fully secured against the investment portfolio that we manage

Liquidity and cash flow

As fee income is largely collected direct from client portfolios and expenses by and large are predictable, the business operates with a modest amount of working capital Larger cash flows are principally generated from settlement activities and investment management decisions about the amount of cash to be held in client portfolios Liquidity is monitored on a daily basis As a bank the company is subject to the FSA s Individual Liquidity Adequacy Assessment regime

Excluding operational activity, the most significant non-operating cash flows during the year were as follows

- outflows relating to the payment of dividends of £12 0 million (2010 £31 8 million),
- outflows relating to intangible asset additions of £1 3m (2010 £27 7 million mainly in respect of acquired client relationships), and
- outflows relating to capital expenditure of £6 9 million on property, plant and equipment (2010 £2 7 million)

Risks and uncertainties

This year presented a number of factors which particularly impacted the risk profile of the business and these are outlined below

Negative impact of future regulation

During the year there were a number of regulatory pronouncements on banking capital, liquidity, the Retail Distribution Review, the consumer credit act and foreign account tax compliance Responding in time to this regulation and refining system requirements and processes to ensure compliance takes considerable effort

The risk of unexpected additional levies being charged by the Financial Services Compensation Scheme has increased significantly in recent years In January 2011, the business received an invoice for £3 2 million in relation to an interim levy from the FSCS that was in relation to the failure of Keydata Investment Services Limited (Keydata) and other intermediaries These charges were presented as an exceptional levy in the financial statements in 2010 No such exceptional levies have been accrued in 2011 as no further large and unexpected levies have been made by the FSCS In December 2011 the FSCS announced a likely additional levy of £40 million in relation to further development of the failure of Keydata and Willis & Co The businesses share of this £40 million levy is estimated at £34,000 and has been fully provided for The FSCS has also announced that it is considering whether it will be able to pay claims to investors who have incurred losses on investments with CF Arch Cru Funds and MF Global Investors The FSCS has not yet quantified the likely cost of compensation to affected investors As it is not possible to quantify the impact of these failures with any accuracy no provision has been made for these potential additional levies

The FSCS are also in the process of re-negotiating the terms of the £18 billion of loans that were taken out in 2008/09 to cover the costs of the depositor failures Any increase in the interest cost of these loans will impact the FSCS banking levy for 2012/13 onward As at 31 December 2011 the business had provided £461,000 for its estimated share of this levy and is based on the guideline interest rate that has been provided to the industry

Competition risk

In the 2010 accounts the Retail Distribution Review which comes into effect on the 1st January 2013 was identified as a potential significant competition risk Although its full effects remain uncertain, the business expects it to present additional opportunities and improve our competitive position

Reputational risk

The company has a reputation as a high quality provider of investment management services There is a risk that significant damage to reputation could lead to 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 our continuing emphasis on compliance with all relevant regulation and statutes, in particular the Training and Competence regime of the Financial Services Authority and preserving and building on our established culture of seeking the highest possible professional and ethical standards

Operational risk

The Company actively manages risk arising from the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events by implementing and communicating guidelines to staff and other third parties Management also regularly monitor the performance of controls and adherence to these guidelines

Key components of the 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 key processes

Directors' report continued

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

The Company has duplicated its core systems at two sites and they can be accessed from its disaster recovery sites

Acquisition risk

During 2011 the business completed the final element of the Lloyds Banking Group transaction that was agreed in 2009 There are no material acquisitions currently underway

Loss of an investment management team

Investment manager turnover has been very low historically and this has continued in 2011

Financial risks

Credit risk

There have been a number of high profile rating downgrades in the banking sector with particular concerns on sovereign risk within the Euro zone The Banking Committee retained its conservative treasury policy and in light of the continuing uncertain outlook increased its holding in AAA rated counterparties to £150 million at 31 December 2011 from £37 million 31 December 2010

Liquidity risk

The business remains highly cash generative with a strong liquidity profile Liquidity was managed within tolerances throughout the year and achieved all of its regulatory requirements in respect of the FSA's Individual Liquidity Adequacy Assessment regime

Market risk

The business has maintained its conservative policy in respect of managing interest rate risk adhering to agreed tolerance limits throughout the year Currency risks have remained minimal

Going concern basis

The company remains well capitalised, it does not rely on the wholesale market to fund its operations but has a subordinated loan of £15m from its parent company Rathbone Brothers Plc (note 21) Note 26 to the financial statements includes the Company s objectives and policies for managing its capita Note 25 to the financial statements explains the Company's financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk

In 2011, the Company continued to generate net organic growth in client funds under management and this is expected to continue in the future The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

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

Directors

The directors serving at the year end, all of whom have served throughout the year (except where indicated), were as follows

M Nicholls (appointed 11 May 2011)	Lord Clifton	A T Morris
A D Pomfret	B Kenny	J B Vernon
T J Bolton-Carter	R P Lanyon	M M Webb
J R Chillingworth	D Macaulay	
I M Buckley	R I Smeeton	
P D G Chavasse	R P Stockton	

G M Powell retired from the Board on 11 May 2011 and M Nicholls was appointed to the Board on the same date

M M Webb, T J Bolton-Carter, D Macaulay, Lord Clifton and J R Chillingworth resigned from the Board on 8 February 2012 On the same date, O R P Corbett, C M Burton, C R R Avery, K A Matthews and D T D Harrel were appointed to the Board

None of the directors had any interest in the shares of the Company at any time during the year

Creditor payment policy

The Company does not follow a published code or standard on payment practice The Company's policy is to fix terms of payment with suppliers in accordance with their requirements and the Company's financial procedures, and to ensure that suppliers and relevant Company departments are aware of those terms Trade creditors at the balance sheet date represented 30 7 days of annual purchases (2010 13 7 days)

Employees

The parent company operates share based payment incentive schemes and defined benefit pension schemes for the benefit of its employees The associated charges to profit and loss that relate to employees that provide services to the Company are recharged to the Company by its parent and are disclosed within staff costs

Equality and diversity

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

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

Rewards and benefits

Employees are encouraged to identify and to become involved with the financial performance of the Group by initiatives such as the Share Incentive Plan ("SIP")

Employee involvement

Communication with staff takes place through a variety of means including internal email and an internal newsletter Employees have easy access to policies, procedures, organisation charts, announcements and Company news through a web-based shared workspace

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

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

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Approved by the Board on 20 February 2012 and signed on its behalf

Richard Loader
Company Secretary
Port of Liverpool Building
Pier Head
Liverpool
L3 1NW

Independent auditor's report to the members of Rathbone Investment Management Limited

We have audited the financial statements of Rathbone Investment Management Limited for the period ended 31 December 2011 set out on pages 10 to 49 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the EU

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

R. Faulkner

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

15 Canada Square
London
E14 5GL

20 February 2012

Statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest and similar income		10,982	10,182
Interest expense and similar charges		(1,665)	(1 418)
Net interest income	4	9,317	8,764
Fee and commission income		117,684	102,352
Fee and commission expense		(4,181)	(2,844)
Net fee and commission income		113,503	99,508
Intra-group management charges		5,945	5,765
Dividends from subsidiaries		-	2,388
Other operating income		1,348	335
Operating income		130,113	116,760
Exceptional levies for the Financial Services Compensation Scheme	5	-	(3,353)
Amortisation of client relationships	17	(4,969)	(4,694)
Other operating expenses		(89,082)	(84,676)
Operating expenses	5	(94,051)	(92,723)
Profit before tax		36,062	24,037
Taxation	8	(9,948)	(6 172)
Profit after tax		26,114	17,865
Profit for the period attributable to equity holders of the Company		26,114	17,865
Other comprehensive income for the period		-	-
Total comprehensive income for the period attributable to the equity holders of the Company		26,114	17 865

The accompanying notes on pages 14 to 49 form an integral part of the financial statements

Statement of changes in equity

for the year ended 31 December 2011

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2010		1,500	11,710	98,538	111,748
Total comprehensive income for the period		-	-	17 865	17,865
Dividends paid	9	-	-	(31,840)	(31 840)
At 1 January 2011		**1,500**	**11,710**	**84,563**	**97,773**
Total comprehensive income for the period		-	-	**26,114**	**26,114**
Dividends paid	9	-	-	**(12,000)**	**(12,000)**
At 31 December 2011		**1,500**	**11,710**	**98,677**	**111,887**

