



## **F&C Asset Management plc**

Annual Report and Financial Statements 2012

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## Annual Report and Financial Statements 2012

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### Forward-looking statements

This Annual Report and Financial Statements may contain certain "forward-looking statements" with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control including among other things: UK domestic and global economic and business conditions; market-related risks such as fluctuations in market indices, interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities; the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; estimates of assets to be managed for strategic partners or other clients in the future; and the impact of changes in capital, solvency,

accounting standards, tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. F&C undertakes no obligation to update the forward-looking statements contained in this Annual Report and Financial Statements. Nothing in this publication should be considered as a profit forecast.

### Financial Statements

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### Definitions

"F&C, FCAM, Group or Company" F&C Asset Management plc and its subsidiaries

"FL", "FL Group" Friends Life and its subsidiaries

"F&C GH" F&C Group (Holdings) Limited and its subsidiaries

"F&C REIT" F&C REIT Asset Management LLP and its subsidiaries

"REIT" REIT Property Asset Management LLP and its subsidiaries

"Sherborne or the Sherborne Group" Sherborne Investors (Guernsey) GP, LLC (Sherborne GP), SIGA, LP (SIGA), Sherborne Investors (Guernsey) A Limited, Sherborne Investors Management (Guernsey) LLC and Sherborne Investors LP

"Thames River" or "TRC" Thames River Capital Group Limited and its subsidiary companies or limited liability partnerships (LLPs) which are consolidated within the Group

"NCI" Non-controlling interests

# Our year in brief

## Net revenue

# £243.5m

## Group underlying profit before tax

# £52.4m

## Underlying earnings per share

# 7.1p

## Total dividend per share

# 3.0p

## Financial and Business Highlights

- Underlying earnings per share (EPS) increased 29% to 7.1p (2011: 5.5p)
- Euro/Sterling foreign exchange rate reduced underlying EPS by 0.8p in 2012
- Improved dividend cover of 2.4x (2011: 1.8x) on maintained 3.0p dividend
- Cost reductions in line with plan
- 54 new institutional mandates won, 44 of which were clients new to F&C
- Assets under management (AUM) of £95.2 billion (2011: £100.1 billion)\*
- Robust investment performance, with 80% of AUM outperforming objectives in 2012 and 76% over three years

Reconciliations of reported to underlying earnings and calculations of key performance indicators are given on page 118 and underlying operating costs are analysed on page 119.

Reconciliations between reported earnings/(loss) and underlying earnings and between basic earnings/(loss) per share and underlying earnings per share are given in note 10 to the Consolidated Financial Statements.

\* At the end of the reporting period.

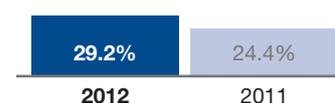
## Assets under management\*



## Net revenue



## Underlying operating margin



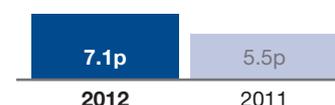
## Group underlying profit before tax



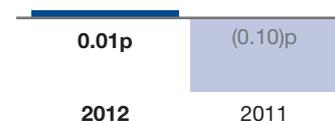
## Statutory profit after tax



## Underlying earnings per Ordinary Share



## Basic earnings/(loss) per Ordinary Share



## Total dividend per Ordinary Share



# Executive Chairman's Statement

During 2012 F&C made progress in a number of important areas: we continued to implement the strategy set out for the Group and its institutional business last year; we restructured our management team to ensure we have appropriate leadership to take the business forward; and announced, and subsequently started to implement, a clear plan for the profitable growth of our consumer-focused businesses.

Since phase 1 of our strategic review was announced, we have reduced underlying operating expenses by £23.3 million compared to the prior year and have initiated debt buy-backs, repurchasing some £16.7 million of senior and subordinated debt. Two of our strategic partners have indicated that F&C will continue to manage assets beyond the existing exclusivity periods and we have continued to build our institutional, solutions-led product suite.

Phase 2 of the strategic review was announced in May and focused on our consumer and property business activities. The review outlined our commitment to pursuing strategies for profitable growth in each of these areas and building on F&C's strength in Multi-manager products, direct marketing and consumer brand awareness. We believe that F&C may have some interesting opportunities in a post-Retail Distribution Review (RDR) environment. Accordingly, we have enhanced our direct marketing capabilities to position the Group to better understand the needs and interests of customers and potential customers and capitalize on the anticipated increase in self-directed consumer purchases.

We also made significant progress in developing our management team. Richard Wilson, who had been leading our Institutional and Investment Business, was appointed Group Chief Executive at the end of 2012. This appointment follows a number of other significant appointments during the year. Steve Ilott joined the company in March 2012 as Head of Multi-Strategy Investments and Mandy Mannix was appointed as Head of Client Management in July, creating a single distribution and client servicing function across the Group. Steve Ilott and Richard Watts were appointed Co-Heads of Investment in September 2012. After leading Thames River from inception, Charlie Porter determined that he wished to step down from executive management and his responsibilities were assumed by other members of the management team in H2 2012. The Board is confident that there is now a leadership team in place with the right skills to successfully manage and grow the business over the medium term.

Our financial results during this period of significant change were satisfactory with underlying profit after tax of £37.5 million, compared to £28.4 million in 2011. This represents underlying earnings per share of 7.1 pence for 2012 (2011: 5.5 pence). Based on this result, the Board is recommending a final dividend of

2 pence per share, payable on 24th May 2013 to shareholders on the register at 5th April 2013, bringing the full-year dividend to 3 pence per share (2011: 3 pence per share). Our dividend cover, relating to underlying earnings per share, has increased to 2.4 times, and the Board will continue to review the dividend level in light of the progress in the business and our debt reduction targets.

## Market overview

Economic growth around the world generally continued to disappoint during 2012, with strict austerity measures across much of Europe, including the UK, providing a further obstacle to growth. Europe's sovereign debt-related problems remained to the fore, but a number of actions from the European Central Bank allayed fears over the prospect of a eurozone breakup.

Equity markets reflected this backdrop. Volatility was a feature, especially in the first six months of the year, before markets rallied strongly into the year end. The FTSE 100 returned 10.0 per cent with small and medium-sized UK firms outperforming their larger counterparts by some margin. Outside of the UK, continental European shares were the standout performer with returns reflecting widespread relief at the European Central Bank's more pro-active actions post July.

Bond markets started the year strongly, though surprisingly, given the rally in the equity markets, perceived safe haven bonds have not suffered, although momentum in the latter stages of the year slowed markedly. This helped higher yield bonds, which have also benefited from a narrowing of credit spreads as investors have been attracted into riskier assets.

During 2011, many active fund managers struggled to deliver out-performance of their targets, as markets were primarily driven by macro factors and resulting broad-based rotations in the 'risk-on'/'risk-off' trade. 2012, however, saw market participants begin to refocus their attention on the relative merits of individual investments, making it a much better environment for active fund managers.

This overall economic backdrop was reflected in the Group's Assets Under Management (AUM), with underlying asset performance contributing £10.1 billion to AUM over the year. However, the Group's AUM declined 4.9 per cent to £95.2 billion (31 December 2011: £100.1 billion), principally as a result of net outflows of £13.3 billion and adverse foreign exchange rate movements of £1.7 billion.

## Business flows

Net outflows during 2012 comprised £11.4 billion of strategic partner assets and £1.9 billion from our consumer and institutional business. Our wholesale division represented the largest contributor to consumer and institutional outflows.

2012 was a challenging year for wholesale, with net outflows of £1.2 billion. Both the Thames River Global Credit and Global Bond products suffered significant outflows. In addition, the Thames River

Multi-alternative division continued to experience outflows, reflecting the significant structural changes in the fund of hedge funds market.

We are encouraged by the performance of the third-party institutional business as the initiatives and structure resulting from phase 1 of our strategic review have been implemented. 2012 saw gross inflows of £2.9 billion, and withdrawals declined sharply during 2012 to £3.6 billion. Importantly, a significant portion of those assets withdrawn represented lower margin cash management and government bond mandates.

Within our consumer business, retail assets were broadly unchanged over the course of 2012. Market and economic uncertainty for much of the year dampened investors' willingness to commit savings to risk assets, and activity within UK advisory channels slowed as advisors prepared for the implementation of RDR.

Investment trusts reported net inflows of £20 million for the year, with new share issuance by trusts offsetting share buy-backs during the year.

Strategic partner net outflows were £11.4 billion. Whilst the business mix of our strategic partners generally implies that there will be recurring net redemptions, this was exacerbated by withdrawals of approximately £1.0 billion in Portugal due to nationalisation of past service liabilities in the BCP pension scheme and £5.3 billion in the UK, as Friends Life withdrew assets to be managed by their newly formed in-house fixed income management team. We anticipate further withdrawals of fixed income assets by Friends Life of approximately £6.2 billion during H1 2013.

## Results

Net revenues for the year were £243.5 million (2011: £267.0 million). Revenues from Thames River, for the reasons mentioned above, fell by £13.7 million, and strategic partner revenues declined by £7.7 million. The decline in value of the Euro vs Sterling reduced our overall revenues by approximately £6.7 million.

Net revenues include some £9.5 million of performance fees (2011: £11.8 million), with reduced performance fees at Thames River partially compensated by increases in performance fee income in the rest of the Group.

Underlying operating costs, excluding amortisation of intangible assets, foreign exchange gains and losses and exceptional items, were £172.1 million (2011: £202.1 million). Distributions to Thames River members, included in underlying operating expenses, declined from £18.3 million in 2011 to £11.6 million in 2012, reflecting the direct relationship between these expenses and the contribution from funds managed by the Thames River investment teams. Core operating expenses fell by £23.3 million, from £183.8 million in 2011 to £160.5 million in 2012. This reflects the successful implementation of the cost reduction initiatives identified in the strategic review, offset by increases in share-based payment costs arising from the increase in the Group's share price over the

reporting period. Whilst the increase in the Group's share price had an adverse impact on reported operating expenses, this was offset by related tax deductions included in the year's tax credit.

The Group also incurred a number of exceptional and non-recurring costs which are excluded from underlying results. These represent costs associated with the now concluded F&C Partners litigation; costs of implementing our back and middle office outsourcing; one-off expenses of implementing our cost reduction programme; and the costs associated with the Thames River retention plan and Commutation arrangements. Offset against these is an exceptional gain from the reduction in the F&C REIT put option liability.

The Group achieved an underlying operating profit of £71.2 million for 2012 (2011: £65.2 million). After net interest expense and tax, this resulted in underlying earnings per share for the year of 7.1 pence (2011: 5.5 pence) attributable to shareholders.

On a statutory basis, which includes non-recurring and other exceptional items, the Group reported a profit after tax of £3.0 million (2011: £2.6 million).

## Business review

As indicated in the introduction to this report, 2012 was a year of significant change for F&C, and represented a transitional period as a number of initiatives were implemented, which should deliver further value for shareholders in 2013 and subsequent years. Despite the significant management attention devoted to the development and implementation of strategy, the Group remained focused on the delivery of good investment performance and client service; fundamental cornerstones to retaining our existing client base and growing our business.

On an asset-weighted basis, relative investment performance remains encouraging, particularly across our fixed income capabilities, which are, for regulatory and other reasons, increasingly the core asset class for both defined benefit pension schemes and insurance portfolios. Over three years, 90 per cent of our fixed income and 50 per cent of our equity assets outperformed their benchmarks. 78 per cent of our property assets are above benchmarks over three years.

Based on this performance, we have maintained our strong position with investment consultants, achieving a slight increase in individual product buy ratings from 70 in 2011 to 74 by the end of 2012. Importantly, many of these ratings are attached to our solution-based products, such as Liability Driven Investments, equity-linked bond funds and annuity-matching funds. These products represent some of the core building blocks of our institutional growth strategy. Looking forward, we will seek to complement these liability management products with revised return-seeking products, tailored to the changing needs of defined benefit pension clients. During 2012 we made significant progress in aligning our investment function resources to these new areas of focus and we will launch related products over the course of 2013.

The retail and wholesale market continues to undergo significant change. The end of 2012 saw the implementation of RDR in the UK, with its introduction shifting advisers from commission-based to fee-based business models. In response to these developments we have adjusted the pricing structure on a number of our key products, including the Lifestyle and Multi-manager ranges. Both these products are well positioned in an environment in which advisers increasingly look to outsource the management of client portfolios to dedicated specialists. In addition, we have appointed a Head of our direct-to-consumer business, and we are currently reviewing the product and market opportunities in this area post introduction of RDR. In doing so, we will be mindful of the long-term needs of our clients in any product proposition that we develop.

F&C continues to manage significant assets for a number of strategic partners: Achmea (The Netherlands), Millennium BCP (Portugal), Friends First (Ireland) and Friends Life (UK). These assets principally comprise insurance funds, but also include sub-advised mutual funds and certain pension scheme assets. These are generally long-standing relationships which provided us with exclusivity to manage the assets of the partners for a minimum period of time. However, these exclusivity periods are now nearing maturity.

The Millennium BCP long-term contract terminated in 2011, although we continue to manage the related assets, the majority of which are sourced from an insurance joint venture between Millennium BCP and Ageas. At 31 December 2012, we managed £11.4 billion on behalf of Millennium BCP.

The Achmea long-term contract matures in October 2013; whilst we will retain a portion of the assets we currently manage beyond that date, the final book of assets we will retain is not yet clear. We anticipate further clarity will emerge on the future of this relationship over the next few months. At 31 December 2012, we managed some £22.7 billion on behalf of Achmea.

At 31 December 2012, we managed £21.9 billion on behalf of Friends Life, of which a portion is under contract until October 2014. As previously notified, we anticipate that Friends Life will withdraw some £6.2 billion of fixed income assets during H1 2013 and transfer those to their in-house asset manager. After that withdrawal, remaining Friends Life AUM will be £15.7 billion, of which some £2.4 billion will be invested in fixed income.