The accompanying notes on pages 14 to 49 form an integral part of the financial statements

Balance sheet

as at 31 December 2011

	Note	2011 £'000	2010 *Restated (Note 2)* £'000	2009 *Restated (Note 2)* £'000
Assets				
Cash	10	**3**	3	4
Settlement balances		**10,253**	11,999	9,019
Loans and advances to banks	11	**52,183**	31,282	78,012
Loans and advances to customers	12	**45,825**	39,009	29,529
Investment securities				
- available for sale	13	**63,000**	37,000	84,000
- held to maturity	13	**843,983**	751,085	694,000
Prepayments, accrued income and other assets	14	**31,404**	29,446	24,348
Property, plant and equipment	15	**10,652**	6,138	5,672
Deferred tax asset	16	**779**	57	-
Intangible assets	17	**59,280**	58 038	48 427
Investments in subsidiary undertakings	18	**2,510**	2,510	3,592
Total assets		1,119,872	966,567	976,603
Liabilities				
Deposits by banks	19	**513**	215	1,152
Settlement balances		**19,296**	19,860	14,828
Due to customers	20	**951,869**	812,066	819,358
Accruals deferred income, provisions and other liabilities	22	**17,304**	17,176	25,589
Deferred tax liability		-	-	2,123
Current tax liabilities		4,003	4,477	1,805
Subordinated loan with parent undertaking	21	15,000	15,000	-
Total liabilities		1,007,985	868,794	864,855
Equity				
Share capital	24	**1,500**	1 500	1,500
Share premium	24	**11,710**	11,710	11,710
Retained earnings		**98,677**	84 563	98,538
Total equity		111,887	97,773	111,748
Total liabilities and equity		1,119,872	966,567	976,603

The financial statements were approved by the Board of Directors and authorised for issue on 20 February 2012 and were signed on its behalf by

A D Pomfret
Chief Executive

R P Stockton
Finance Director

Company registered number 01448919

Statement of cash flows

for the year ended 31 December 2011

	Note	2011 £'000	2010 *Restated (Note 2)* £'000
Cash flows from operating activities			
Profit before income tax		36,062	24,037
Net interest income		(9,317)	(8,764)
Profit on disposal of plant and equipment		(17)	(37)
Depreciation and amortisation		8,748	8,250
Impairment of investments in subsidiary undertakings	18	-	453
Interest paid		(1,658)	(1,375)
Interest received		11,565	11,651
		45,383	34,215
Changes in operating assets and liabilities			
- net (increase)/decrease loans and advances to banks and customers		(6,348)	23,979
- net decrease/(increase) in settlement balance debtors		1,746	(2 980)
- net increase prepayments, accrued income and other assets		(3,007)	(2,957)
- net increase/(decrease) in amounts due to customers and deposits by banks		146,928	(5,271)
- net (decrease)/increase in settlement balance creditors		(564)	5,032
- net (decrease)/increase in accruals, deferred income provisions and other liabilities		(12,984)	649
Cash generated from operations		171,154	52,667
Tax paid		(11,144)	(5,680)
Net cash inflow from operating activities		160,010	46,987
Cash flows from investing activities			
Acquisition of businesses net of cash acquired	18	-	(21)
Liquidation of businesses, net of cash transferred	18	-	650
Purchase of property, equipment and intangible assets		(8,252)	(29,928)
Proceeds from sale of property and equipment		41	128
Purchase of investment securities		(1,565,418)	(1,679,090)
Proceeds from sale and redemption of investment securities		1,472,520	1,622,005
Net cash used in investing activities		(101,109)	(86,256)
Cash flows from financing activities			
New subordinated loan with parent undertaking	21	-	15 000
Dividends paid	9	(12,000)	(31,840)
Net cash used in financing activities		(12,000)	(16,840)
Net increase/(decrease) in cash and cash equivalents		46,901	(56,109)
Cash and cash equivalents at the beginning of the period		68,285	124 394
Cash and cash equivalents at the end of the period	29	115,186	68,285

The accompanying notes on pages 14 to 49 form an integral part of the financial statements

Notes to the financial statements

1 Reporting entity

Rathbone Investment Management Limited (the Company) is a company incorporated and domiciled in Great Britain under the Companies Act 2006 The address of the Company's registered office is The Port of Liverpool Building, Pier Head, Liverpool L3 1NW The nature of the Company's operations and its principal activities are set out in the business review on page 1

2 Basis of preparation and principal accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS') as adopted by the European Union

Restatement of loans and advances to customers, accruals and deferred income, and amounts due to customers

All staff are employed by the Company's ultimate parent, Rathbone Brothers Plc, which recharges to the Company the costs for those staff that perform duties for it Historically the resultant accruals and deferred income in relation to the remuneration of those staff has been recognised in the financial statements of the Company However, the presentation of these items has been amended in these financial statements to reflect that the legal obligation or entitlement lies with the ultimate parent company The comparative amounts have been restated to be consistent with this presentation As a result, amounts due from group undertakings (presented within loans and advances to customers) as at 31 December 2010 have increased by £432,000 (2009 £386,000), accruals as at 31 December 2010 have reduced by £15,104,000 (2009 £15,240,000) and amounts due to group undertakings (presented within amounts due to customers) as at 31 December 2010 have increased by £14,672,000 (2009 £14,854,000)

Developments in reporting standards and interpretations

Standards affecting the financial statements

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

Standards not affecting the reported results or the financial position

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

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

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

New Standards and Interpretations

A number of new standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2011, and therefore have not been applied in preparing these consolidated financial statements None of these is expected to have a significant affect on the financial statements of the Company, except for IFRS 9 Financial Instruments and IAS19 Employee benefits which are not yet adopted by the EU and are not expected to become mandatory for periods commencing before 1 January 2015

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

Basis of preparation

The company has taken advantage of the exemption allowed by Section 400 of the Companies Act 2006 and has not prepared consolidated financial statements as it is a wholly owned subsidiary undertaking of Rathbone Brothers Plc a company registered in England & Wales Rathbone Brothers Plc is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of the Group accounts may be obtained from the Company secretary, Rathbone Brothers Plc 159 New Bond Street, London W1S 2UD With effect from 27 February 2012, this address will change to 1 Curzon Street, London W1J 5FB The financial statements present information about the Company as a single entity only

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements estimates and assumptions that affect the application of accounting policies and the reported amounts of assets liabilities, income and expenses Actual results may differ from these estimates

Notes to the financial statements continued

Financial Services Compensation Scheme levies

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

In January 2011, the Company received invoices totalling £3 0 million in relation to interim levies by the FSCS following the failure of Keydata Investment Services Limited (Keydata) and other intermediaries These charges were presented as an exceptional levy in the financial statements in 2010 No such exceptional levies have been accrued in 2011 as no further large and unexpected levies have been made by the FSCS Levies of £353,000 have been included within administrative expenses in 2011

There is a significant degree of uncertainty over the level of future FSCS levies as this depends on the ultimate cost to the FSCS of the failure of other entities in the financial services industry The FSCS announced in its December 2011 Outlook Statement that it expects to have to raise an interim levy of £40 million against the investment intermediary class of firms, which includes the Company following additional compensation costs incurred from Keydata and other stock brokers An accrual of £34,000 has been charged to the income statement in 2011 for the Company's share of this Against this, the FSCS are pursuing recoveries from parties found to be responsible for mis-selling Keydata investments Whilst any recoveries are expected to reduce future levies, the amount and timing of these reductions is unknown

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

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

Significant accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements

Going concern

The Company s business activities together with the factors likely to affect its future development, performance and position are set out in the Directors' report As set out in the balance sheet, the Company has a surplus of current assets and is well capitalised The Company has no external finance The Company's objectives, policies and processes for managing its capital are set out in note 26 to the financial statements Details of the Company's financial risk management objectives and its financial instruments, and its exposure to credit risk, market risk and liquidity risk are set out in note 25 to the financial statements

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the financial statements In forming their view, the directors have considered a period of more than twelve months

Notes to the financial statements continued

2. Basis of preparation and principal accounting policies continued

Impairment

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

Financial assets and other assets with finite useful lives are assessed at the reporting date, or if there is objective evidence of impairment, during the accounting period If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Held to maturity investment securities and loans and receivables are considered individually for impairment