We have made considerable progress in streamlining the Group during 2012. We have reviewed and restructured our investment teams and client service areas, resulting in related headcount reductions. We have integrated the former Thames River business into the Group and relocated the Thames River personnel to our London Exchange House premises. We have substantially completed the project work which allows the transfer of our back and middle office to State Street's strategic platform.

## Board changes

Ian Brindle and Jeff Medlock have indicated that, with the turnaround now well underway, they intend to retire from the Board at the Annual General Meeting in May. Ian and Jeff have made significant contributions to the Group and we wish them the very best in their future activities.

## Summary

Two years ago I wrote that the Group had many inherent strengths, but that these had not been reflected in its recent financial performance. I believe that the effect of the actions taken during the course of 2012 will continue to result in improved financial performance in 2013 and subsequent years, and the Group now has in place a Chief Executive, management team and the enhanced profitability to capitalize on the opportunities available to it.

As a result of the hard work of restructuring during the last 18 months the Company is now in a position to invest for growth in new markets and capabilities. This task will fall, in large part, to the new management team and in particular to Richard Wilson who became CEO on January 1st. It is the great strength of F&C that it has people of the calibre and experience of Richard to draw on. I have every confidence that they will build on the base that has been established to achieve a leadership position in the industry and greater returns for shareholders.



**Edward Bramson**  
Executive Chairman

14 March 2013



# This is F&C

F&C is a leading asset management company providing investment solutions across a range of asset classes and strategies.

With offices in eight countries we are a global business with a strong presence in Europe. Our clients are insurance companies, institutional, retail and wholesale investors, representing over three million individuals – for whom we manage approximately £95 billion.



## What we do

At F&C, asset management is all we do. We are dedicated to achieving the best possible results for our investors, be they return, volatility, liability or solutions driven.

By focusing on the needs of our clients we have continued to create investment solutions that are relevant, innovative and address objectives that reflect market opportunities.

## Rich in heritage and relevant for today

We are a forward-looking organisation but one with a rich heritage. We trace our origins to the ground-breaking launch of the first-ever listed pooled investment fund, the Foreign & Colonial Investment Trust, in 1868. It is an investment portfolio we are proud to continue to manage almost a century and a half later, evidence that our clients have trusted us to deliver for them across a range of investment cycles. Our client base today consists of a broad range of institutional and retail investors including insurance companies, pension schemes, sovereign wealth funds, private wealth managers, fund of funds, family offices and financial advisors.

## Our approach to investment

An entrepreneurial culture provides our investment teams with autonomy and ownership of their investment process. Fund managers are fully accountable for performance, and their interests are aligned with those of our clients. Our teams are organised to provide the breadth and depth of investment resource required to deliver the range of investment solutions demanded by our clients. Our approach is built on four core capabilities:

**Investment Solutions** – by working closely with our clients we have tailored our products and services, aiming to meet their needs both today and in the future:

- Liability driven investment tailored to specific client requirements
- Balanced, Fiduciary, Multi-asset and Multi-manager solutions across traditional and alternative asset classes
- Responsible investment and engagement solutions focused on the environmental, social and governance issues faced by companies and institutional investors.

Our objective is simple: to create value by delivering first quartile performance in everything our clients expect from us.

**Equities** – our fundamental research, bottom-up stock selection and conviction portfolios produce a range of equity solutions for accessing global, European and emerging equity markets.

**Fixed Income** – our teams deliver a range of products across the fixed income spectrum, including sovereign and emerging market debt, investment grade and high-yield corporate bonds and convertibles.

**Property** – our property teams provide access to commercial property from direct bricks and mortar to listed real-estate securities.

### Responsible investments

We seek to deliver strong investment performance through active management. However, as a shareholder representative, we seek to engage with the companies in which we invest, aiming to enhance and protect long-term shareholder value. Our approach is to have constructive dialogue with companies. We cast votes on shareholder resolutions globally, and disclose this to our clients on our website.

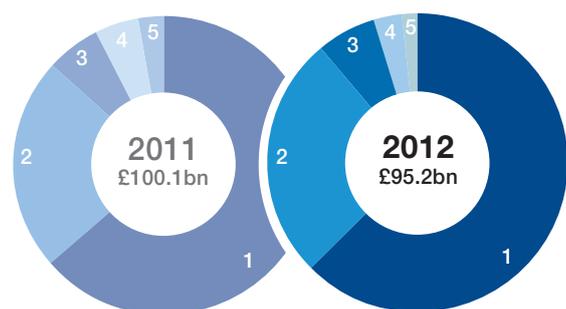
### Key risks (see page 10)

In addition to the “normal” risks facing the business relating to the market, interest rates and foreign currency, the Board has identified the following as the key risks facing the business:

- **Effective execution of strategy**
- **Uncertain economic outlook**
- **Investment performance**
- **Loss of key employees**
- **Breach of client or portfolio limits**
- **Regulation**
- **Loss of key clients**
- **Reliance on third parties**
- **Business continuity and information technology**
- **Counterparty credit exposure**

### Assets Under Management by Client Category

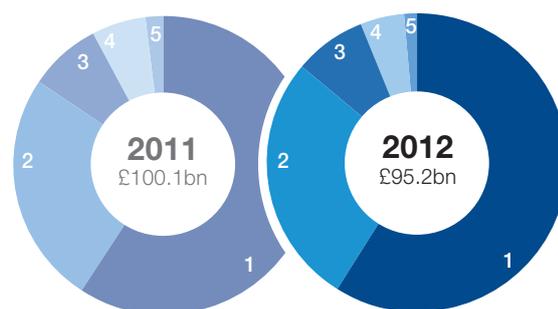
as at 31 December



	2011 £bn	2012 £bn
<b>1</b> Strategic Partners	63.7	<b>58.5</b>
<b>2</b> Third Party Institutional	23.3	<b>24.4</b>
<b>3</b> Investment Trusts	5.6	<b>6.0</b>
<b>4</b> Retail	4.9	<b>5.0</b>
<b>5</b> Wholesale	2.6	<b>1.3</b>

### Assets Under Management by Asset Class

as at 31 December



	2011 £bn	2012 £bn
<b>1</b> Fixed Interest	59.2	<b>56.3</b>
<b>2</b> Equities	25.5	<b>25.7</b>
<b>3</b> Property	7.9	<b>7.5</b>
<b>4</b> Liquidity	5.8	<b>4.5</b>
<b>5</b> Alternative Investments	1.7	<b>1.2</b>

## 2012 Key Awards



# Executive management



**Edward Bramson**

Executive Chairman



**Richard Wilson**

Chief Executive Officer



**David Logan**

Chief Financial Officer

**Benjamin Apfel**

Head of Legal

**Peter Cole**

Head of HR

**Nick Criticos**

Chief Executive, F&C REIT

**Tracy Fennell**

Head of Marketing & Communications

**Toby Hampden-Acton**

Chief Executive, Thames River Capital

**Steve Ilott**

Co-Head of Investment

**Mandy Mannix**

Head of Client Management

**Hugh Moir**

Head of Operations, IT & Projects

**Martin Smith**

Head of Product Management

**Marrack Tonkin**

Head of Investment Trusts & Group  
Company Secretary

**Richard Watts**

Co-Head of Investment

## Executive Directors and Group Management

Messrs Bramson, Wilson and Logan are the Executive Directors of the Company.

The Executive Directors, together with the individuals listed above, form the Group Management team (Group Management). Group Management is accountable and responsible for implementing Board strategy, proposing development of new elements of strategy and for the day-to-day running of the business. In addition to overseeing the implementation of the strategy, Group Management regularly reviews business issues and matters not reserved for the Board as a whole. Group Management has reserved lists to assist it in carrying out its functions.

Examples of matters reserved for Group Management as delegated authorities from the Board include:

- The approval of day-to-day business issues linked to the strategy or the annual budget.
- The launch of new products.
- The approval of contractual commitments.
- The approval of expenditure and the management of any issue that could have a potential legal or reputational impact on the Group.



# Our strategy

## The Company's strategic objectives are:

- Generating above-average shareholder returns with below-average volatility;
- Achieving competitive scale in areas of strategic focus; and
- Creating a stable environment for long-term growth.

## In supporting these strategic objectives, the Group's focus in 2012 has been on the following priorities:

- Investment performance and asset growth in core investment capabilities;
- Implementing the appropriate cost base for each core investment capability;
- Rationalising/prioritising the product range to better utilise resources; and
- Developing a direct to consumer capability.

## Investment performance and asset growth in core investment capabilities

### Investment performance

#### 2012 key points

- 90 per cent of fixed income assets were ahead of agreed index benchmarks or targets over three years as at year end
- 50 per cent of equity assets were ahead of agreed index benchmarks or targets over three years as at the year end
- 78 per cent of IPD monitored property portfolios were ahead of benchmark over three years as at the year end

#### Key performance indicators

##### Average percentage of Fixed Income assets above index benchmark or peer group on an asset-weighted basis

% (3 years)



##### Average percentage of Equity assets above index benchmark or peer group on an asset-weighted basis

% (3 years)



##### Average percentage of Property assets above index benchmark or peer group on an asset-weighted basis

% (3 years)



### Grow new revenues and further diversify the client base

#### 2012 key points

- Good progress with institutional investment consultants, with 74 product buy ratings achieved by the end of the year
- Generated £4.5 billion of new third-party business (ex. strategic partner flows), with a further pipeline of £1.4 billion in institutional mandates awaiting funding
- 44 new institutional clients added during the year

#### Key performance indicators

##### Gross institutional new business\*

£bn



##### Net (outflows)/inflows in retail funds\*

£bn



\* 2011 and 2010 comparative figures have been restated to reflect the revised classification of assets under management with effect from 1 January 2012.

## Implementing the appropriate cost base for each core investment capability

### Create greater flexibility in our cost base

#### 2012 key points

- Core operating costs reduced by £23.3 million, as analysed on page 119
- The cost reduction/realignment programme remains on target to deliver £48.8 million of annualised cost savings
- Completed the reorganisation of Operations, Fund Services and IT functions to oversee the outsourced operations model
- Consolidated and successfully migrated all mutual fund platform and investment trust fund administration services to State Street from a number of service providers
- Transitioned over 180,000 individual savings accounts from BNP Paribas to International Financial Data Services (IFDS) without interruption to client service
- Group headcount reduced by 124 employees, on a full-time equivalent basis
- Appointed new Co-Heads of Investment

#### Key performance indicators

##### Underlying operating margin

%



### Improving capital strength

#### 2012 key points

- Repurchases totalling £16.7 million of the Company's debt during the year

### Developing a direct to consumer capability

#### 2012 key points

- Head of Direct-to-Consumer marketing hired
- Further development of consumer strategy to take place in the first six months of 2013

## Rationalising/prioritising the product range to better utilise resources

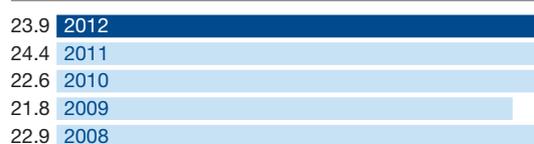
### Focus on revenue growth and specialist areas for new business

#### 2012 key points

- Key institutional products include emerging market debt, equity-linked bond funds, liability driven investments and real estate
- In the UK retail market key focus remains Multi-manager and the 'Lifestyle' funds
- In the wholesale division key products include global bonds and global convertibles
- Appointed a new Head of Client Management

#### Key performance indicators

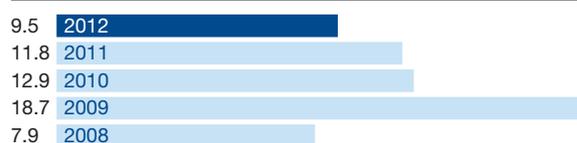
##### Average basis points earned on assets under management\*



\*excluding performance fees

##### Performance fees earned

£m



# Managing risk

The Directors are committed to a strong control environment throughout the Group. F&C has a culture that emphasises the importance of rigorous disciplines and procedures to safeguard the interests of our clients and other key stakeholders.

## Effective execution of strategy

**Key Risk** The success of the Group depends upon the successful formulation, articulation and execution of its strategy and the ability to adapt to changes in the business environment to ensure it remains competitive. Growth in third-party institutional and consumer AUM and, more critically, revenues, is key to the successful delivery of strategy. Poor execution may lead to a lack of growth and competitiveness and reduced profitability.

**Mitigation** The Group has the articulated objective of achieving competitive scale in areas of strategic focus through consistent investment in products, channels and human resources. The Group has sought to ensure that its product development, distribution and investment processes are aligned, positioning it to deliver a competitive product offering in areas of key focus. Clearly defined distribution targets allow management to monitor progress in AUM and revenue growth.

## Uncertain economic outlook

**Key Risk** The UK and global macroeconomic outlook remains uncertain. Client investment preferences, and the Group's AUM and revenues, may be impacted by underlying economic and market conditions. In addition, a substantial proportion of the Group's revenues are denominated in Euros. Adverse market conditions in one or more asset classes or changes in economic factors may lead to a reduction in AUM and/or revenues. In addition, actual or perceived changes in market or economic outlook may lead clients to alter their allocations to particular products or asset classes.

**Mitigation** The Group offers competitive products across a wide range of asset classes, including equity, fixed income, property and Multi-asset, limiting its exposure to the impact of market volatility in any one market or asset class. Further, a number of the Group's investment-solutions products are much longer term in nature, and their performance and marketability is less impacted by short-term market volatility. The Board periodically consider hedging the Group's Euro-denominated cashflows.

## Investment performance

**Key Risk** The delivery of strong investment performance depends upon the successful management of client portfolios against targets, benchmarks and/or peer groups. Failure to meet these objectives could lead to outflows, may impact the Group's ability to win new mandates or assets and may potentially expose the Group to greater risk of mandate or regulatory breach.

**Mitigation** Fund Managers are responsible for interpreting and effectively managing performance and risk associated with trading ideas/strategies. The Group operates an independent Investment Risk Oversight team which monitors and challenges risks within client portfolios and provides appropriate management information.

The Group Performance and Risk Review Committee meets regularly (normally monthly) to ensure an appropriate level of oversight is applied to investment performance and risk.