The recoverable amount of non-financial assets is the higher of fair value less any cost to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted The recoverable amount of held to maturity investment securities and loans and receivables is calculated as the present value of estimated future cash flows, discounted at the effective interest rate of the asset on recognition Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount Impairment losses are recognised as an expense immediately

Where an impairment loss (excluding goodwill) subsequently reverses, the carrying amount of the asset, except for equity instruments, 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

Segment information

Under IFRS 8 Operating Segments the Company is exempt from the requirement to disclose financial information on the Company's business activities in which it engages and the economic environments in which it operates, as it has not issued any debt or equity instruments that are traded in a public market place and it does not file accounts with a regulated organisation for the purpose of issuing any class of instruments in a public market place

Notes to the financial statements continued

2 Basis of preparation and principal accounting policies continued

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the Company 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

Interest expense and similar charges comprise interest on borrowings, unwinding of discount on provisions and impairment losses recognised on financial assets

Foreign currency gains and losses are reported on a net basis

Fees and commissions
Investment management and service fees are recognised over the period in which the service is provided

Commissions receivable and payable are recognised in the period in which they are earned

Intra-group management charges
The intra-group management charges arise in relation to certain overheads that are initially borne by the Company and then recharged to other Group Companies

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

Investments in subsidiary undertakings
Shares in subsidiary undertakings are carried at cost except where provisions are made for permanent impairment in value

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount These are included in the Statement of Comprehensive Income

Intangible assets
(a) Goodwill
Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets liabilities and contingent liabilities of a business 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 or loss and is not subsequently reversed

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

Notes to the financial statements continued

2 Basis of preparation and principal accounting policies continued

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 Company are recognised as intangible assets when the recognition requirements of IAS 38 are met Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding four years)

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

(c) Client relationships

Client relationships acquired are initially recognised at cost Those in respect of business combinations are initially recognised at fair value Client relationships have a finite useful life and are carried at cost less accumulated amortisation Amortisation is calculated using the straight line method to allocate the cost of the client relationships over their estimated useful lives (ten to fifteen years) When client relationships are lost the full amount of unamortised cost is recognised immediately and the intangible asset is de-recognised

Financial assets

The Company classifies its financial assets in the following categories

- financial assets at fair value through profit or loss
- loans and receivables,
- held-to-maturity investments
- available for sale financial assets and
- investments

The classification of financial assets is determined at initial recognition Financial assets are initially recognised at fair value and then carried at amortised cost

(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, and changes therein are recognised in the statement of comprehensive income A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated Derivatives, which are categorised as fair value through profit or loss, are reported within other assets or other liabilities

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money or services to a debtor or purchases a loan with no intention of trading the receivable Loans and receivables are measured at amortised cost using the effective interest method, less any provision for impairment

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company'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 Company has classified as available for sale or fair value through profit or loss Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis

(d) Available for sale

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

Purchases and sales of financial assets at fair value through profit or loss held-to-maturity and available for sale are recognised on the trade date – the date on which the Company 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 Company has transferred substantially all risks and rewards of ownership

Notes to the financial statements continued

2 Basis of preparation and principal accounting policies continued

Financial assets continued

(d) Available for sale continued
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 in the statement of other comprehensive income and presented in the available for sale reserve in equity, until the financial asset is sold, derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the Statement of comprehensive income However, interest calculated using the effective interest method is recognised in the Statement of comprehensive income

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 Company 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

Derivative financial instruments
From time to time the Company may hold Forward Rate Agreements (FRAs) to hedge its foreign currency and interest rate risk exposures The net interest paid or received on FRAs is recorded on an effective interest rate basis from the settlement date and included within net interest in the statement of comprehensive income The notional value of the FRAs is not recorded on the balance sheet

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the profit or loss depends on the nature of the hedge relationship

Financial liabilities
Financial liabilities are initially recognised when the Company becomes contractually bound to the transfer of economic benefits in the future

(a) 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 premium on settlement Borrowing costs are recognised as an expense in the period in which they are incurred

(b) Non-derivative financial liabilities
The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method

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

Foreign currencies
The Company's functional and presentational currency is sterling Transactions in currencies other than the relevant Company'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 re-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

Notes to the financial statements continued

2 Basis of preparation and principal accounting policies continued

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

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

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

- from the initial recognition of goodwill for which amortisation is not deductible for tax purposes, or
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination

Deferred tax liabilities are recognised for taxable temporary differences, except where the Company is able to control the reversal of the temporary difference and it is the Company's intention not to reverse the temporary difference in the foreseeable future

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

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised Deferred tax is charged or credited 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 Company intends to settle its current tax assets and liabilities on a net basis

Cash and cash equivalents
Cash comprises cash in hand and demand deposits which may be accessed without penalty

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

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

Fiduciary activities
The Company holds certain monies in accordance with the Client Money Rules of the Financial Services Authority

Employee Benefits
The Company's parent operates share based payment incentive schemes and defined benefit pension schemes for the benefit of its employees The associated charges to profit that relate to employees that provide services to the Company are recharged to the Company by its parent Recharges relating to pension costs are disclosed within staff costs Recharges relating to share based payments are included within administrative expenses

The cost of providing benefits under defined benefit plans are recharged to the Company by the parent company Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due

The full disclosure relating to the share based payments and defined benefit pension schemes are available in the Rathbone Brothers Plc report and accounts for the year ended 31 December 2011

Balances with clients and counterparties
In accordance with market practice, certain balances with clients and market counterparties are presented gross for unsettled bought and sold transactions within debtors and creditors

Notes to the financial statements continued

3 Critical accounting judgements and key sources of estimation and uncertainty

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

Client relationship intangibles

The Company makes estimates about the expected duration of client relationships to determine the period over which related intangible assets are amortised The amortisation period is estimated with reference to historical data on account closure rates and management's expectations for the future During the year client relationship intangible assets were amortised over a 10 to 15 year period Amortisation of £3,461,000 was charged during the year A reduction in the average amortisation period of 1 year would increase the amortisation charge by approximately £399,000

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

Financial Services Compensation Scheme levies

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

The FSCS announced on 20 January 2011 that it would be raising an interim levy of £326 million, principally to cover the cost of compensating investors from the failure of Keydata Investment Services Limited (Keydata) and other intermediaries On 24 January 2011 the Company received an invoice for £2,969,000 in relation to the Keydata failure and other intermediaries This cost was charged to profit in the financial statements in 2010 and due to its exceptional nature was separately analysed on the Statement of comprehensive income with other FSCS levies

In December 2011 the Financial Services Compensation Scheme (FSCS) announced an indicative additional levy of £40m in relation to the Keydata and Willis & Co failures with potential additional levies in relation to MF Global The businesses share of the £40m levy is estimated at £34 000 and has been fully provided for in the 2011 financial statements The business continues to contribute to the banking levy and estimates provisions based on the guidance provided to the industry by the FSCS

The total amount relating to FSCS levies charged to the income statement during 2011 was £353,000 (2009 £3 353 000) but to the non exceptional nature of the charge is included within other operating expenses

Notes to the financial statements continued

4 Net interest income

	2011 £'000	2010 £'000
Interest income		
Held to maturity investment securities	9,028	8,083
Available for sale investment securities	297	555
Loans and advances to banks and customers	1,657	1,544
	10,982	10,182
Interest expense		
Banks and customers	(1,665)	(1,418)
Net interest income	9,317	8,764

5 Operating expenses

	2011 £'000	2010 £'000
Staff costs (note 6)	51,999	48,811
Depreciation of property, plant and equipment (note 15)	2,380	2,203
Amortisation of internally generated intangible assets included in operating expenses (note 17)	357	355
Amortisation of purchased software (note 17)	1,122	998
Auditors' remuneration (see below)	288	388
Recharges to fellow Group undertakings	5,890	4,908
Operating lease rentals (ii)	5,869	4,572
Other	21,177	22,441
Other operating expenses	89,082	84,676
Exceptional levies for the Financial Services Compensation Scheme (i)	-	3,353
Amortisation of client relationship intangible assets (note 17)	4,969	4,694
Total operating expenses	94,051	92,723

(i) The arrangements put in place by the Financial Services Compensation Scheme ('FSCS') to protect depositors and investors from loss in the event of failure of financial institutions resulted in significant FSCS levies on the industry The failure of Keydata Investment Services Limited (Keydata) and other intermediaries resulted in a considerable increase in the levy made by the FSCS to the Company in the 2010/11 levy year, which was recognised in the financial statements in 2010 The Company has accrued £Nil in 2011 (2010 £3,353,000) in respect of its share of the cost of FSCS borowings including a provision for the 2010/2011 levy year, of which £2,913,000 relates to Keydata Further charges for historical failures by financial institutions are likely to be incurred in future years and the ultimate cost remains uncertain (note 27)