## Loss of key employees

**Key Risk** The success of the Group depends on the support of its employees in key areas including investment, distribution, marketing and product development. Over the last eighteen months, the Group has rationalised its business and headcount in line with its strategic goals and ambitions. The loss of key employees may prevent the Group from winning new business or meeting its strategic goals, and may lead to client outflows and the loss of key mandates.

**Mitigation** The Group's compensation model targets the retention of key employees, through competitive cash and long-term remuneration. All employees receive an annual appraisal which reviews their performance against clearly defined objectives with the aim of encouraging strong performance. Reliance on key individuals is mitigated by the Group's team-based approach to investment management. Moreover, we seek to reduce our dependence on key staff through the recruitment of suitably skilled individuals and by ensuring succession plans are in place for senior roles to provide emergency or immediate coverage.

## Breach of client or portfolio limits

**Key Risk** Many of the Group's investment mandates include specific limits, restrictions and/or exclusions on the construction or content of portfolios agreed with the client. In addition, certain pooled fund products may be subject to specific regulatory or fiscal limits, restrictions and/or exclusions. Any breach of client mandate may render the Group liable to pay financial compensation.

**Mitigation** A Group-wide database is utilised to record all mandate-related rules. Fund managers provide the Group's first line of defence in ensuring that funds are managed within mandate. In addition, a control function provides a regular review of mandate compliance.

## Regulation

**Key Risk** The UK, European and Global regulatory environments are rapidly evolving. The expectations of financial regulators are changing and regulated Groups must embed regulatory compliance in their business models to an even greater extent than previously required. Regulation has become, in many areas, more complex and onerous and regulated entities are faced with shorter timelines to interpret and implement new regulation. There is substantial complexity from overlapping regulatory directives. Regulatory change may lead to consolidation in the marketplace, the launch of new products, withdrawal or commoditisation of existing products and increased reliance on specialist third-party service providers as

asset managers increasingly focus on core activities of investment management, client servicing and distribution.

**Mitigation** The Group Compliance team ensures that key regulatory changes are identified at the earliest opportunity. Their impact is then assessed to allow practical guidance on the proper application and interpretation of any changes to be provided to all relevant business areas. Related business change is supervised through the Group's change management process and oversight provided through the Group Management Committee and Audit and Compliance Committee.

### Loss of key clients

**Key Risk** The Group's revenues are derived from the assets it manages and the relationships it has with its clients. Historically, the Group derived a significant portion of its revenues from a small group of strategic partner clients, with whom it had long-term contractual relationships. These long-term relationships have either reached, or are shortly due to reach, maturity and there is a risk that these clients will either withdraw significant AUM or terminate their relationship.

**Mitigation** The Group acknowledges the revenue contribution made by its strategic partner clients, and will seek to retain these relationships where it is viable and economically appropriate to do so; our focus is on investment performance, strong relationship management and understanding the evolving needs and expectations of these clients to maximise asset retention. However, the Group's strategy recognises the concentration risk to these clients and seeks to mitigate it through the growth of third-party consumer and institutional revenues and the identification of further cost reductions which may be implemented in the event of strategic partner revenue loss.

### Reliance on third parties

**Key Risk** In pursuing a strategy with a focus on competitive scale, the use of outsourced service providers benefits the Group by providing cost-effective access to an industry-competitive operating platform. The Group's key outsource partner is State Street Corporation, which provides a range of back and middle office, fund accounting and transfer agency services. Any weakness in service delivery by an outsourced provider may impact the Group's ability to meet its contractual obligations to its clients. Further, the Group's ability to meet client demands, launch new products or meet changing regulatory or market expectations may be dependent on appropriate support from its outsourcing partner.

**Mitigation** The Group conducted an extensive selection and due diligence exercise prior to selecting State Street Corporation as an outsourcing provider and entering the related contractual arrangements. The Group led this process using an internal project team, supported by external legal and consultancy advisors. Since the implementation of the contract, the Group has established a supplier and change management team to oversee and monitor third-party service delivery and ensure there is appropriate oversight and effective resolution of issues. Arrangements are in place to ensure that State Street Corporation is incentivised to provide the level of service that is required. The Supplier and Change Management team holds regular service review meetings with State Street Corporation as part of the ongoing governance arrangements.

### Business continuity and information technology

**Key Risk** The Group's success is dependent on access to a robust IT infrastructure and appropriate IT systems. The Group is exposed to the risk that its infrastructure and systems are unable to meet the demands of client, regulatory and/or technology change.

**Mitigation** The Group has a short and medium-term IT plan with clear objectives to meet mandatory change requirements, deliver further integration of systems and enhance the agility of the Group. The Group maintains and periodically tests its business continuity arrangements. As part of its plans to enhance business continuity, the Group migrated its data centres to a new, more robust model, during 2012.

### Counterparty credit exposure

**Key Risk** The Group is exposed to credit risk and the risk of failure in respect of counterparties used to hold corporate cash on deposit.

**Mitigation** The Group adopts a low-risk approach to treasury management in respect of its capital. The treasury policy permits placement of Group capital only with approved counterparties and sets out quantum and duration limits. The Group Credit and Counterparty Approval Committee meets on a regular basis (normally monthly) to ensure an appropriate level of oversight is applied to counterparty credit risk and to set and review appropriate counterparties and exposure limits.

# Our view of the market

We remain positive on the long-term outlook for the asset management industry. Reform of pension systems in developed markets provides opportunity for growth, and increasing personal wealth in emerging economies continues to create new pools of assets for the industry to manage.

Governments across much of the developed world continue to seek ways of reducing liabilities arising from universal welfare provision – something that is increasingly unsustainable against a backdrop of longer life expectancy. In many developed countries individuals are likely to spend more than 20 years in retirement. For example, in the UK the number of retirees is expected to rise by more than one-third by the mid point of the century, whilst the working population is expected to decline. Similar trends are forecast in other countries and these changes are prompting governments to encourage individuals and employers (on behalf of their employees) to assume greater responsibility for their future financial well-being.

October 2012 saw the introduction of a legal obligation for UK companies to auto-enrol employees between the ages of 22 and the state pension age and earning more than £8,105 into a pension scheme and make a minimum contribution on their behalf. This new initiative is aimed at overcoming savings inertia. The National Employment Savings Trust (NEST) similarly seeks to encourage long-term savings, providing an option for individuals with no access to a company pension scheme.

The number of open defined benefit pension schemes continues to fall with schemes now having to counter the problem of underfunding and achieve a balance between de-risking and return generation. These trends provide opportunities to the asset management industry and asset managers capable of providing innovative and dynamic liability management and return-generation solutions should be well placed going forward.

The defined contribution (DC) pensions market is likely to see rapid growth with further impetus provided by the auto-enrolment and NEST initiatives outlined above. Within DC schemes the emphasis continues to shift from a focus on return generation towards de-risking and immunisation of future liabilities. Fixed income remains the core asset class for DC schemes but, again, we believe that asset managers need to create new solutions capable of delivering returns within defined risk parameters. We expect to see greater demand for credit and emerging market debt as well as more esoteric options such as diversified alternative strategies.

Corporate governance-related issues remain to the fore and pension schemes are under increasing pressure to be transparent and active owners with regards to sustainability, governance and engagement issues. Asset managers capable of assisting clients alleviate this burden through demonstrable expertise are increasingly at a competitive advantage over their peers. Sustainability-related issues and developments are also growing in importance from a return generation perspective and solutions capable of leveraging themes, such as climate change, water and agriculture, are likely to be well placed for future asset gathering.

The retail and wholesale markets continue to undergo structural change, primarily through the growing importance of platforms and regulatory reform, both of which have a significant impact on the distribution of investment funds. The end of 2012 saw the implementation of RDR, which has already prompted advisers to restructure their business models and shift from commission-based remuneration to an explicit fee-based structure. As well as increasing the popularity of lower cost passive options RDR has given significant impetus to 'outsourced' investment solutions. Advisers are increasingly compelled to 'outsource' the management of client portfolios to either Multi-managers or discretionary fund managers. Management groups capable of providing high quality differentiated Multi-asset and Multi-manager products should benefit from stable and reliable fund flows into their 'outsourced' investment management solutions.

The broader application of fee-based charging models was widely anticipated to prompt an increase in the size and importance of the self-directed channel as investors shunned 'paid-for' advice and chose to make their own investment decisions. Early indications suggest this trend is likely to be significant, with Hargreaves Lansdown attributing a 27 per cent increase in new client numbers to RDR. A number of high street banks have also announced changes to their financial advice propositions and we believe they add further impetus to the self-direct channel. Asset managers with a strong brand and capabilities in areas such as Multi-manager could see a significant increase in inflows from this area.

RDR is widely cited as being a positive development for the investment trust sector. The wider application of fee-based advice has certainly levelled the playing field between investment trusts and open-ended funds. In order to generate momentum, however, we believe that investment trust providers have an ongoing responsibility to educate advisers about the benefits of investment trusts and their inherent characteristics and we believe it will be some time until the full implications of RDR are reflected in fund flows.

# Our trading performance and outlook

## Introduction

F&C provides asset management services to two main client groupings, which we classify as strategic partners and consumer and institutional clients. Our proposition for consumer and institutional investors comprises a wide range of investment products and funds, sold to third-party retail, wholesale and institutional clients.

Strategic partners primarily comprise a small group of insurance clients for whom we have managed assets under longer-term contractual arrangements. These contracts have generally provided us with certain exclusivity rights in relation to the management of the assets associated with each partner. The assets managed for each of these clients are generally much greater than our average relationship size.

Our strategic partner focus is on the retention of current relationships and capture of related asset flows, through a combination of strong relationship management, investment performance and client service.

The consumer and institutional area provides us with much greater scope for revenue and asset growth, through a variety of products and channels, and our sales and marketing efforts are heavily biased towards this area of business.

## Strategic Partner business

Our strategic partners comprise: Achmea (The Netherlands), Millennium BCP (Portugal), Friends First (Ireland) and Friends Life (UK). The assets managed for these entities principally comprise insurance funds but also include certain sub-advised mutual funds and pension scheme assets. These are long-standing relationships which generally provide us with exclusivity to manage the assets of these partners for a minimum period of time. An exception to this is the Millennium BCP relationship in Portugal, which is principally represented by a BCP-Ageas insurance joint venture, where the exclusivity period has already come to an end, although we continue to manage all the related assets. The current Achmea exclusivity relationship and related contract matures in October 2013 and the current Friends Life contract matures in October 2014.

We provide strategic partners with portfolio management in multi-asset and single-asset class mandates and a range of investment solutions, such as liability hedging strategies and shareholder engagement programmes.

At 31 December 2012 assets under management for strategic partners were £58.5 billion (2011: £63.7 billion) representing 61 per cent of our total assets under management. Due to the lower fees that we receive for managing these assets, our revenue from strategic partners is considerably less at some 33 per cent of 2012 net revenues.

Partially due to the maturity profile of some of the underlying insurance products of our strategic partners, there has been a long-standing trend of annual net outflows. In 2012 net outflows from strategic partners were £11.4 billion (2011: £7.2 billion). 2012 strategic partner outflows were exacerbated by previously notified outflows of £1.0 billion of Millennium BCP pension scheme assets due to the partial nationalisation of the Portuguese banking pension system and withdrawals of £5.3 billion of fixed income assets by Friends Life. As disclosed in previous reports, Friends Life has established an in-house fixed income asset management function, and has repatriated certain assets to this business. We anticipate that a further £6.2 billion of fixed income assets will be transferred to Friends Life during 2013; after this transfer we will manage approximately £15.7 billion of Friends Life assets, including £2.4 billion of remaining fixed income assets.

Whilst the Achmea long-term contract matures in October 2013, we do not yet have clarity on asset withdrawals that may result from this and we anticipate dialogue with Achmea regarding their future asset management arrangements during H1 2013. At 31 December 2012, we managed approximately £22.7 billion on behalf of Achmea.

## Consumer and institutional

F&C is a leading provider of services to third-party investors, which we broadly categorise as either third-party institutional business, or consumer business, which comprise open-end retail funds and investment trusts.

Our third-party institutional business includes a range of solutions-led products, principally aimed at assisting clients immunise their liabilities, together with a range of return-seeking products across asset classes – equity, property, fixed income and Multi-asset. Our largest institutional client base is defined benefit pension schemes and our largest markets for third-party institutional business are The Netherlands, the UK and Germany. Institutional assets under management were £24.4 billion at 31 December 2012 (2011: £23.3 billion) representing 26 per cent of our total assets under management and some 28 per cent of 2012 net revenues. Mandates in the institutional asset management industry are predominantly intermediated through firms of investment consultants who advise pension schemes on manager selection and asset allocation. In recent years F&C has achieved a much improved position with investment consultants, with a total of 74 individual product buy ratings at the end of 2012. During 2012, our institutional business recorded net outflows of £0.7 billion; while we generated gross inflows of £2.9 billion, these were more than offset by gross outflows of £3.6 billion. However, pleasingly, our inflows were biased towards areas of strategic importance for the Group, whilst outflows were generally of lower fee margin, legacy business. Additionally, at 31 December 2012 the Group had a further pipeline of institutional new business that had been won, but had not yet

funded, net of withdrawals, of some £0.8 billion. We believe our institutional business is well positioned for growth, with strong investment track records, significant scale and consultant support in a number of core capabilities. As we look forward, we will seek to enhance our product range with new offerings which we believe will meet the emerging needs of institutional investors.

The Group also offers a wide range of collective investment vehicles which are distributed into the retail and wholesale markets, principally through Independent Financial Advisers, discretionary wealth managers and other wholesale channels such as banks and platforms. These products comprise closed-end listed investment companies/investment trusts and both UK and offshore-domiciled open-ended mutual funds. Some of these vehicles are managed by F&C staff and others by teams operating through the Thames River LLPs. It is important to distinguish between these, as the allocation of revenues and profits differ significantly. Where a fund is managed by a Thames River team, the revenues earned from that fund, net of the direct costs of managing the fund, and certain allocated costs, are shared between the senior investment professionals in the investment team and the Group under a predetermined profit share formula. This typically results in the senior investment professionals receiving around 50 per cent of the relevant profits. Where a fund is managed by F&C staff, the relevant investment managers are generally remunerated by a combination of salary plus a discretionary bonus.

During 2012, the total assets managed in fund products and investment trusts declined by £0.8 billion to £12.3 billion at 31 December 2012. The decline was principally attributable to wholesale outflows of £1.2 billion, offset by market growth in retail funds and investment trusts. Wholesale redemptions were principally attributable to investment performance and related portfolio positioning within the Thames River Global Credit and Global Bond teams. After a number of years of outflows from share buy-backs, our investment trusts posted a small positive flow for 2012, with a number of trusts issuing new equity to meet shareholder demand.

During 2013, we anticipate that our wholesale efforts will be biased towards a number of fixed income products, including emerging market debt and convertibles, while within the retail channel our focus will be biased towards our Multi-manager funds.

# Our financial performance

## Total return

We view share price total return (including dividends) as a key performance measure. Our total shareholder return for the year ended 31 December 2012 was 62.5 per cent. In the same period, the total shareholder return on the FTSE 250 Index was 26.1 per cent and the FTSE 100 Index was 10 per cent.

## Market backdrop

Our financial results have three key sensitivities to external factors; equity market levels, fixed income market levels and the Euro/Sterling exchange rate. Equity market levels and fixed income market levels impact our assets under management, and consequently our revenues; at the end of 2012 approximately 59 per cent of our assets were invested in fixed income securities, and a further 27 per cent in equities. In 2012 we earned approximately 41 per cent of our revenues in Euros, primarily in respect of assets managed by our Dutch and Portuguese subsidiaries and our reported revenues are impacted by the exchange rates used to translate these amounts to Sterling. Depending on the nature of our products and mandates, revenues may be determined by reference to daily, monthly or quarterly assets under management.

Equity markets were volatile during 2012; the FTSE 100 opened at 5572; it subsequently reached a low of 5260 on 1 June 2012 before recovering to close the year at 5898. The average FTSE 100 level over 2012 was 5743. Fixed income markets continued to perform strongly during 2012, as investors continued to favour low risk assets for most of the year. For example, the Barclays Euro Aggregate Index, a broad fixed income index, opened the year at 147.8 and closed the year at 159.5, posting a positive return of some 8 per cent.

The Euro/Sterling exchange rate opened the year at 1.20, before strengthening to 1.28 in quarter 3 of 2012; the year-end rate was 1.23 and the average for 2012 was approximately 1.23.

## Presentation of financial results

International Financial Reporting Standards (IFRS) require our Financial Statements to consolidate the results of our Managed Pension Funds (MPF) business on a line-by-line basis, impacting the presentation of both our Income Statement and Statement of Financial Position. Our MPF business provides certain clients with asset management services inside an insurance product wrapper. The requirement to consolidate this business has a significant effect on the financial investments and investment contract liabilities captions included in our Statement of Financial Position, the risks and rewards of which are substantially borne by the clients of this business. In addition, our Statement of Financial Position includes some £4.5 million of cash also attributable to policyholders of this business and which is not available for corporate purposes. As MPF is not an area of strategic focus for the Group and has recorded net client redemptions in recent years, a project is underway to terminate this business and all clients have been offered the opportunity to transfer to alternative F&C funds. As a consequence, the financial investments and investment contract liabilities associated with MPF have reduced substantially during 2012 and we anticipate that the remaining amounts will be redeemed in H1 2013.

## Net revenue

Net revenue for the year was £243.5 million (2011: £267.0 million). This included £9.5 million (2011: £11.8 million) of performance fee income. Performance fee income was earned from a variety of fund and client types, with the most significant contributor being F&C REIT, our property business, where investment performance has remained strong throughout 2012.

Strategic partner revenues declined by some £7.7 million during the year, whilst consumer and institutional revenues fell by some £18.0 million, with some £14.4 million of that decline attributable to wholesale funds.

Our strategic partners remain an important part of our client base, however, we believe our strongest growth opportunities lie in our consumer and institutional business – for both third-party institutional business and in the retail and wholesale channels. While £4.5 billion of gross new third-party business was funded during 2012, outflows of £6.4 billion resulted in net outflows of £1.9 billion. Some £1.2 billion of these net outflows arose in our wholesale business, which comprises certain of the legacy Thames River funds. Whilst these funds carry a net fee margin substantially higher than the majority of our business, their impact on Group profitability is significantly less, as a result of the relationship between fee income and distributions to members of the Thames River LLPs. Our third-party institutional business recorded net outflows of £0.7 billion during 2012; however, as a result of the differential between lower fee margin outflows and higher fee margin inflows, these net flows will contribute a small increase in annualised revenues.

As they are indicative of the growth potential of the business and a measure of the successful implementation of our strategy, consumer and institutional funds flows and associated annualised revenues represent a key performance indicator (KPI) used by the Board and management to assess the progress of the business.

## Revenue margin

Our revenue margin excluding performance fees, measured as our net management fee income divided by average assets under management, reduced from 24.4 basis points in 2011 to 23.9 basis points in 2012. This decline principally arises from the reduction in wholesale funds, which carry a fee margin approximately 75 basis points greater than the Group average.

## Operating expenses

The Group's underlying operating expenses, excluding foreign exchange gains and losses, amortisation of intangible assets and exceptional items, were £172.1 million in 2012, a reduction of some £30.0 million, or 15 per cent, over prior year levels. This reduction is attributable to two main factors. Firstly, core operating expenses reduced from £183.8 million to £160.5 million, a reduction of £23.3 million. This reduction reflects the implementation of the actions outlined in the Group's strategic review and we anticipate that the remaining savings identified in that review will be delivered in line with the timetable previously set out. Secondly, distributions to the individual members of the Thames River limited partnerships fell from £18.3 million to £11.6 million, primarily reflecting the reduced level of income from the wholesale funds managed by the Thames River

partnerships. The Group's largest cost is personnel cost and during the year, headcount, on a full-time equivalent basis, fell to some 723 at 31 December 2012 from 847 at 31 December 2011.

During 2012, we incurred a number of exceptional operating costs, which are excluded from our underlying results. These include employment expenses, property expenses, outsourcing expenses and litigation expenses, details of which are set out in note 6(a) to the consolidated financial statements.

As noted above, we continued to implement the cost reduction programme which we announced as part of 2011's strategic review. In addition, we executed certain other cost reductions, either to ensure that we are able to invest resources in areas of potential long-term growth whilst controlling our overall cost base, to rightsize functions in line with our changing business needs and requirements, or to ensure that we can absorb inflationary cost rises within our overall targeted cost base. The majority of these cost savings will be realised through headcount reductions and during 2012 exceptional employment related costs of £8.2 million have been recognised in respect of termination and benefits payments; these represent the one-off cost to be incurred to generate the annualised savings. Whilst we anticipate that further such costs will be incurred during 2013 as remaining actions are implemented, we expect a substantial reduction in exceptional employment costs during 2013.

Exceptional outsourcing expenses of £3.3 million primarily represents project management, implementation and consultancy costs incurred in connection with the outsourcing of our back and middle office to State Street. Whilst the outsourcing contract became effective during 2011, we have incurred significant project costs associated with the transfer of our administration arrangements to State Street's long-term, strategic platform. We previously anticipated that this project would have been completed during 2012; the final implementation was completed in Q1 2013 and, accordingly, associated implementation costs will cease at that date.

When we announced our outsourcing contract in 2011, we indicated that the reduction in headcount through the transfer of personnel to State Street would allow the Group to reduce its premises costs by approximately £3.0 million per annum. This saving has now been realised, with an associated net cost of implementation of £1.3 million.

The final matters associated with F&C Partners litigation were settled during 2012. Both the litigation and settlement were complex and although the economic consequences were substantially recognised in the 2011 financial statements, the nature of the final settlement agreed in 2012 resulted in an exceptional accounting charge of £1.3 million being recognised in the year.

### Operating margin

The Group's underlying operating margin for 2012 was 29.2 per cent compared to 24.4 per cent in 2011. The successful implementation of the cost reduction programme has been a key contributor to the increase in margin. Operating margin represents one of management's key performance indicators, and its importance will increase as a measure of success of the Group's strategy, whereby we are seeking to leverage on areas of scale and competitive advantage. As a result of this, we are more agnostic on the fee margins associated with new

business, so long as that new business carries adequate marginal profit. Successful implementation of our strategy will be reflected by further increases in operating margin.

Operating margin is measured as underlying operating profit as a percentage of net revenue. For this purpose, adjusted operating profit represents operating profit before the impact of exceptional items but after deducting variable compensation payable to members of Thames River partnerships.

### Foreign exchange gains and losses

As indicated earlier in this review, the Group's results are sensitive to foreign exchange rate fluctuations. Translational gains and losses on revenues and expenses are reflected within the Sterling equivalent of those revenues and expenses, however, the Group also incurs exchange gains and losses on the retranslation of assets and liabilities held in foreign currency. During the year these losses amounted to £2.0 million. As they do not reflect the ongoing profitability of the business, they have been excluded from underlying earnings.

On a constant-currency basis, had 2012 results been recognised at the same average Euro/Sterling exchange rate as 2011, the underlying operating profit would have been some £5.4 million higher than reported. This equates to an underlying earnings per share impact of approximately 0.8p.

### Financing revenue and expenses

The Group's finance revenue fell to £14.6 million (2011: £17.2 million). The principal reasons for this change were a reduction in performance-related carried interest income of £2.6 million, offset by gains on debt repurchases of some £1.1 million.

Our finance costs fell by £2.0 million to £33.4 million, with reductions in interest costs arising from senior and subordinated loan notes repurchased during the year of £0.4 million and reduced bank and loan facility fees and costs of £0.7 million. Repurchases of loan notes during 2012 will reduce our annualised interest costs by some £1.3 million per annum.

### Amortisation and impairment of intangible assets

Under IFRS, when an acquisition is made, there is a requirement to recognise separately the fair value attributed to intangible assets, in our case, management contracts. The excess of consideration over the fair value of net assets acquired represents the business value and infrastructure and is recognised as goodwill.

Management contracts are separated by client category and are amortised over their estimated useful lives. Where an indicator of impairment occurs, such as greater than anticipated fund losses, we are required to review the carrying value of these contracts.

No such indicators of impairment arose during 2012 and, accordingly, no impairment charges were recognised.

We are also required to conduct an annual impairment review of the carrying value of goodwill. This review demonstrated that there was no impairment and hence no requirement to write-down goodwill.

### Thames River acquisition

The Group continues to incur various acquisition-related expenses arising from the acquisition of the Thames River group; in line with the

treatment adopted in previous years, these amounts have been excluded from underlying earnings.

Firstly, the Group established a Management Retention Plan (MRP) to retain and incentivise certain key individuals within Thames River. Under this plan some 21.7 million F&C shares were awarded, of which we currently expect some 19.2 million shares to be issued and vest to employees in September 2013. At the date of announcing the acquisition, these share awards had a value of some £15.0 million. The value of the share awards at the date of grant is treated as an expense over the vesting period and a cost of £6.2 million under this plan has been recognised in the 2012 results.

Secondly, at the time of the acquisition, the Group entered into agreements (the Commutation Arrangements) with the Individual Members of the Thames River Limited Partnerships. Under the Commutation Arrangements, the Group agreed, under certain circumstances, to purchase part of the Individual Members' profit share in the partnerships by issuing F&C shares in consideration. As the Commutation Arrangements can only be exercised by members who are still actively involved in the Thames River business and those members must continue in the business for a further two years in order to receive the full amount of their consideration, IFRS requires the estimated value of the shares which may be issued under the Commutation Arrangements to be treated as an expense, recognised between the date of award and the expiry of the period in which the member must remain in the business. The Commutation Arrangements can be split into two parts.

Under the first commutation, an investment team which had positive fund flows in the 12 months prior to the commutation date could require the Group to purchase a proportion of their profit share. This commutation option was exercisable in H1 2012 and under these arrangements, the Group purchased approximately £1.4 million of profit entitlement, in return for the issuance of 10.7 million shares, of which 5.35 million vested immediately and the remaining 5.35 million vest in March 2013.

Under the second commutation, the Group can, if it wishes, acquire profit share from each or any investment team. The maximum amount of profit share which can be acquired through the first and second commutation is typically 20 per cent of the profit share of each investment team. An accounting cost of £1.4 million has been recognised in the 2012 Financial Statements in respect of those teams where it appears economically attractive at December 2012 to exercise the commutations. If the second commutation had occurred at 31 December 2012, the Group would have issued approximately 3.8 million new shares in satisfaction of its obligations. No commitment to exercise those commutation rights has been made.

The aggregate commutation expense of £1.6 million therefore reflects the charge of £3.5 million for those commutation options which have been exercised or assumed to be exercisable, less a £1.9 million credit, which primarily relates to options which are no longer assumed to be exercisable.

## F&C REIT

Our minority interest partners in F&C REIT, the Group's property asset manager, currently own 30 per cent of the business. In certain circumstances, they can require F&C to purchase their interests at

future dates and a liability for this potential obligation is included in our financial statements. As this option is required to be carried at its exercise value, it is revalued each year, with any revaluation gain or loss reflected in the Income Statement. During 2012, a downward revaluation resulted in a gain of £11.5 million being included in the 2012 Income Statement. This gain is excluded from underlying earnings.

## Underlying earnings

The Board utilises underlying earnings per share as one of its key metrics in assessing financial performance. The reconciliation between underlying earnings and statutory earnings is provided in note 10 to the Consolidated Financial Statements and is summarised on page 118. Underlying earnings per share for the year ended 31 December 2012 were 7.1p (2011: 5.5p).

## Dividends

An interim dividend of 1.0 pence per share was paid during the year. After a review of the results for the year, the market conditions that prevailed during the year and the business outlook for 2013, the Board has declared a final dividend of 2.0 pence per share. If approved by shareholders, this dividend, together with the interim dividend, will result in a total dividend for the year of 3.0 pence per share. The Board is conscious of the need to balance returns to shareholders through dividends with the profit enhancing objective of repaying the Group's senior and subordinated loans over the medium term.