(ii) Operating lease rentals include recharges from the Company's parent, Rathbone Brothers Plc, the Company's ultimate parent undertaking, which hold the leases on behalf of the Company The total rental recharge from Rathbone Brothers Plc in 2011 was £5,817,000 (2010 £4,572,000)

A more detailed analysis of auditors' remuneration is provided below

	2011 £'000	2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	137	157
Fees payable to the Company's auditors and their associates for other services to the Company		
- other services pursuant to legislation	118	38
- tax services	33	52
- amounts relating to prior years	-	38
- other services	-	103
Total	288	388

Notes to the financial statements continued

6 Staff costs

The Company does not employ any staff All Rathbone Group staff are employed by Rathbone Brothers Plc, the Company's ultimate parent undertaking, and related costs for those employees that provide services to the Company are recharged to the Company The total staff costs recharged to the Company were as follows

	2011 £ 000	2010 £ 000
Wages and salaries	44,113	41,623
Social security costs	5,129	4,807
Pension costs	2,757	2,381
	51,999	48,811

The average number of employees during the year was as follows	2011	2010
Investment Management	277	258
Dealing and investment management support	178	161
Central services	184	179
	639	598

Included above are costs relating to employees providing central services that are recharged to fellow subsidiaries as part of the intra-group management recharges

7 Directors' emoluments

Directors are employed by Rathbone Brothers Plc, the Company's ultimate parent undertaking Directors remuneration associated with their position as directors of the Company was as follows

	2011 £ 000	2010 £ 000
Emoluments for qualifying services	2,303	2,314
Amounts receivable under long term incentive schemes	776	952
Contributions to money purchase schemes	19	19
	3,098	3,285

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director was £451,352 (2010 £495,892) He is a member of two defined benefit pension schemes, under which his accrued pension at the year end was £82,781 (2010 £77,917)

	2011	2010
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	3	3
Defined benefit schemes	9	10
The number of directors, in respect of whose services shares in the ultimate parent undertaking were received or receivable under long term incentive plans was	15	16
The number of directors who exercised share options during the year was	1	1

8 Income tax expense

	2011 £'000	2010 £ 000
Current tax	10,697	8,183
Adjustments in respect of previous years	(27)	169
Deferred tax (note 16)	(722)	(2 180)
	9,948	6,172

Notes to the financial statements continued

8 Income tax expense continued

The tax charge on profit from continuing operations for the year is higher (2010 lower) than the standard rate of corporation tax in the UK of 26 5% (2010 28 0%) The differences are explained below

	2011 £'000	2010 £ 000
Tax on profit from ordinary activities at the standard rate of 26 5% (2010 28 0%)	9,554	6,731
Effects of		
Disallowable expenses	361	306
Adjustments in respect of transfer pricing	16	(153)
Adjustments for non-taxable intra-group dividends	-	(669)
(Over) provision for tax in previous years	(30)	(173)
Other timing differences	-	128
Change in tax rate	47	2
	9,948	6,172

The UK Government has proposed that the UK corporation tax rate is reduced to 24 0% over the next four years

At 31 December 2011 the second step of this reduction, to 25 0% (2010 27 0%) has been substantively enacted Consequently, deferred tax assets and liabilities are calculated at 25 0% (2010 27 0%)

9 Dividends paid

	2011 £ 000	2010 £ 000
Amounts recognised as distributions to equity holders in the year		
- first interim dividend for the year	12,000	15,000
- second interim dividend for the year	-	15,000
- third interim dividend for the year	-	1,840
	12,000	31,840

10 Cash

	2011 £ 000	2010 £ 000
Cash in hand	3	3

11 Loans and advances to banks

	2011 £'000	2010 £ 000
Repayable		
- on demand or at short notice	22,183	24,895
- 3 months or less excluding on demand or at short notice	30,000	6,387
	52,183	31,282
Amounts include loans with		
- variable interest rates	22,183	21,724
- fixed interest rates	30,000	9,558
	52,183	31,282

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

Notes to the financial statements continued

11 Loans and advances to banks continued

Loans and advances to banks included in cash and cash equivalents at 31 December 2011 amounted to £52,183,169 (note 29) (2010 £31,282,000)

The Company's exposure to credit risk arising from loans and advances to banks is described in note 25

12 Loans and advances to customers

	2011	2010	2009
		Restated (Note 2)	Restated (Note 2)
	£'000	£ 000	£ 000
Repayable			
- on demand or at short notice	**9,446**	7,135	10,844
- 3 months or less excluding on demand or at short notice	**11,036**	9,835	6,669
- 1 year or less but over 3 months	**25,343**	22,039	12,016
	45,825	39,009	29,529
Amounts include loans with			
- variable interest rates	**41,166**	34,831	29,477
- non-interest bearing	**4,659**	4,178	52
	45,825	39,009	29,529

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 customers include amounts due from fellow Group undertakings of £4,593,000 (2010 £4,125,000, 2009 £6,570 000)

There are no non-performing banking loans and advances to customers as at 31 December 2011 (2010 none, 2009 none)

The Company's exposure to credit risk arising from loans and advances to customers is described in note 25

13 Investment securities

Available for sale securities

	2011	2010
	£ 000	£ 000
Money market funds - at fair value		
- unlisted	**63,000**	37,000

Held to maturity securities

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

Maturity of debt securities

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

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

The fair value of debt securities at 31 December 2011 was £848,095,000 (2010 £754,893,000) Fair value for held to maturity assets is based on market bid prices

13 Investment securities continued

Available for sale securities are money market funds which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 29)

The Company has not reclassified any financial asset between being measured at amortised cost and being measured at fair value through profit or loss during the year (2010 none reclassified) The Company has not designated at initial recognition any financial asset as at 'fair value' through profit or loss

The movement in investment securities may be summarised as follows

	Available for sale £'000	Held to maturity £ 000	Total £'000
At 1 January 2010	84,000	694,000	778,000
Additions	478,000	1,679,090	2,157,090
Disposals	(525,000)	(1,622,005)	(2,147,005)
At 1 January 2011	**37,000**	**751,085**	**788,085**
Additions	**452,000**	**1,565,418**	**2,017,418**
Disposals (sales and redemption)	**(426,000)**	**(1,472,520)**	**(1,898,520)**
At 31 December 2011	**63,000**	**843,983**	**906,983**

14 Prepayments, accrued income and other assets

	2011 £ 000	2010 £ 000
Prepayments	2,773	3,648
Accrued income	24,918	21,925
Other assets	3,713	3,873
	31,404	29,446

Included within other assets in 2010 was £3,100,000 of advance payments to Lloyds Banking Group in relation to the transfer of investment management activities (note 17) of which was fully repaid by Lloyds Banking Group on 24 January 2011 following the final determination of funds transferred from the Lloyds legacy discretionary investment management business

15 Property, plant and equipment

	Short term leasehold improvements £ 000	Plant and equipment £ 000	Total £'000
Cost			
At 1 January 2011	7,897	11,157	19,054
Additions	5,189	1,729	6,918
Disposals	-	(1,073)	(1,073)
At 31 December 2011	13,086	11,813	24,899
Depreciation			
At 1 January 2011	4,329	8,587	12,916
Charge for the year	906	1,474	2,380
Disposals	-	(1,049)	(1,049)
At 31 December 2011	5,235	9,012	14,247
Carrying amount at 31 December 2011	7,851	2,801	10,652
Carrying amount at 31 December 2010	3,568	2,570	6,138

15 Property, plant and equipment continued

The Company occupies premises leased by its parent company for which it is recharged a pro-rata rental Leasehold improvements represent amounts capitalised by the Company on improving those parts of the building it occupies The amortisation period is based on the assumption that the Company will continue to occupy the premises for the remaining period of the lease held by the Company's parent

16 Deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25 0% (2010 25 0%)

The movement on the deferred tax account is as follows

	2011 £'000	2010 £ 000
At 1 January	57	(2,123)
Adjustments in respect of prior years	3	343
Other movements in deferred tax		
Amounts credited to the income statement	719	1,837
	779	57

Deferred tax asset

	2011 £ 000	2010 £ 000
Excess of depreciation	760	870
Intangible assets	1	1
	761	871

Deferred tax liabilities

	2011 £'000	2010 £ 000
Staff related costs	80	(681)
Software development costs	(62)	(133)
	18	(814)

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

	2011 £ 000	2010 £ 000
Excess of depreciation	(110)	5
Staff related costs	761	427
Software development costs	71	94
Intangible assets	-	1,654
	722	2,180

17 Intangible assets

	2011 £'000	2010 £ 000
Goodwill	15,204	15,204
Other intangible assets	44,076	42,834
	59,280	58,038

17 Intangible assets continued

Goodwill

	2011 £'000	2010 £'000
Cost		
At 1 January	15,204	15,204
At 31 December	15,204	15,204
Accumulated impairment losses		
At 1 January	-	-
At 31 December	-	-
Net carrying amount of goodwill at 31 December	15,204	15,204

The recoverable amounts of goodwill allocated 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 business The growth rates are based on industry growth forecasts The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management, covering the forthcoming year based on flat market assumptions and organic growth in line with historical rates Budgets are extrapolated for up to ten years based on a medium to long term growth rate of 3% (2010 3%) based on management's expectation of future industry growth rates A ten year extrapolation period is chosen based on management's expectation of the duration of client relationships The pre tax rate used to discount the forecast cash flows is 10% (2010 10%) based on a risk adjusted weighted average cost of capital, reflecting the markets in which the Company operates

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2011	47,586	2,520	12,468	62,574
Internally developed in the year	-	340	-	340
Revaluation	(804)	-	-	(804)
Purchased in the year	6,351	-	1,723	8,074
Disposals	(912)	-	-	(912)
At 31 December 2011	52,221	2,860	14,191	69,272
Amortisation				
At 1 January 2011	8,225	1,780	9,735	19,740
Revaluation	(80)	-	-	(80)
Charge for the year	4,969	357	1,122	6,448
Disposals	(912)	-	-	(912)
At 31 December 2011	12,202	2,137	10,857	25,196
Carrying amount at 31 December 2011	40,019	723	3,334	44,076
Carrying amount at 31 December 2010	39,361	740	2,733	42,834

Notes to the financial statements continued

17 Intangible assets continued

Other intangible assets continued

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

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

Client relationships comprise the following amounts

Net book value	Deferred remuneration costs £ 000	Payments to third parties £'000	Total £'000
At 1 January 2011	**16,383**	**22,978**	**39,361**
Revaluation	**(804)**	**-**	**(804)**
Purchased in the year	**6,315**	**36**	**6,351**
Amortisation charge for the year	**(2,250)**	**(2,719)**	**(4,969)**
Amortisation charge on revalued assets	**80**	**-**	**80**
At 31 December 2011	**19,724**	**20,295**	**40,019**

18 Investments in subsidiary undertakings

	Investments in subsidiaries £ 000
At 1 January 2010	3,592
Additions	21
Liquidations	(650)
Impairment	(453)
At 1 January 2011	**2,510**
Additions	-
Liquidations	-
Impairment	-
At 31 December 2011	**2,510**

At 31 December 2011 subsidiary undertakings were as follows

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management International Limited	Jersey	Investment management
Citywall Nominees Limited	England & Wales	Non trading
Rathbone Nominees Limited	England & Wales	Non trading
RIM Nominees Limited	England & Wales	Non trading
Neilson Cobbold Client Nominees Limited	England & Wales	Non trading

18 Investments in subsidiary undertakings continued

The Company directly owns 100% of the ordinary share capital of all subsidiaries and the accounting reference date of all subsidiary undertakings is 31 December

On 29 July 2010 the Company acquired 100% of the share capital of Citywall Nominees Limited from a fellow Group undertaking for cash consideration of £100

Liquidation proceeds of £645,000 from the voluntary liquidation of the Company's wholly owned subsidiary, Rathbone Bank (BVI) Limited were received on the 12 October 2010 Rathbone Bank (BVI) Limited was struck off on 5 November 2010

On 14 April 2010 the Company made a final payment of £21,000 relating to the 2008 acquisition of its wholly owned subsidiary Citywall Financial Management Limited (Citywall) On 21 December 2010 the Company completed the voluntary liquidation of Citywall A final dividend of £388,000 was paid to the Company prior to liquidation Following the decision to cease trading and liquidate Citywall, the carrying value of the Company's investment in Citywall was written down by £463,000 to Citywall's net asset value Liquidation proceeds of £5,000 were offset against an equal amount owed to Citywall

19 Deposits by banks

	2011 £'000	2010 £'000
Unsecured bank overdrafts, repayable on demand	**513**	215

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

20 Due to customers

	2011 £'000	2010 Restated (Note 2) £'000	2009 Restated (Note 2) £'000
Repayable			
- on demand or at short notice	**909,640**	768,210	758,068
- 3 months or less excluding on demand or at short notice	**41,879**	43,335	59,736
- 1 year or less but over 3 months	**350**	521	1,554
	951,869	812,066	819,358
Amounts include			
- variable interest rates	**863,511**	713,226	702,705
- fixed interest rates	**40,437**	44,288	59,060
- non-interest bearing	**47,921**	54,552	57,593
	951,869	812,066	819,358

Due to customers includes amounts due from fellow Group undertakings of £43,213,000 (2010 £50,042,000, 2009 £52,141,000)

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 Fair value of fixed-interest bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity

Notes to the financial statements continued

21 Subordinated loan with parent undertaking

The amounts subject to subordinated loan agreements are shown below

Counterparty	Repayment date	Interest rate	2011	2010
			£ 000	£'000
Rathbone Brothers Plc	See below	Bank of England rate plus 2 5% to a maximum of 5 0%	15,000	15,000
			15,000	15,000

During 2010 the Company received a £15 million subordinated loan as part of the Group's capital management activities Interest is paid monthly in arrears No repayment of the loan shall be made in whole, or part, earlier than five years from the date the loan was made, or five years from the date on which the Company gives written notice to the parent undertaking and the FSA The FSA has the right under the agreement to refuse consent to payment

22 Accruals, deferred income, provisions and other liabilities

	2011	2010	2009
		Restated (Note 2)	*Restated (Note 2)*
	£ 000	£ 000	£ 000
Creditors	5,917	4,780	3 940
Accruals and deferred income	4,559	7 039	4 399
Other provisions (note 23)	6,828	5,357	17,250
	17,304	17,176	25 589

Included in accruals and deferred income in 2010 was £3,353,000 in relation to the additional FSCS levy in relation to Keydata and other intermediaries (note 5)

23 Other provisions

	Deferred contingent consideration	Litigation related and other	Total
	£ 000	£ 000	£ 000
At 1 January 2011	4,881	476	5,357
Charged to the profit or loss	-	60	60
Unused amount credited to profit or loss	-	(26)	(26)
Net charge to the income statement	-	34	34
Transfer to other Group undertaking	-	-	-
Other movements	5,551	-	5,551
Utilised/paid during the period	(3,955)	(159)	(4,114)
	6,477	351	6,828
Current	1,049	351	1,400
Non-current	5,428	-	5,428
	6,477	351	6,828

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised and include £nil (2010 £9,844,000) in relation to the agreement to acquire certain discretionary investment management activities from Lloyds Banking Group (note 17)

In the ordinary course of business, the Company can receive complaints from clients in relation to the services provided Complaints are assessed on a case by case basis and provisions for compensation are made where judged necessary Provisions have also been made in relation to a number of cases where legal proceedings are expected to result in loss to the Company

The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties Non-current provisions are expected to be settled within 24 months of the balance sheet date

24 Share capital

The total number of issued and fully paid up ordinary shares at 31 December 2011 was 1,500,000 (2010 1,500,000) with a par value of £1 per share

There were no movements in share capital during the period

	Share capital £'000	Share premium £'000	Total £'000
At 31 December 2010	1,500	11,710	13,210
At 31 December 2011	**1,500**	**11,710**	**13,210**

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

25 Financial risk management

The Company 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 Company categorises its financial risks into three areas
(i) credit risk,
(ii) liquidity risk, and
(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk)

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

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

The Group's overall strategy and policies for monitoring and management of financial risk are set by the Board of directors (the Board) The Board has embedded risk management within the business through the boards of directors of the Group's operating subsidiaries and certain of the 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)