## Cash resources

The Group has gross debt of some £258.0 million (2011: £274.7 million), comprising £116.0 million of subordinated loan notes and £142.0 million of senior loan notes. Neither the subordinated loan notes nor the senior loan notes include any financial covenants. During 2012, the Group repurchased for cancellation £9.0 million of subordinated loan notes and £7.7 million of senior loan notes, in line with the stated intention of reducing its gross debt. These loan notes were, in aggregate, repurchased for £1.1 million less than their par value.

At 31 December 2012, the Group held cash resources of £165.2 million (2011: £225.0 million), of which some £4.5 million (2011: £28.1 million) relates to policyholders and is not available for corporate purposes. A significant portion of cash is held in our regulated subsidiaries against their capital requirements. As asset management is a cash-generative business, we should not require significant cash for working capital purposes beyond our regulatory capital requirements.

Our borrowings carry fixed rates of interest. The subordinated loan notes currently bear interest at 6.75 per cent and the senior loan notes carry a fixed 9 per cent interest rate. Our cash resources earn interest based on bank deposit rates. We use multiple counterparties for our cash deposits, which are approved by the Group's credit committee. The maximum amount that can be held with a single counterparty is £25.0 million.

# Our strategic approach and commitment to corporate responsibility (CR)

## CR commitment

The Board is committed to maintaining the highest standards of governance and corporate citizenship. We recognise that, in addition to our responsibilities to clients and shareholders, we also have responsibilities to employees, suppliers, the environment, the companies in which we invest and the wider community in which we operate.

## CR strategy

The Group has two overarching, strategic CR ambitions:

- To enable our clients to respond effectively to changing dynamics in the world economy, through our products and through influencing companies to improve business performance.
- To ensure that we meet the highest practicable standards of corporate responsibility in our own operations.

We have defined four key categories supporting our strategic ambitions: Marketplace, Environment, Workplace and Community.

We are committed to monitoring and reporting on progress against the targets set within each category, both internally (on a quarterly basis) and externally (at least annually). F&C's CR policies are guided by a number of broadly-accepted international standards and benchmarks. Wherever practicable, we seek external validation of our progress and publish these results.

F&C considers the following key external measures to validate our relative CR performance.

## External validation

	2011 position	Existing position	2013 target
BITC Corporate Responsibility Index	Platinum status	Platinum status	Platinum status
EIRIS/FTSE4Good	Inclusion	Inclusion	Inclusion
UN Global Compact CCP	Inclusion	Inclusion	Inclusion
Carbon Disclosure Project	Member	Member	Member
Principles for Responsible Investment	Founding signatory	Founding signatory	Founding signatory

F&C identifies its key stakeholders as shareholders, clients, employees, suppliers, government and non-government organisations, the wider community, other asset management companies and companies in which we invest. We engage widely with stakeholder groups, through regular dialogue tailored to meet the requirements of each stakeholder group.

## CR categories supporting strategic ambitions

F&C has established key performance indicators (KPIs) for each of the CR categories outlined below, details of which can be found in the Corporate Responsibility section of the Group's website. A summary of our objectives in each area is set out below.

### Marketplace

F&C will use the influence of its clients' assets to engage with companies on all relevant CR matters where this will improve business performance. F&C intends to achieve 285 milestones (being an instance in which a company improves its policies, procedures or practices following engagement and where F&C's participation has been a major factor) in 2013.

F&C will issue voting instructions in line with its Corporate Governance Operational Guidelines on 100 per cent of global resolutions for which it is mandated on behalf of clients and will publish its voting history. F&C will contact 100 per cent of companies following an abstention or vote against management.

### Environment

F&C is targeting carbon neutrality internally and is committed to helping our clients and suppliers cut carbon emissions. Over the next three years F&C will obtain 100 per cent of its energy usage from renewable sources, where such markets exist.

F&C will source 100 per cent of its paper from chlorine-free recycled supplies, reduce waste to landfill by 20 per cent and increase its own recycling by 20 per cent.

F&C, through its marketplace engagement activity, will widen its influence to the companies in which it invests.

### Workplace

F&C is committed to ensuring good practices in managing its own workplace issues.

F&C always seeks to employ the best person for each job and does not discriminate on grounds of gender, race, ethnicity, religion, sexual orientation, age or physical disability. F&C will educate 100 per cent of employees on the importance of recognising and embracing diversity in the workplace and the community as a whole.

F&C encourages share ownership and will continue to operate all-employee share schemes.

**CR key performance indicators**

Category	KPI/statistic	2012 performance	2013 targets
<b>Marketplace</b>	Number of resolutions voted on during the year	100%	100%
	Proportion of companies contacted following an abstention or vote against management	100%	100%
<b>Environment</b>	Carbon neutrality	Full	Full
	Reduction in paper consumption	5%	5%
<b>Workplace</b>	Diversity or Compliance training (staff coverage)	100%	100%
<b>Community</b>	Staff participation in Give As You Earn	11%	15%
	Employees participating in charitable events and charitable fundraising	509	475
	Staff volunteering for community projects	58 staff days	365 staff days

**Community**

F&C offers financial support and, wherever practicable, offers employees time off work to support charitable activities.

In 2013 F&C is targeting 365 staff days of community work.

F&C targets 15 per cent of employees participating in the Give As You Earn scheme and will match employee contributions up to a set monthly level.

**Examples of some of our 2012 community or charity events**

67 members of staff participated in the JPMorgan Chase Corporate Challenge, held in Battersea Park, London, raising funds for Barnardos.

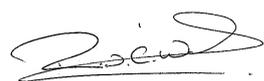
In 2012, 17 members of staff participated in the BITC's Community Games initiative which formed part of their annual "Give & Gain" event.

5 members of staff in the London office participated in the London Marathon, raising funds for a variety of charitable causes.

More than 30 members of staff based in the UK volunteered for a variety of events held by the Charity of the Year, Back Up Trust.

**How is CR implemented by F&C**

The Board is ultimately responsible for CR within the Group. Development of F&C's policies on CR and their implementation throughout the Group are co-ordinated by the CR Committee, chaired by David Logan.

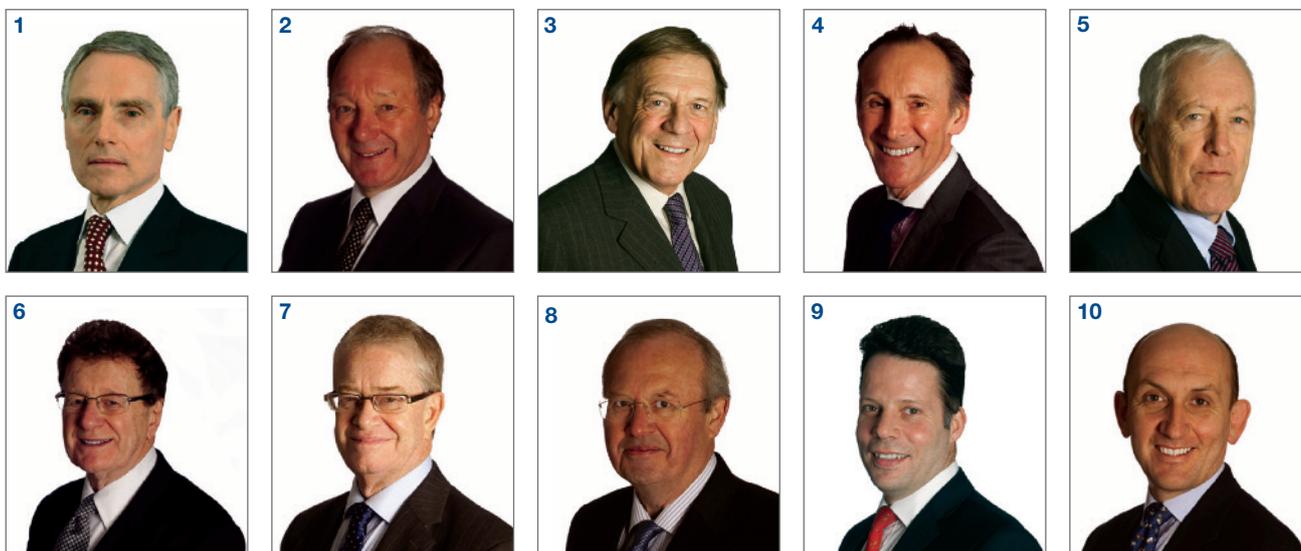

**Richard Wilson**

25 March 2013


**David Logan**

25 March 2013

# Company Directors



## Non-executive Directors

### 2 Keith Bedell-Pearce CBE<sup>††</sup>

Senior Independent Director

Mr Bedell-Pearce, a solicitor, joined the Board in December 2002. Until December 2001, Mr Bedell-Pearce was an executive director of Prudential plc with over 30 years experience in the financial services industry. He is currently chairman of 4D Data Centres Ltd and a member of the Council of the University of Warwick.

### 3 Ian Brindle

Mr Brindle joined the Board in February 2011. Mr Brindle was UK chairman of PricewaterhouseCoopers LLP and deputy chairman of the Financial Reporting Review Panel. He is currently the chairman of Sherborne Investors (Guernsey) A Limited and Sherborne Investors (Guernsey) B Limited and a non-executive director of Spirent Communications plc, Elementis plc and formerly a director of 4imprint Group plc.

### 4 Keith Jones<sup>\*o</sup>

Independent Director

Mr Jones joined the Board in November 2011. Mr Jones is a former chief executive officer of Morley Fund Management, former CEO of NPI Investments and a past chairman of the Investment Committee of the Association of British Insurers. He currently holds non-executive positions at Just Retirement Holdings Ltd, Espirito Santo Investment Bank and Aon Hewitt, and advisory positions at Lloyds Bank and Permira LLP.

### 5 Jeff Medlock<sup>\*†o</sup>

Independent Director

Mr Medlock joined the Board in October 2004. Mr Medlock was chief executive officer of Eureko

from its formation in 1992 until 1999 when he became chief financial officer at Achmea. He returned to the board of Eureko in 2002 shortly after its merger with Achmea and Seguros e Pensoes as chief financial officer until his retirement in 2004.

### 6 Derham O'Neill<sup>†</sup>

Independent Director

Mr O'Neill joined the Board in February 2011. Prior to his appointment, Mr O'Neill was a senior partner of Clifford Chance LLP. He is currently the chairman of Schroder Asian Property Managers Limited (Bermuda) and was formerly the chairman of Scotty Group plc and a non-executive director of Cedar plc, Georgica plc, and Schroder Venture Managers Limited (Bermuda).

### 7 Keith Percy<sup>o</sup>

Independent Director

Mr Percy joined the Board in November 2011. Mr Percy was most recently executive chairman and chief executive officer of Société Générale Asset Management UK and was previously chief executive of Morgan Grenfell Asset Management. He is a director of Brunner Investment Trust plc, Standard Life Equity Income Trust plc, Henderson Smaller Companies Trust plc, JP Morgan Japanese Investment Trust plc and The Childrens Mutual.

### 8 Kieran Poynter<sup>\*††o</sup>

Independent Director

Mr Poynter joined the Board in June 2009. Prior to his appointment, Mr Poynter was chairman and senior partner of PricewaterhouseCoopers LLP having spent 37 years with the firm. He is a director of Nomura International plc, International Consolidated Airlines Group SA and British American Tobacco plc.

## Executive Directors

### 1 Edward Bramson<sup>‡</sup>

Executive Chairman

Mr Bramson joined the Board and was appointed Chairman in February 2011 and Executive Chairman in October 2011. He is currently a partner of Sherborne Investors and was formerly chairman of Spirent Communications plc, Elementis plc, 4imprint Group plc, Nautilus, Inc and Ampex Corporation.

### 9 Richard Wilson

Chief Executive

Mr Wilson joined the Board in December 2012 and became Chief Executive on 1 January 2013. He joined F&C in 2004 and held a number of senior positions within F&C prior to joining the Board. Mr Wilson has 24 years experience in the Fund Management industry. Prior to F&C he was Head of International Equities at Gartmore and Managing Director, Global Equities at Deutsche Asset Management. He started his fund management career at HSBC as a fund manager.

### 10 David Logan

Chief Financial Officer

Mr Logan joined the Board on 31 July 2006. Prior to his appointment, Mr Logan spent 17 years in the accounting profession, including 4 years as a partner at Deloitte & Touche LLP and 3 years as a partner at Andersen.

<sup>‡</sup> Member of the Nomination Committee

<sup>\*</sup> Member of the Remuneration Committee

<sup>†</sup> Member of the Audit & Compliance Committee

<sup>o</sup> Member of the Risk Committee

# Report of the Directors

## Results, business review and dividend

The Group's results for the year ended 31 December 2012 are shown in the Consolidated Income Statement on page 42. A business review of the year ended 31 December 2012 and future developments are covered on pages 2 to 19. This review, together with the Directors' Report on Corporate Governance on pages 26 to 32, forms part of the Report of the Directors.

The Group profit for the year, after tax, amounted to £3.0 million.

The Directors recommend a final ordinary dividend of 2.0 pence per share, amounting to £10.9 million, resulting in a total of 3.0 pence and £16.3 million for the year.

The final ordinary dividend, if approved, will be paid on 24 May 2013 to ordinary shareholders whose names are on the register on 5 April 2013. No liability for the proposed dividends has been recognised as at 31 December 2012, in accordance with IFRS.

## Principal activity and status

The Group's business is asset management. Details of the progress of the business during the year and of future prospects are contained in the Executive Chairman's Statement and the Business Review on pages 2 to 19.

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 and is currently a constituent of the FTSE 250 Index. The Company is registered in Scotland, registered number SC73508, and is domiciled in the United Kingdom.

Details of the principal entities within the Group are contained in note 38 to the Consolidated Financial Statements. There are also two branch offices in the Group outside the UK, in Germany and Ireland.