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

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

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

The Company's treasury portfolio is well diversified and does include some exposures to a number of banks around Europe The controls around the treasury portfolio are set out in detail on page 41 The Banking Committee has been particularly active this year in assessing the expected impact of the Eurozone issues As a result, during the year we have moved increasing amounts of money into UK government bonds (gilts) and treasury bills By the end of the year these totalled some 9 6% of the total treasury assets of £909,593,000, of which all were rated Fitch A or above

(i) Credit risk

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

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

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

Settlement balances

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

The Company has exposures to market counterparties in the settlement of trades which arise primarily in relation to client trades and risk of non-settlement is borne by clients

Loans and advances to banks and debt and other securities

The Company has exposures to a wide range of financial institutions through its treasury portfolio which includes bank deposits, certificates of deposit, money market funds and government bonds These exposures principally arise from the placement of surplus investment management client cash, which is held under a banking relationship, and the Company and Group's own reserves The Company's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long-term rating of "A" by Fitch or equivalent rating by Moody's Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties Counterparty exposures are monitored on a daily basis and reviewed by the Banking Committee on a monthly basis The Banking Committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information

Loans and advances to customers

The Company provides loans to clients through its Investment Management loan book

(a) Overdrafts

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

(b) Investment management loan book

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

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

At 31 December 2011, the total lending exposure limit for the Investment Management loan book was £60,000 000 (2010 £45,000,000) of which £36,434,000 had been advanced (2010 £31,957,000) and a further £6,925,000 had been committed (2010 £7,724,000)

25 Financial risk management continued

Derivatives

From time to time, the Company makes use of derivative financial instruments to manage interest rate risk The Company 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 Company (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

Maximum exposure to credit risk	**2011**	2010
	£ 000	£ 000
Credit risk relating to on-balance sheet exposures		
Settlement balances	**10,253**	11,999
Loans and advances to banks	**52,183**	31,282
Loans and advances to customers		
- Overdrafts	**4,796**	2 923
- Investment Management loan book	**36,434**	31,956
- Amounts owed by group undertakings	**4,593**	4,125
- Other debtors	**2**	5
Investment securities		
- Unlisted debt securities and money market funds	**906,983**	788,085
Other financial assets	**28,951**	25,777
Credit risk relating to off-balance sheet exposures		
Loan commitments	**6,925**	7,724
Financial guarantees	**578**	583
	1,051,698	904,459

The above table represents the gross credit risk exposure to the Company at 31 December 2011 and 31 December 2010, without taking account of any collateral held or other credit enhancements attached For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet

9 3% of the total maximum exposure is derived from loans and advances to banks and customers (2010 7 8%) and 86 2% represents investments in debt securities (2010 87 1%)

Settlement balances

Settlement balances are summarised as follows

	2011	2010
	£ 000	£ 000
Neither past due nor impaired	**8,622**	8,198
Past due but not impaired < 90 days	**1,615**	3,776
Past due but not impaired > 90 days	**16**	25
Impaired	**-**	-
Gross carrying value	**10,253**	11,999
Less allowance for impairment	**-**	-
Net carrying value	**10,253**	11,999

25 Financial risk management continued

(i) Credit risk continued

Loans and advances

Loans and advances are summarised as follows

	2011 Loans and advances to banks £'000	2011 Loans and advances to customers £'000	2010 Loans and advances to banks £'000	2010 Loans and advances to customers £'000
Neither past due nor impaired	52,183	45,825	31,282	39,009
Gross carrying value	52,183	45,825	31 282	39,009
Net carrying value	52,183	45,825	31,282	39,009

No loans and advances have been renegotiated (2010 nil)

(a) Neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired at 31 December 2011, which are all externally unrated, is analysed below between those loans that remain within the standard lending criteria required at the inception of the loan, which are described on page 31, 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

At 31 December 2011	Overdrafts £'000	Investment Management loan book £'000	Amounts owed to group undertakings £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	4,796	36,434	4,593	2	45,825
	4,796	36,434	4,593	2	45,825

At 31 December 2010	Overdrafts £'000	Investment Management loan book £'000	Amounts owed to group undertakings £'000	Other debtors £'000	Total loans and advances to customers £'000
Standard lending criteria	2,923	31,956	4,125	5	39,009
	2 923	31 956	4,125	5	39,009

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

	2011 £'000	2010 £'000
AA- to AA+	11,892	31,282
A to A+	40,291	-
	52,183	31,282

25 Financial risk management continued

(i) Credit risk continued

(b) Past due but not impaired

At 31 December 2011 there were no loans and advances past due but not impaired (2010 £nil) Loans and advances that are past due are not considered impaired unless other information is also available to indicate the contrary

(c) Impaired

There were no impaired credit exposures at 31 December 2011 (2010 £Nil)

Debt securities

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

	2011 UK Government securities £'000	2011 Money market funds £'000	2011 Certificates of deposit £'000	2011 Total £'000	2010 UK Government securities £ 000	2010 Money market funds £ 000	2010 Certificates of deposit £ 000	2010 Total £ 000
AAA	**86,983**	**63,000**	-	**149,983**	-	37,000	-	37,000
AA- to AA+	-	-	**258,000**	**258,000**	-	-	448,000	448 000
A- to A+	-	-	**499,000**	**499,000**	-	-	303,085	303,085
	86,983	**63,000**	**757,000**	**906,983**	-	37,000	751,085	788,085

25 Financial risk management continued

(i) Concentration of credit risk

The Company has counterparty concentration risk within its treasury assets in that exposure is to a number of similar credit institutions The Banking Committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal Fitch or Moody's rating downgrade This may happen in relation to specific banks or banks within a particular country or sector

(a) Geographical sectors

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

At 31 December 2011	**United Kingdom £'000**	**Jersey £'000**	**Rest of the World £'000**	**Total £'000**
Settlement balances	**9,451**	**-**	**802**	**10,253**
Loans and advances to banks	**40,291**	**-**	**11,892**	**52,183**
Loans and advances to customers				
- Overdrafts	**4,310**	**101**	**385**	**4,796**
- Investment Management loan book	**34,758**	**263**	**1,413**	**36,434**
- Amounts owed by group undertakings	**2,531**	**1,979**	**83**	**4,593**
- Other debtors	**2**	**-**	**-**	**2**
Investment securities				
- Unlisted debt securities and money market funds	**369,983**	**-**	**537,000**	**906,983**
Other financial assets	**25,857**	**37**	**3,057**	**28,951**
	487,183	**2,380**	**554,632**	**1,044,195**

At 31 December 2010	United Kingdom £ 000	Jersey £ 000	Rest of the World £ 000	Total £ 000
Settlement balances	10,933	-	1,066	11,999
Loans and advances to banks	17,279	-	14 003	31,282
Loans and advances to customers				
- Overdrafts	2,771	19	133	2,923
- Investment Management loan book	30,461	251	1,244	31,956
- Amounts owed by group undertakings	3,729	314	82	4,125
- Other debtors	5	-	-	5
Investment securities				
- Unlisted debt securities and money market funds	305,000	-	483,085	788,085
Other financial assets	23,419	40	2,317	25,776
	393 597	624	501,930	896,151

25 Financial risk management continued

(i) Concentration of credit risk continued

(b) Industry sectors

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

At 31 December 2011	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	-	10,253	-	10,253
Loans and advances to banks	-	52,183	-	52,183
Loans and advances to customers				
- Overdrafts	-	-	4,796	4,796
- Investment Management loan book	-	-	36,434	36,434
- Amounts owed by group undertakings	-	4,593	-	4,593
- Other debtors	-	-	2	2
Investment securities				
- Unlisted debt securities and money market funds	86,983	820,000	-	906,983
Other financial assets	-	4,181	24,770	28,951
	86,983	891,210	66,002	1,044,195

At 31 December 2010	Public sector £'000	Financial institutions £'000	Private clients and other £'000	Total £'000
Settlement balances	-	11,999	-	11,999
Loans and advances to banks	-	31,282	-	31,282
Loans and advances to customers				
- Overdrafts	-	-	2,923	2,923
- Investment Management loan book	-	-	31,956	31,956
- Amounts owed by group undertakings	-	4,125	-	4,125
- Other debtors	-	-	5	5
Investment securities				
- Unlisted debt securities and money market funds	-	788,085	-	788,085
Other financial assets	-	3,095	22,681	25,776
	-	838 586	57,565	896 151