## Significant agreements

F&C is party to the following significant contracts that take effect, alter or terminate upon a change of control of the Company:

### Friends Life Group (FL Group)

There are three material Investment Management Agreements (the Agreements) that have been in place with companies within the FL Group since October 2004 and under which assets are managed by F&C. Management of the majority of these assets can only be terminated by the relevant contracting party within the FL Group upon twelve months' notice expiring no earlier than 11 October 2014 subject to certain exceptions listed within the Agreements. These exceptions include withdrawals of assets as a result of underperformance thresholds being triggered, withdrawals for reasonable business and financial needs (such as discharging liabilities under insurance contracts and meeting internal financing requirements), and withdrawals of assets of up to £150 million per annum in respect of the overall portfolio of assets covered by each of the Agreements. Withdrawals of assets not permitted under the Agreements require the payment of compensation by the FL Group to F&C. Management of the remainder of the assets of the FL Group by F&C (known as the Demutualisation Assets) can be terminated at

any time by the relevant contracting entity within the FL Group either, in the case of the "With Profits" fund assets, upon six months' notice or, in the case of the other Demutualisation Assets, upon twelve months' notice.

### Achmea Group

There are four material Investment Management Agreements (the Agreements) that have been in place with companies within the Achmea Group since October 2004. These Agreements sit alongside an overarching Umbrella Agreement which sets out the high level terms governing the relationship between the F&C Group and the Achmea Group including the operation of F&C's rights to exclusivity over the management of assets of the Achmea Group. These rights to exclusivity are incorporated into the Agreements and operate subject to certain exceptions listed therein such as the withdrawal of assets for reasonable business needs or for underperformance by F&C in a particular asset class. Withdrawals of assets not permitted under the Agreements require the payment of compensation by the Achmea Group to F&C. The management by F&C of those assets covered by the Agreements is currently scheduled to terminate in October 2013, subject to any exceptions that have been or may be agreed between the Achmea Group and F&C in relation to specific asset classes. However, in the event of a change of control whereby a third party acquires a controlling interest in F&C, immediate termination would be possible.

### Millennium BCP Group (BCP)

The consequences of termination of the various asset management agreements with BCP-related funds are regulated by an Umbrella Agreement with BCP (the UA), which terminates when the last of these asset management agreements is itself terminated. The UA provides that compensation would be payable if management of the assets governed by these agreements were to be terminated before 29 June 2014. However, if a person acquires an interest in the shares of F&C which is larger than the aggregate interest of Friends Life and Achmea, then the period by reference to which compensation is payable by BCP to F&C on termination of such an agreement is reduced. On 17 December 2010, Sherborne acquired an interest in the shares of F&C which is greater than the aggregate interest of Friends Life and Achmea thereby reducing the period by reference to which compensation would have been payable had an agreement been terminated at that time from forty-two months to twelve months. Further communications from BCP have put F&C on notice that payments by BCP in respect of F&C's continued provision of services to BCP constitute payment in lieu of compensation and that the agreements could now be terminated by BCP at any time without compensation or notice. As at the latest practicable date prior to the publication of this Annual Report and Financial Statements, none of the relevant agreements has been terminated and no notice terminating such agreements has been received.

### Millenniumbcp Ageas Group (Ageas)

There are three asset management contracts in place with insurance companies that form part of Ageas for which the notice period for

termination is between twelve and twenty-four months depending on the date notice is served by the relevant entity. However, the termination notice period is reduced to twelve months in the event of a major corporate action occurring that affects F&C.

### Foreign & Colonial Investment Trust Plc

The Investment Management Agreement in place with Foreign & Colonial Investment Trust Plc can be terminated by the trust on a minimum of six months' notice expiring at the end of any calendar month. In the event that there is a change of control in F&C (as defined in Section 1124 of the Corporation Tax Act 2010), then the investment trust is entitled to terminate the agreement on not less than three months' notice to expire at the end of any calendar month.

### F&C Commercial Property Trust Limited

The Investment Management Agreement in place with F&C Commercial Property Trust Limited can be terminated by the investment trust on not less than six months' notice. Early termination can be undertaken by the investment trust, but only subject to the payment of compensation to F&C based on revenue stream. Immediate termination is possible by the investment trust in the event that there is a change of control in F&C (as defined in Section 1124 of the Corporation Tax Act 2010) to which its Board has not consented.

### F&C REIT Asset Management LLP

The F&C REIT Asset Management LLP (the LLP) Limited Liability Partnership Agreement, dated 21 July 2008, is between F&C, the two individual members and a separate company controlled by discretionary trusts.

Where there is a change of control of F&C, F&C can elect to change the arrangements for voting at LLP members' meetings such that F&C's interests are represented by one vote and the REIT Parties' aggregate interests are represented by one vote. If F&C does not so elect, then F&C may be required to offer to sell its interests in the LLP to the other members of the LLP at a price determined by an independent valuer.

### Property, plant and equipment

Details of changes in property, plant and equipment are disclosed in note 12 to the Consolidated Financial Statements. At 31 December 2012, there were no significant differences between the net book and market values of property, plant and equipment.

### Financial instruments

Details of financial instruments are disclosed in notes 14 and 17 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 35.

### Share capital and Directors' interests

During 2012 the Company issued 12,377,307 ordinary shares in respect of vested awards or options under the Company's long-term incentive schemes. The Company also issued 10,684,692 ordinary

shares to satisfy commutation arrangements pursuant to the acquisition of Thames River Capital.

Details of shares under option at 31 December 2012 are shown on page 130. The Directors who held office at the year end and their interests (together with those of their connected persons) in the share capital of the Company are shown below:

Ordinary Shares		31 Dec 2012**	31 Dec 2011**
Edward Bramson	Beneficial	Nil	Nil
	Non-Beneficial <sup>†</sup>	<b>109,883,743</b>	106,397,130
Keith Bedell-Pearce	Beneficial	<b>51,285</b>	51,285
Ian Brindle	Beneficial	<b>19,147</b>	19,147
Keith Jones	Beneficial	Nil	Nil
David Logan	Beneficial	<b>98,336</b>	344,627
	Non-Beneficial*	<b>64,176</b>	64,176
Jeff Medlock	Beneficial	<b>20,000</b>	20,000
Derham O'Neill	Beneficial	Nil	Nil
Keith Percy	Beneficial	Nil	Nil
Kieran Poynter	Beneficial	<b>30,000</b>	30,000
Richard Wilson	Beneficial	<b>211,792</b>	211,667

<sup>†</sup> Edward Bramson is an associate of SIGA, LP, a member of the Sherborne Group.

\* David Logan is a Director of F&C Group ESOP Trustee Limited, a company incorporated in 1995 to operate a discretionary employee benefit trust to encourage and facilitate the acquisition and holding of shares in the Company by employees.

\*\* Or date of appointment as Director if later.

Since the year end, the following Directors' dealings (and those of their connected persons) in the Company's shares have taken place:

- Messrs Logan and Wilson subscribe for £125 worth of shares each month under the Company's Share Incentive Plan, details of which are set out on page 34; and
- SIGA LP, a member of the Sherborne Group has acquired a further 280,000 shares since the year end.

### Directors' and officers' liability

The Group maintains insurance cover in respect of Directors' and officers' liability.

The Directors have the benefit of an indemnity in accordance with the Company's Articles of Association at article 166 which is a qualifying third-party indemnity provision as defined in the Companies Act 2006.

### Charitable and political contributions

During the year, the Group made contributions to charity of £133,000 (2011: £274,000). No political donations or contributions were made during the year (2011: £nil). Further details on the criteria for charitable giving are contained on the Company's website.

### Payment policy and practice

It is the Group's policy to ensure settlement of suppliers' accounts in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to abide by those terms.

At 31 December 2012, trade creditors represented the equivalent of 6 days (2011: 3 days) of the annual purchases invoiced by the suppliers to the Group.

### Substantial interests in share capital

The Company has been informed of the following substantial interests, above 3 per cent as at 22 March 2013:

	Ordinary Shares	Percentage
Sherborne	110,163,743	19.8
Fidelity Worldwide	50,885,147	9.2
Aviva	47,903,933	8.6
Norges Bank Investment Management	23,648,610	4.3
Sarasin & Partners	23,109,444	4.2
Standard Life	22,037,726	4.0
Dimensional Fund Advisors	19,660,976	3.5
Old Mutual Asset Managers	19,545,120	3.5
Threadneedle Investments	18,062,260	3.3
Aberforth Partners	17,645,076	3.2

### Employees

At 1 March 2013, there were 649 full-time employees and 75 part-time employees within the Group (1 March 2012: 776 full-time employees and 84 part-time employees).

### Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

### Employee involvement

During the year, the policy of providing employees with information about the Group has been continued through internal presentations by the Executive Directors and Group Management and the internal publication of relevant information. Wherever appropriate, employees are consulted to ensure that their views are taken into account before decisions are taken which are likely to affect their interests.

### Equal opportunities

The Group aims to provide equal opportunities for all, without discrimination on the grounds of race, religion, marital status, age, sex, sexual orientation or disability. We recruit and promote those best suited for the job. The Group respects the dignity of individuals and their beliefs. The Group does not tolerate any sexual, racial, physical or mental harassment of staff in the work place.

### Share incentive schemes

During the year, employees participated directly in the business through a number of Employee Share Schemes, details of which are included within the Directors' Remuneration Report on pages 33 to 38 or the notes to the Consolidated Financial Statements on pages 86 to 95.

### Annual General Meeting (AGM)

The Company will hold its AGM on Friday, 10 May 2013 at Ironmongers Hall, Shaftesbury Place, Barbican, London EC2Y 8AA.

The Meeting will start at 11 a.m. (UK time). Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 134.

### Board changes

On 4 December 2012, Mr Wilson joined the Board as an Executive Director.

Messrs Brindle and Medlock will retire from the Board on conclusion of the Annual General Meeting.

Information relating to the re-election of Directors at the Annual General Meeting is set out in the Directors' Report on Corporate Governance on page 30.

### Authority to allot ordinary shares and disapplication of pre-emption rights

Ordinary resolution 13 will be put to the AGM of the Company to renew the Directors' power to allot shares. The Directors currently have a general authority to allot relevant securities up to a maximum amount of £177,355.19 together with specific authorities to allot shares to satisfy the consideration payable in connection with the acquisition of Thames River and the related commutation arrangements and for the settlement of awards made under the management share plans (the Specific Authorities). The resolution proposes that a similar general authority be granted in substitution of the existing general authority to allot securities up to a maximum amount of £185,041.76, representing approximately 33.33 per cent of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report. The Specific Authorities will remain unaffected by the passing of this resolution.

In addition, in accordance with guidance issued by the Association of British Insurers in December 2008, the Company is seeking additional authority to allot securities in connection with a pre-emptive rights issue up to a maximum amount of £185,041.76, representing approximately 33.33 per cent of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report. The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to approximately 66.67 per cent of the issued

ordinary share capital without the need to call an additional general meeting. This would shorten the implementation timetable for such a rights issue. The Directors have no present intention of exercising this authority. The authority will expire at the end of the AGM to be held in 2014, unless previously cancelled or varied by the Company in general meeting. It is the intention of the Directors to renew this authority annually at each AGM.

Special resolution 14 will renew the present power to allot unissued ordinary share capital and to sell ordinary shares held in treasury for cash without first being required to offer such shares to existing shareholders in proportion to their existing shareholdings.

Such power will apply to the allotment of unissued ordinary shares and treasury shares sold up to a maximum nominal amount of £27,759.04 representing approximately 5 per cent of the Company's issued ordinary share capital as at the date of this report, except that:

- (1) the maximum nominal amount of shares that can be allotted in connection with a pre-emptive rights issue is £370,083.52 representing approximately 66.67 per cent of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report; and
- (2) the maximum nominal amount of unissued ordinary shares that can be allotted or treasury shares sold:
  - (a) pursuant to any other pre-emptive offering (where legal or regulatory requirements prevent the issue of shares wholly on a pre-emptive basis); or
  - (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting,

is £185,041.76, representing approximately 33.33 per cent of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report.

The Directors consider that the authority proposed to be granted by resolution 13 and the power proposed to be granted by resolution 14 are necessary in order to take advantage of opportunities as they arise and to retain flexibility. The Directors do not have any intention of exercising such authority or power at the present time other than for the purposes referred to in (2)(b) above.

### Purchase of own shares

Special resolution 15 will be put to the AGM to renew the present power to make market purchases of the Company's own ordinary shares. Pursuant to the renewed power, the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 55,518,079 (being approximately 10 per cent of the issued ordinary share capital of the Company as at the date of this report). The minimum price which may be paid for an ordinary share shall be 0.1 pence (exclusive of expenses). The maximum price for an ordinary share (again exclusive of expenses) shall be an

amount equal to 105 per cent of the average of the middle market quotations for the Company's ordinary shares for the five business days immediately preceding the date of purchase. The power conferred by this resolution will expire on the earlier of the date falling fifteen months after the date of the passing of this resolution and the conclusion of the AGM of the Company to be held in 2014.

As at the date of this report, the Company had 82,915,399 options to subscribe for ordinary shares outstanding (representing 14.93 per cent of the issued ordinary share capital of the Company at the same date, excluding treasury shares). If the buy-back authority is renewed at the AGM and is then utilised in full, the options outstanding at the date of this report would represent 16.59 per cent of the issued ordinary share capital of the Company (excluding treasury shares).

Any ordinary shares purchased pursuant to this authority would either be held as treasury shares or cancelled. While any shares are held in treasury, voting rights are suspended and currently no dividends (or any other distribution) are paid (or made) on such shares. The Directors consider it appropriate to have in place the facility to acquire shares in circumstances where they believe that future shareholder returns can be enhanced by taking such action. This authority, if renewed, will only be exercised if to do so would result in an increase in earnings per ordinary share and if it is considered to be in the best interests of shareholders generally.

### Proposed amendment to the Company's Long-Term Remuneration Plan (LTRP)

The LTRP is the Company's principal long-term retention plan and allows the Board to grant selected employees and senior managers awards over ordinary shares that not only act as an incentive to remain with the business but also help to ensure that the interests of participants are more closely aligned with those of shareholders.

Awards granted under the LTRP can be satisfied either by the issue of new shares or the purchase of existing shares in the market. However, the rules of the plan place a limitation on the number of new shares over which awards can be granted in any rolling ten year period. This "dilution limit" is currently set at 10 per cent of the Company's issued share capital.

In light of the significant changes made to the Company's business in recent years, the LTRP has been used extensively as a means of ensuring the continued stability of the Company's key employee population throughout this period. This has, in turn, resulted in a marked reduction in the available "headroom" under the 10 per cent dilution limit summarised above. As a consequence, and in order to ensure that the Company has sufficient flexibility to operate this important element of its overall remuneration structure in an appropriate, cost-effective manner in the future, Resolution 16 seeks shareholder approval to amend the LTRP's rules by raising the dilution limit from 10 per cent to 15 per cent of the Company's issued ordinary share capital.

Further details of the existing dilution limit and the amendment highlighted above are set out in the appendix to the notice of meeting contained on page 137. The notes to the notice also provide information on how the LTRP rules, marked up to show the proposed change, may be inspected in advance of the meeting.

### Notice of General Meetings

We are currently able to call general meetings (other than AGMs) on fourteen days' notice. We are proposing special resolution 17 at the AGM so that we can continue to be able to do so. The flexibility offered by this resolution will only be used where it is, in the opinion of the Directors, appropriate in relation to the business to be considered at the meeting and merited in the interests of the shareholders as a whole.

The authority being sought pursuant to special resolution 17 will expire at the conclusion of the AGM to be held in 2014. It is the current intention of the Directors to renew this authority annually.

### Auditor

KPMG has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment and for the Directors to determine its fees will be submitted at the AGM.

Details of the auditor's remuneration is provided in note 4(c) to the Consolidated Financial Statements and further detail on how the Board ensures the independence of the auditor is detailed on pages 31 and 32 within the Directors' Report on Corporate Governance.

### Recommendation

The Directors consider that the resolutions to be proposed at the AGM are in the best interests of the Company and of shareholders as a whole. Accordingly, the Directors unanimously recommend that you vote in favour of all the proposed resolutions, as they intend to do in respect of their own beneficial shareholdings.

### Adequacy of the information provided to the auditor

The Directors who held office at the date of approving this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,

### W Marrack Tonkin, FCCA

Secretary  
80 George Street  
Edinburgh EH2 3BU

25 March 2013

# Directors' Report on Corporate Governance

The Group is committed to, and strives for, best practice in corporate governance. The Board is accountable to the Group's shareholders for good corporate governance. This statement describes how the principles of corporate governance set out in section one of the UK Corporate Governance Code issued in 2010 (the Code) have been applied.

## Statement of compliance

The Directors consider that the Company has, throughout the year ended 31 December 2012 and up to the date hereof, applied the principles and met the requirements of the Code with the following exceptions:

- As highlighted in last year's Annual Report, Edward Bramson served as the Company's Executive Chairman throughout 2012 to oversee implementation of the strategic review announced in October 2011 and May 2012. The Board have previously acknowledged that while the position of Executive Chairman does not meet the best practice guidance set out in the Code (Provision A.2.1), they believe it to be appropriate given the strategic review work being performed by Mr Bramson. In December 2012 the Board announced that Edward Bramson would revert to Non-executive Chairman of the Company on announcement of the year-end results in March 2013.
- Whilst Mr Bedell-Pearce, the Company's Senior Independent Director, does not, by virtue of his tenure, strictly meet all of the independence tests set out in Code provision B.1.1, the Board consider that he continues to display all the characteristics expected of an independent Non-executive Director. The Board believe that Mr Bedell-Pearce's independence is demonstrated through his actions and judgements during Board discussions and debates.

The Chairmen of the Audit & Compliance, Risk, Remuneration and Nomination committees will be available to answer questions at this year's Annual General Meeting to be held on Friday, 10 May 2013.

## Going concern

The Code requires Directors to report, under the terms set out in the relevant guidelines to the Code, on the appropriateness of adopting the going concern basis in preparing Financial Statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 19. The financial position of the Group, its cash flows and liquidity position are described in the Business Review on pages 15 to 17. In addition, note 35 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of clients across different geographic areas and industries. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have

adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

## The Board

The Board of Directors currently comprises the Executive Chairman, two further Executive Directors and seven Non-executive Directors, six of whom the Board has identified as Independent Directors. Ian Brindle, a representative of Sherborne, the Company's largest shareholder, does not meet the criteria of independence as set out in the accepted guidance.

The biographies of the Directors appear on page 20. These demonstrate a range of experience, skills and personal standing sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board meets formally on a regular basis and is responsible for approving the Group's objectives and policies. The Board focuses mainly on strategy, investment and financial performance, the Group's control environment and executive management and Board succession. To enable the Board to discharge its duties, all Directors receive appropriate and timely information ensuring that they are properly briefed on issues for consideration in advance of meetings. In addition, all Directors have access to senior management and can request, either during meetings or at other appropriate times, further explanation or written papers on matters as they see fit.

The Board has a detailed list of matters specifically reserved to it – the 'Board Reserved List'. This is contained in 'The Directors' Guide', a training and reference document issued to all Directors on appointment and updated as appropriate. The Board Reserved List is reviewed annually and clearly sets out what authority is delegated from the Board to Board Committees and to management. This ensures that matters of significance are overseen and reviewed by the Board prior to implementation. Examples of matters reserved for the Board as set out in the Board Reserved List are the approval of: the Group strategy; the annual budget; the composition and terms of reference of any of the Board Committees; the high-level organisational structure; and the review of the effectiveness of the Group's system of internal control.

The composition of the Board is reviewed annually.

## The Board committees

The Board has established a number of standing committees to facilitate the smooth transaction of business within the Group.

The terms of reference of each Board Committee, outlining its authority and duties, are reviewed and approved annually by the Board, published on the Company's website and are available on written request from the Company Secretary. The terms of

reference of each of the Board Committees provide the authority to take independent professional advice, if necessary, at the Company's expense.

### Statement of diversity policy

The Group recognises the value of a diverse workforce and aims to attract and retain the best people from the widest pool of talent, experience and perspectives drawn from all sections of society. We believe that differences in gender, background, perspective, expertise and culture are an asset to the Company.

The diversity of the Board is intended to be improved when new appointments are made as a result of Director rotation. As a result, the Company's succession planning process has been revised to include the Company's commitment to improved diversity (including gender diversity).

Consistent with the Board's intention to improve diversity through Director rotation, we anticipate that there will be at least one female Director appointed to the Board during 2013.

## (A) Statement of the Nomination Committee

### Purpose and Terms of Reference

The Committee leads the process, and makes recommendations to the Board, for all new Board appointments and the appointment of Non-executive Directors to any Board Committee. It is responsible for evaluating the balance of skills, knowledge and experience on the Board and ensuring that a formal, rigorous and transparent appointment process exists.

### Membership

The Committee is chaired by Edward Bramson. The Committee comprises the Executive Chairman and two independent Non-executive Directors.

### Members of the Nomination Committee:

Edward Bramson, Keith Bedell-Pearce and Kieran Poynter.

### Activities and work of the Committee

During 2012, the Committee, with the assistance of external search consultants, led the process for the selection of a Chief Executive Officer and on 4 December 2012 the Board approved the appointment of Richard Wilson.

In early 2013 external search consultants were engaged by the Committee to conduct a search for an additional independent Non-executive Director.

As an integral part of its succession planning, the Committee reviews the balance and composition of the Board including the number of Directors serving thereon.

On an annual basis the Committee reviews the terms and conditions of appointment of Non-executive Directors set out in the standard letter of appointment to ensure that they continue to meet the requirements of the Code. This standard letter of appointment can be inspected during normal working hours at the Company's registered office by contacting the Company Secretary. The Committee considers, on an annual basis, the time required of Non-executive Directors for the fulfilment of their duties and assesses the contribution of the Directors, their independence and their suitability for re-election prior to an appropriate resolution being put to shareholders. Under the Company's Articles of Association, all Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at least every three years. However, in line with the Code, all of the Directors are subject to annual re-election by Shareholders.

For the Board

### Edward Bramson

Chairman, Nomination Committee

25 March 2013

## (B) Statement of the Audit and Compliance Committee

### Purpose and Terms of Reference

The Committee vouchsafes the processes and controls surrounding the production of the Group's Financial Statements and oversees, monitors and evaluates the effectiveness of the Company's internal audit and compliance departments.

### Membership

The Committee is chaired by Kieran Poynter. The Committee comprises solely independent Non-executive Directors.

The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2013.

### Members of the Audit & Compliance Committee:

Kieran Poynter, Keith Bedell-Pearce, Jeff Medlock and Derham O'Neill.

### Activities and work of the Committee

The Committee normally discharges its responsibilities, as allocated by its terms of reference, within a schedule of four meetings. Two meetings are held early in the year, one to deal with matters of governance (for example, compliance with the Code, the Financial Services and Markets Act, monitoring and reviewing the Internal Audit & Compliance department and monitoring and reviewing the independence, objectivity and effectiveness of the external audit process) and the other to consider the integrity of the year-end Financial Statements and any formal announcements relating to the Company's and the Group's financial performance, including any significant financial reporting judgements contained therein. A similar process is adopted at the interim reporting stage, with a final meeting taking place late in the year to consider relevant year-end matters. On an annual basis the Committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and approves their remuneration and terms of engagement. Other meetings of the Committee are called at the request of the Chairman to consider ad hoc control issues that may emerge during the year as well as other matters that the Board has asked the Committee to consider or investigate.

For the Board

### Kieran Poynter

Chairman, Audit & Compliance Committee

25 March 2013

## (C) Statement of the Remuneration Committee

### Purpose and Terms of Reference

Full details of the purpose, terms of reference, activities and work of the Committee are set out in the Directors' Remuneration Report.

### Membership

The Chairman of the Committee is Keith Bedell-Pearce. The Committee comprises solely independent Non-executive Directors.

### Members of the Remuneration Committee:

Keith Bedell-Pearce, Jeff Medlock, Derham O'Neill, Kieran Poynter and Keith Jones (appointed 12 March 2012).

### Attendees at the Remuneration Committee

Edward Bramson, the Company's Executive Chairman, and Alain Grisay, the Company's former Chief Executive Officer, attended certain meetings of the Committee in 2012. Peter Cole, the Group Head of Human Resources, and Ian Brindle also attended all Committee meetings in 2012.

### Activities and work of the Committee

The Board is ultimately accountable for the Group's remuneration policy but delegates responsibility to the Remuneration Committee. The Remuneration Committee has resolved the following key issues during the year:

- Revised the remuneration policy and ensured that it meets the requirements of the FSA Remuneration Code (to the extent applicable to the Company);
- Approved the remuneration of the Executive Directors;
- Reviewed and approved the remuneration of the Group Management and FSA Code staff;
- Approved the performance targets in relation to long-term awards;
- Overseen the Company's remuneration policy as it applies to executives, senior management and employees, including the discretionary cash bonus scheme and awards under the long-term incentive schemes;
- Verified that the remuneration policy does not encourage excessive risk beyond that of the appetite of the Company;
- Completed the annual review of the Committee Terms of Reference.

For the Board

### Keith Bedell-Pearce

Chairman, Remuneration Committee

25 March 2013

## (D) Statement of the Risk Committee

### Purpose and Terms of Reference

The Committee was established in March 2012 to provide the Board with assurance that the processes and controls exist to facilitate reporting on the Group's risk management activities, including those related to Social, Environmental and Ethical matters, internal control and adherence to policies and procedures. The Committee is also responsible for reviewing and recommending to the Board for approval, the Group's Internal Capital Adequacy Assessment Process (ICAAP) and for ensuring the Company fulfils its regulatory obligations under the Capital Requirements Directive.

### Membership

The Committee is chaired by Keith Percy. The Committee comprises solely independent Non-executive Directors.

### Members of the Risk Committee:

Keith Percy, Kieran Poynter, Jeff Medlock and Keith Jones.

### Activities and work of the Committee

The Committee normally discharges its responsibilities, as allocated by its terms of reference, within a schedule of four meetings a year. Quarterly meetings of the Committee are held to assess detailed risk reports and review any relevant updates to the Group's ICAAP report. The Committee also reviews and monitors the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all risks with particular emphasis on the key risks faced by the Group and performs reviews of any special investigation reports relating to fraud or major breakdowns in internal controls or major errors and omissions.

For the Board

### Keith Percy

Chairman, Risk Committee

25 March 2013

## Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2012 and the attendance record of the individual Directors as members of committees of the Board. In addition to the scheduled meetings detailed below a number of ad hoc Directors' meetings, sub-committees of the Board and Board Committees were held.

	Board	Non-executive Director meetings without management present	Audit & Compliance Committee	Risk Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held</b>						
<b>2012/(2011)</b>	<b>7(7)</b>	<b>2(2)</b>	<b>4(5)</b>	<b>3(-)</b>	<b>5(6)</b>	<b>2(2)</b>
Edward Bramson	7	2	-	-	-	2
Keith Bedell-Pearce	7	2	4	-	5	2
Ian Brindle	7	2	-	-	-	-
Alain Grisay <sup>(1)</sup>	2	-	-	-	-	-
Keith Jones	7	2	-	2	2	-
David Logan	7	-	-	-	-	-
Jeff Medlock	5	2	3	2	5	-
Derham O'Neill	6	2	4	-	5	-
Keith Percy	5	2	-	3	-	-
Kieran Poynter	6	2	4	3	5	2
Richard Wilson <sup>(2)</sup>	1	-	-	-	-	-

<sup>1</sup> Retired from the Board in May 2012

<sup>2</sup> Appointed to the Board in December 2012

## Board Roles

### Chairman

The Chairman of the Company is Edward Bramson. As Chairman, Mr Bramson is responsible for leadership of the Board and ensuring the effective running and management of the Board. The role profile of the Chairman includes the following specific responsibilities:

- Ensuring that the Board agenda for each meeting takes account of the issues and concerns of each Board member and that members of the Board receive accurate, timely and clear information on the Company and related matters to enable them to monitor the Group's performance and take sound decisions;
- Ensuring effective communication with shareholders and ensuring that the Board develops an understanding of the views of major investors;
- Ensuring that, in conjunction with the Company Secretary, a formal induction and development process, including any relevant internal and external training, exists for all Directors and the Board as a whole with a view to enhancing the Board's effectiveness; and
- Ensuring constructive relations between Executive and Non-executive Directors and an effective contribution from all Directors.