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset

25 Financial risk management continued

(ii) Liquidity risk continued

The primary objective of the Company's treasury policy is to manage short to medium term liquidity requirements The Company also has a regulatory requirement to maintain adequate liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due The controls and policies that ensure these requirements are met are now documented in an Internal Liquidity Adequacy Assessment (ILAA) in response to additional regulatory requirements applicable to the 2010 financial year This assessment process was implemented in 2010 and was reviewed by the Financial Services Authority in 2011

Liquidity risk is primarily managed by holding cash and marketable instruments that are realisable at short notice The Company operates a strict set of criteria for counterparties to ensure that investments are liquid and placed with high quality counterparties

The Company does not rely on external funding for its activities

Non-derivative cash flows

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

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £ 000	After 1 year but not more than 5 years £'000	Total £ 000
Cash flows arising from financial assets					
Cash and balances at central banks	3	-	-	-	3
Settlement balances	-	10,253	-	-	10,253
Loans and advances to banks	22,183	30,072	-	-	52,255
Loans and advances to customers	4,853	11,091	25,815	-	41,759
Investment debt securities and money market funds	63,041	484,865	355,456	10,602	913,964
Other financial assets	-	24,744	-	-	24,744
Cash flows arising from financial assets	90,080	561,025	381,271	10,602	1,042,978
Cash flows arising from financial liabilities					
Deposits by banks	513	-	-	-	513
Settlement balances	-	19,296	-	-	19,296
Due to customers	866,431	41,897	351	-	908,679
Other financial liabilities	829	12,281	339	16,801	30,250
Cash flows arising from financial liabilities	867,773	73,474	690	16,801	958,738
Net liquidity gap	(777,693)	487,551	380,581	(6,199)	84,240

At 31 December 2010	On demand £ 000	Not more than 3 months £ 000	After 3 months but not more than 1 year £ 000	After 1 year but not more than 5 years £ 000	Total £ 000
Cash flows arising from financial assets					
Cash and balances at central banks	3	-	-	-	3
Settlement balances	-	11,999	-	-	11,999
Loans and advances to banks	24,895	6,388	-	-	31,283
Loans and advances to customers	7,135	9,878	22,433	-	39,446
Investment debt securities and money market funds	37,020	371,307	366,369	20,454	795,150
Other financial assets	-	22,456	-	-	22,456
Cash flows arising from financial assets	69,053	422,028	388,802	20,454	900,337
Cash flows arising from financial liabilities					
Deposits by banks	215	-	-	-	215
Settlement balances	-	19,860	-	-	19,860
Due to customers	768,213	43,353	525	-	812 091
Other financial liabilities	-	11,792	2,133	24,580	38,505
Cash flows arising from financial liabilities	768,428	75,005	2,658	24,580	870,671
Net liquidity gap	(699,375)	347,023	386 144	(4,126)	29,666

Notes to the financial statements continued

25 Financial risk management continued

(ii) Liquidity risk continued

Included within the amounts due to customers due on demand disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short-term

Derivative cash flows (derivatives settled on a net basis)

The Company did not hold any derivative instruments at the 31 December 2011 (2010 Nil)

Off balance sheet items

Cash flows arising from the Company's off balance sheet financial liabilities (note 27) are summarised in the table below

The contractual value of the Company's commitments to extend credit to clients and maximum potential value of financial guarantees are analysed by the duration of the commitment Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates Capital commitments are summarised by the earliest expected date of payment

At 31 December 2011	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	6,925	-	-	-	6,925
Financial guarantees	-	-	578	-	578
Operating lease commitments	17	51	110	-	178
Capital commitments	2,223	-	-	-	2,223
Total off balance sheet items	**9,165**	**51**	**688**	**-**	**9,904**

At 31 December 2010	Not more than 3 months £ 000	After 3 months but not more than 1 year £ 000	After 1 year but not more than 5 years £ 000	After 5 years £ 000	Total £ 000
Loan commitments	7,724	-	-	-	7,724
Financial guarantees	5	-	578	-	583
Operating lease commitments	1,123	3,369	8,514	4,055	17,061
Capital commitments	594	-	-	-	594
Total off balance sheet items	9,446	3,369	9,092	4,055	25,962

Notes to the financial statements continued

25 Financial risk management continued

(ii) Liquidity risk continued

Total liquidity requirement

At 31 December 2011	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	867,773	73,474	690	16,801	-	958,738
Total off balance sheet items	-	9,165	51	688	-	9,904
	867,773	82,639	741	17,489	-	968,642

At 31 December 2010	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	768,428	75,005	2,658	24,580	-	870,671
Total off balance sheet items	-	9,446	3,369	9,092	4 055	25,962
	768,428	84,451	6,027	33,672	4,055	896,633

(iii) Market risk

Interest rate risk

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

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

Notes to the financial statements continued

25 Financial risk management continued

(iii) Market risk continued

Interest rate risk continued

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

At 31 December 2011	Not more than 3 months £'000	After 3 months but not more more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £ 000	Non-interest bearing £'000	Total £'000
Assets						
Cash and balances at central banks	-	-	-	-	3	3
Settlement balances	-	-	-	-	10,253	10,253
Loans and advances to banks	52,183	-	-	-	-	52,183
Loans and advances to customers	41,178	-	-	-	4,647	45,825
Investment securities						
- debt securities and money market funds	549,140	289,843	58,000	10,000	-	906,983
Other financial assets	-	-	-	-	28,951	28,951
Total financial assets	642,501	289,843	58,000	10,000	43,854	1,044,198
Liabilities						
Deposits by banks	513	-	-	-	-	513
Settlement balances	-	-	-	-	19,296	19,296
Due to customers	888,598	350	-	-	47,921	936,869
Other financial liabilities	15,000	-	-	-	10,809	25,809
Total financial liabilities	904,111	350	-	-	78,026	982,487
Interest rate repricing gap	(261,610)	289,493	58,000	10,000	(34,172)	61,711

At 31 December 2010	Not more than 3 months £ 000	After 3 months but not more more than 6 months £ 000	After 6 months but not more than 1 year £ 000	After 1 year but not more than 5 years £ 000	Non-interest bearing £ 000	Total £ 000
Assets						
Cash and balances at central banks	-	-	-	-	3	3
Settlement balances	-	-	-	-	11,999	11,999
Loans and advances to banks	31,282	-	-	-	-	31,282
Loans and advances to customers	34,839	-	-	-	4,171	39,010
Investment securities						
- debt securities and money market funds	406,085	217,000	145,000	20,000	-	788,085
Other financial assets	-	-	-	-	25,776	25 776
Total financial assets	472,206	217,000	145,000	20,000	41,949	896,155
Liabilities						
Deposits by banks	215	-	-	-	-	215
Settlement balances	-	-	-	-	19,860	19,860
Due to customers	756,991	150	373	-	54,554	812,068
Other financial liabilities	15,000	-	-	-	25,509	40,509
Total financial liabilities	772,206	150	373	-	99,923	872 652
Interest rate repricing gap	(300,000)	216,850	144,627	20,000	(57,974)	23,503

25 Financial risk management continued

(iii) Market risk continued

Interest rate risk continued

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

At 31 December 2011, the Company had £876 2 million (2010 £734 2 million) of sterling interest bearing liabilities averaging 2 days (2010 2 days) to repricing which were matched by sterling assets averaging 65 days (2010 89 days) to repricing, creating an exposure of 63 days (2010 87) The total potential impact on profit after tax and equity was £2,211,000 (2010 £2,542 000) at the balance sheet date for a 2% decrease or increase in interest rates The Company held no forward rate agreements at 31 December 2011 (2010 none)

Foreign exchange risk
The Company monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time to time, so as to reduce any currency exposure to a minimal amount

Notes to the financial statements continued

25 Financial risk management continued

(iii) Market risk continued

Foreign exchange risk continued

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

At 31 December 2011	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	3	-	-	-	3
Settlement balances	8,881	331	879	162	10,253
Loans and advances to banks	31,400	12,967	3,805	4,011	52,183
Loans and advances to customers	43,988	901	928	8	45,825
Investment securities					
- debt securities and money market funds	906,983	-	-	-	906,983
Other financial assets	28,951	-	-	-	28,951
Total financial assets	1,020,206	14,199	5,612	4,181	1,044,198
Liabilities					
Deposits by banks	285	-	-	228	513
Settlement balances	18,203	807	-	286	19,296
Due to customers	911,844	15,266	5,494	4,265	936,869
Other financial liabilities	25,783	26	-	-	25,809
Total financial liabilities	956,115	16,099	5,494	4,779	982,487
Net on balance sheet position	64,091	(1,900)	118	(598)	61,711
Loan commitments	6,925	-	-	-	6,925

At 31 December 2010	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	3	-	-	-	3
Settlement balances	10,504	1,048	68	379	11,999
Loans and advances to banks	8,475	16,450	3,633	2,724	31,282
Loans and advances to customers	38,137	149	719	5	39,010
Investment securities					
- debt securities and money market funds	788,085	-	-	-	788,085
Other financial assets	25,776	-	-	-	25,776
Total financial assets	870,980	17,647	4,420	3,108	896,155
Liabilities					
Deposits by banks	-	-	-	215	215
Settlement balances	18,983	621	68	188	19,860
Due to customers	788,793	16,439	4,224	2,612	812,068
Other financial liabilities	40,356	117	12	24	40,509
Total financial liabilities	848,132	17,177	4,304	3,039	872,652
Net on balance sheet position	22,848	470	116	69	23,503
Loan commitments	5,260	-	-	-	5,260

Notes to the financial statements continued

25 Financial risk management continued

(iii) Market risk continued

A 10% weakening of the US dollar or Euro against the pound sterling, occurring on 31 December 2010, would have reduced equity and profit after tax by £nil or £9,000 respectively (2010 £34 000 and £8,000 respectively) A 10% strengthening of the US dollar or Euro would have had an equal and opposite effect This analysis assumes that all other variables, in particular other exchange rates, remain constant

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) The Company is exposed to price risk through its holdings of equity investment securities which are reported at their fair value (note 13)

Fair values

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries which are carried at historical cost (note 18)

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs for the asset or liability that are not based on observable market data

	Level 1	Level 2	Level 3	Total
At 31 December 2011	**£ 000**	**£ 000**	**£'000**	**£ 000**
Assets				
Available for sale securities				
- money market funds	-	**63,000**	-	**63,000**
Total financial assets	-	**63,000**	-	**63,000**

	Level 1	Level 2	Level 3	Total
At 31 December 2010	£ 000	£ 000	£ 000	£ 000
Assets				
Available for sale securities				
- money market funds	-	37,000	-	37,000
Total financial assets	-	37 000	-	37,000

There have been no transfers between levels during the above years Money market funds are demand securities and changes to interest rates will not affect their fair value

Notes to the financial statements continued

26 Capital management

Accounting capital is defined as the total of share capital, share premium, retained earnings and other reserves Total capital at 31 December 2011 was £111,887,000 (2010 £97,773,000)

The Company's objectives when managing capital are to

- safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders,
- maintain a strong capital base to be able to support the development of the business when required
- optimise the distribution of capital across group companies reflecting the requirements of each business,
- strive to make capital freely transferable across the Group, to which the Company belongs, where possible, and
- comply with regulatory requirements at all times

The Group, to which the Company belongs, is classified under the Capital Requirements Directive (CRD) as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP) which is presented to the FSA on an annual basis Regulatory capital resources for ICAAP purposes are calculated in accordance with CRD rules These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the CRD's Pillar I and Pillar II methodology The Group has adopted the standardised approach to its calculating Pillar I credit risk component and the basic indicator approach to calculating its operational risk component Capital management policy and practices are applied at both Group and the Company level

At 31 December 2011 the Company's regulatory capital resources, including retained earnings for 2011 were £65,097 000 (2010 £52,225,000)

In addition to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecasted on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions

Regulatory capital requirements have been met throughout the financial year ended 31 December 2011

27 Contingent liabilities and commitments

(a) Capital expenditure authorised and contracted for at 31 December 2011 but not provided in the accounts amounted to £2,223,000 (2010 £594,000)

(b) The contractual amounts of the Company's commitments to extend credit to its clients are as follows

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

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

(c) The Company's parent leases various offices under non-cancellable operating lease agreements The costs are re-charged to the Company based on it's pro-rata share of occupancy, with each of the leases have varying terms and renewal rights The future minimum lease payments under non-cancellable operating leases payable by the Company were as follows

	2011	2010
	£ 000	£ 000
No later than 1 year	68	65
Later than 1 year and no later than 5 years	111	251
Later than 5 years	-	441
	178	757

(d) The Company has annual commitments under non-cancellable leases for other assets as follows

	2011	2010
	£ 000	£ 000
No later than 1 year	8	4
Later than 1 year and no later than 5 years	19	7
	27	11

(e) In addition to the Financial Services Compensation Scheme levies accrued in the year (note 5) further levy charges are likely to be incurred in future years although the ultimate cost remains uncertain

(f) In the normal course of business the Company has given letters of indemnity in respect of lost certified stock transfers and share certificates The contingent liability arising from this can not be quantified, but it is not believed that any material liability will arise under these indemnities (2010 none)

28 Related party transactions

(i) Parent and ultimate controlling party

The ultimate parent undertaking and controlling party of the Company is Rathbone Brothers Plc, a company registered in England, which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of the Group accounts may be obtained from the Company Secretary, Rathbone Brothers Plc, 159 New Bond Street, London W1S 2UD

(ii) Transactions with key management personnel

The remuneration of the key management personnel of the Company, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Company, is set out below Historically, the key management personnel of the Company were considered to be limited to the Company's directors The comparative balances in this note have been restated to reflect the revised presentation

Key management personnel compensation

As explained in note 6 all staff, including key management personnel, are employed by the Company's ultimate parent undertaking Key management personnel compensation borne by the Company's ultimate parent undertaking and charged to the Company comprised

	2011	2010
		Restated
	£	£
Short term employee benefits	**3,225,544**	3,029,738
Post-employment benefits	**182,370**	175,375
Other long-term benefits	**600,157**	914,709
Share-based payments	**922,263**	959,928
	4,930,335	5,079,750

Key management personnel transactions

At 31 December 2011 key management and their close family members had gross outstanding deposits of £1,059,327 (2010 £1,408,776) and gross outstanding loans of £1,684,946 (2010 £1,229,001), all of 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 the Company Charges for such services are made at various staff rates

All amounts outstanding with key management personnel 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 key management personnel

(iii) Other related party transactions

During the year, the Company entered into the following transactions with its ultimate parent undertaking and fellow subsidiary undertakings

	2011	2011	2010	2010
			Restated	*Restated*
	Receivable	**Payable**	Receivable	Payable
	£'000	**£'000**	£'000	£'000
Fees and commissions	**1,547**	**4,540**	1,237	
Interest	**-**	**488**	-	106
Charges for management services	**5,945**	**11,759**	5,765	3,026
Dividends paid	**-**	**12,000**	2,388	31,840
	7,492	**28,787**	7,002	34,972

28 Related party transactions continued

The Company's balances with fellow group companies at 31 December 2011 are set out in notes 12, 20 and 21

All transactions and outstanding balances with fellow group companies are priced on an arm's length basis and are to be settled in cash None of the balances is secured and no provisions have been made for doubtful debts for any amounts due from fellow Group companies

In 2010 the Company received a £15,000,000 subordinated loan from it's parent company, the terms of which are set out in note 21

A fellow subsidiary provides insurance cover to the Company, the fee for which is included in the table above

Staff costs and rent, which are incurred by Rathbone Brothers Plc, the Company's ultimate parent undertaking, are recharged to the Company on a pro-rata basis based on head count and occupancy

The Company's parent operates share based payment incentive schemes and defined benefit pension schemes for the benefit of its employees The associated charges to profit that relate to employees that provide services to the Company are recharged to the Company by its parent Recharges relating to pension costs are disclosed within staff costs Recharges relating to share based payments are included within administrative expenses

The cost of providing benefits under defined benefit plans are recharged to the Company by the parent company Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due

29 Statement of cash flows

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

	2011 £ 000	2010 £'000
Cash (note 10)	**3**	3
Loans and advances to banks (note 11)	**52,183**	31,282
Available for sale investment securities (note 13)	**63,000**	37,000
	115,186	68,285

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

30 Events after the balance sheet date

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

31 Client money

At 31 December 2011 amounts held by the Company on behalf of clients in accordance with the Client Money Rules of the Financial Services Authority amounted to £2,183,000 (2010 £8,040,000) The Company has no beneficial interest in these assets or deposits and accordingly they are not included in the Company's balance sheet