The performance of the Chairman is reviewed annually by the Non-executive Directors in a meeting chaired by the Senior Independent Director.

### Chief Executive

The Chief Executive of the Company is Richard Wilson. As Chief Executive, Mr Wilson is responsible for overseeing the implementation of the strategy as set by the Board, providing strategic vision and executive leadership to all the Group's business activities and ensuring the effective running of the business and the Group Management.

### Non-executive Directors

Messrs Bedell-Pearce, Brindle, Jones, Medlock, O'Neill, Percy and Poynter are the Company's Non-executive Directors. As Non-executive Directors they are responsible for: promoting entrepreneurial leadership and the highest standards of governance within a framework of prudent and effective controls; constructively challenging and helping develop strategic proposals; ensuring that the Group has in place the necessary resources to meet its strategic objectives; reviewing management performance; determining appropriate levels of Executive Director Remuneration (Remuneration Committee members), taking a prime role in appointing, and where necessary removing, Executive Directors; setting the Company's values and standards to ensure its obligations to its stakeholders are understood and met; and reviewing communication with shareholders.

### Board evaluation and professional development

A comprehensive and rigorous evaluation of the performance of the Board, its principal Committees and all Directors was conducted in the first quarter of 2013. Each Director was interviewed by the Executive Chairman to extract their views on the perceived operation and effectiveness of the Board and the Board Committees. The results of this process were presented to the Board in March 2013. All recommendations made as a result of this exercise were accepted by the Board and the Board have committed to addressing all matters raised during 2013.

The Board also set themselves objectives early in 2012 and assessed their performance against these objectives during the evaluation process. An agreed set of Board objectives for 2013 was approved by the Board in March 2013.

The Company has a full and formal induction process for all new appointments to the Board. The Chairman, in consultation with the Company Secretary and individual Directors, is responsible for assessing the professional development needs of each Director. The induction process and ongoing professional development is facilitated by the Company Secretary who, in consultation with the individual Director, identifies the most appropriate method of ensuring professional development. The Company Secretary also assists in organising attendance at internal or external courses to develop familiarity with the Company's business operations.

### Directors' conflicts of interest

From 1 October 2008, Directors have a statutory duty to avoid a situation in which they have or can have an interest that conflicts or possibly may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors.

### Directors and Directors' re-election

The Directors who served at any time during the year ended 31 December 2012 are as shown in the Directors' Remuneration Report on page 37. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on page 36.

Mr Wilson joined the Board during the year as an Executive Director and, as such, will retire at the Annual General Meeting and being eligible will offer himself for election. With the exception of Messrs Brindle and Medlock, who have expressed their intention to retire on conclusion of the Annual General Meeting, all other Directors will, in accordance with the Code, offer themselves for re-election at the Annual General Meeting.

In accordance with the requirements of the Code, during 2012, the Nomination Committee gave more detailed consideration to the proposed re-election of Mr Bedell-Pearce, given that he has served more than six years as a Director.

The Nomination Committee has reviewed the structure, size and composition of the Board, and has confirmed that all Directors submitting themselves for election and re-election demonstrate the commitment and devote sufficient time to perform their duties as members of the Board and should be elected or re-elected.

Details of the Directors offering themselves for election or re-election can be found on page 20.

### Board succession planning

The Nomination Committee has a succession plan for the Board's Non-executive Directors. The plan was shaped by a skills profile, projected and expected normal retirements, and the Company's commitment to corporate governance best practice. The plan is approved annually by the Board.

### Relations with shareholders

The Board as a whole acknowledges its responsibility for ensuring satisfactory dialogue with shareholders and that communications are given high priority. The Company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Company's Executive Chairman, Chief Executive and Chief Financial Officer regularly meet the largest institutional shareholders and Company analysts following the announcement of the year-end and interim results; the Senior Independent Director and all other Non-executive Directors have the opportunity to attend these meetings. The Annual General Meeting

of the Company provides a forum, both formal and informal, for investors to meet and discuss issues with Directors and senior management of the Company.

At its Annual General Meeting, the Company complies with the provision of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the Committee Chairmen. The results of the votes cast at the Annual General Meeting are posted on the Company's website.

Following the announcement of the second phase of the Company's Strategic Review, the Company's Executive Chairman and Chief Financial Officer met with a number of the Company's largest shareholders. The feedback from these meetings was circulated to the Board. Unattributable feedback from a number of the Company's shareholders, facilitated by the Company's brokers, is also presented to the Board following management's year-end results presentations.

### Electronic communications

Copies of the 2012 Annual Report and Financial Statements, the Notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Company's website. Shareholders are encouraged to take advantage of the provisions allowing the Company to communicate electronically.

### Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the Board policies on risk and risk management. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The Company, as required by the FSA Listing Rules, complied with the Code provisions on internal control for the year ended 31 December 2012.

The procedures that the Directors have established are designed to provide effective control within the Group and accord with the Internal Control Guidance issued by the Financial Reporting Council (FRC). Such procedures have been in place throughout the year and up to 25 March 2013, the date of approval of the Annual Report and Financial Statements. A high-level overview of the ongoing process for identifying, evaluating and managing significant risks including social, environmental and ethical issues is detailed below. This process is regularly reviewed by the Board to ensure it complies with the FRC's Guidance.

### Control environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all areas of the business. The Group has in place appropriate procedures for the reporting and resolution of activities that do not meet the required standards of business conduct.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives. The structure is designed to provide clear responsibilities and a control framework for key areas of the Group's business.

Operational responsibility rests with the Executive Chairman and Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of Group Management are, therefore, accountable for the operation of the systems of internal controls within the Group's business.

### Business risks

The identification of major business risks is carried out by the Board in conjunction with management and procedures to control these risks, where possible, are reviewed and agreed.

Quarterly reports are prepared by each area of the business, covering all key locations. These quarterly reports include issues of material business risk which are discussed in detail by the Group Management which includes both Executive Directors. All significant items identified are reported to the Board on a regular basis.

The key risks facing the Group at the year end and the mitigating actions assigned to these risks are detailed in the Business Review on pages 10 and 11.

### Monitoring and corrective action

The Company has a formal compliance function which, in addition to providing regulatory advice to the business, has undertaken compliance monitoring and performed a number of regulatory inspections in 2012. A separate Internal Audit department conducted regular monitoring of various business areas in line with a plan agreed annually with the Audit & Compliance Committee. Any issues of significance are brought to the attention of the Board by the Internal Audit, Risk & Compliance departments and through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the Audit & Compliance Committee.

The Audit & Compliance Committee and the Risk Committee reviews the effectiveness of the operation of the Risk, Compliance and Internal Audit departments at least twice each year.

### Independence of the auditor

The Board has in place rigorous systems for ensuring the independence, objectivity and effectiveness of the Group's auditor and has satisfied itself that during the year no aspect of its work was impaired on these grounds. In maintaining a clear perception of independence and balancing that with the best interests of the Group, the Board has a clear policy that it follows when considering the award of non-audit work to the Group's auditor. The policy applied during 2012 is detailed below.

The Company does not impose an automatic ban on the Group's auditor undertaking non-audit work. The Group's aim is always to have any non-audit work involving accountancy firms carried out in a manner that affords value for money while taking into account relevant ethical guidance. The firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group.

The auditor of the Company is permitted to perform non-audit work in areas where, in the opinion of the Audit & Compliance Committee, it is appropriate for it to do so and there are no actual or perceived independence issues.

The Chairman of the Audit & Compliance Committee is authorised to approve the use of the auditor for non-audit work provided that the cost does not exceed £50,000 and the aggregate value does not exceed the audit fee for the financial year in question. In other circumstances, the approval of the Audit & Compliance Committee is required.

The performance, independence, competence and cost of the auditor are reviewed annually by the Audit & Compliance Committee. When the Committee considers it appropriate, the provision of audit services will be formally market-tested through a tender process involving those audit firms judged competent to meet the needs of the Group. The frequency of this market-testing will depend on the views of the Audit & Compliance Committee, on the needs of the Group and on prevailing leading practice. It is expected that in future this will take place at least once in any ten-year period.

During the year a number of accountancy firms, all of whom are independent of KPMG, the external auditor, provided non-audit related services to the Group. Details of fees paid to these firms during 2012 are disclosed in note 4(c) on page 58 of the Consolidated Financial Statements.

### **Future developments**

The Board believes that the controls in place during 2012 have been appropriate to the needs of the Group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the FSA and leading practice.

By order of the Board,

### **W Marrack Tonkin, FCCA**

Secretary  
80 George Street  
Edinburgh EH2 3BU

25 March 2013

# Directors' Remuneration Report

## Governance

In designing the total compensation arrangements for the Group and in preparing this report, the Board and the Remuneration Committee have complied with the provisions of the UK Corporate Governance Code (the Code), Part 15 of the Companies Act 2006, the Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

Legislation requires the Group's auditor to audit certain disclosures within this report. Where disclosures have been audited they are indicated as such.

The following policies represent those now adopted by the Group for the forthcoming year and subsequent financial years.

The Committee has been established by the Board to:

- (a) recommend to the Board the Group's policy on Directors' remuneration;
- (b) ensure that the Executive Directors and senior employees are fairly rewarded and that a significant proportion of Executive Directors' remuneration is linked to the Group's corporate, and their individual, performance;
- (c) demonstrate to shareholders that the remuneration of Executive Directors and senior employees of the Group is determined by a committee of Board members which has no personal interest in the level of remuneration of the Group's Executive Directors or senior employees and who will pay due regard to the interests of shareholders and to the financial and commercial health of the Group; and
- (d) ensure that full consideration has been given to Section D and Schedule A of the Code's best practice provisions as annexed to the Listing Rules.

A Statement of the Remuneration Committee detailing membership of the Committee and the activities and work of the Committee is set out on page 28.

## Research and advice

During the year the Executive Chairman provided regular briefings to the Committee. The Committee also received advice from the Group Head of Human Resources.

The Remuneration Committee received advice from Kepler Associates during the year on general remuneration strategy, senior executive pay benchmarking and on the Company's LTRP. Kepler Associates was appointed by the Committee in 2007 as its independent adviser and provided no other services to the Company during the year.

During the year, the Remuneration Committee also received independent remuneration research undertaken by McLagan & Partners, Deloitte and PricewaterhouseCoopers, leading firms of executive remuneration consultants, to assess comparability of the Group's remuneration policies to the marketplace.

## Statement of the policy on Directors' remuneration

The Company's compensation policy detailed below is based upon the following key principles:

- a) Remuneration policies, procedures and practices should be consistent with and promote sound and effective risk management. The Policy should not incentivise risk-taking that exceeds the approved risk appetite of F&C.
- b) The Remuneration Policy should be aligned with the business strategy, objectives, values and long-term interests of F&C.
- c) The quantum of total variable remuneration should not limit the ability of F&C to strengthen its capital base.
- d) Total variable remuneration should in general reflect the financial performance of the Group without jeopardising the ability to attract, retain and motivate the key talent required to achieve its goals.

The Group takes a total compensation approach in applying its policy. The Board believes that shareholders' interests are best served by containing fixed costs and emphasising the proportion of total compensation that is directly performance-related and thus aligned with shareholders' interests. Total compensation will comprise basic salary, pension provision, annual bonus and any awards under the long-term share incentive schemes.

A range of benchmark data is used to determine appropriate total compensation based on comparable asset management businesses. Relevant market data is also used for each geographic location.

## Policies on the individual elements of remuneration and employment

### (a) Salaries

The salaries of all employees, including Executive Directors, are reviewed annually to ensure they remain appropriate and competitive. Increases to salaries may be made periodically although not annually. Salaries are determined by reference to relevant comparator Financial Services companies as reported by external market data providers. The Remuneration Committee also takes into account salary movements for staff across the Group when setting Executive Director salaries.

### (b) Discretionary cash bonus

The size and allocation of the annual discretionary cash bonus pool is recommended by the Remuneration Committee to the Board for approval.

The recommendations of the Committee are determined by the:

- performance of the Group relative to pre-agreed targets;
- motivation and retention of key employees;
- practice of market competitors; and
- appropriate balance between fixed and variable pay.

Performance targets have been agreed by the Board and include Investment Performance, Fund Flows, Profitability and a range of other financial and corporate objectives.

All staff including Executive Directors are eligible for discretionary cash bonus awards which recognise individual achievement and contribution relative to agreed annual objectives.

During 2012 Compulsory Purchased Equity awards made to Alain Grisay and David Logan in 2009 vested. The gains on vesting, representing the gross value of the shares and the cash equivalent of re-invested dividends thereon, was £592,000 and £135,000 respectively.

At 31 December 2012, as a result of a Compulsory Purchased Equity award made in 2010, 493,810 shares in the Company are held within the Purchased Equity Plan for Mr Grisay, which vest in March 2013.

#### **(c) Savings-related share schemes**

To foster a culture of share ownership throughout the Group, the Board operates a Share Incentive Plan (SIP) for all eligible employees. The SIP is an "all-employee share scheme" and all employees including Executive Directors who meet certain criteria are eligible to participate.

The SIP enables employees to purchase F&C shares in the market in a tax efficient manner on a monthly basis at the prevailing market price.

At 31 December 2012, 220 employees (31 December 2011: 274 employees) participated in the SIP and 743,094 shares (31 December 2011: 783,944 shares) were held in trust for employees within the SIP.

#### **(d) Share incentive schemes**

The Board believes that the share incentive schemes increase the potential for greater importance to be placed upon the performance-related element of total remuneration.

As currently drafted, in any ten-year period, the aggregate number of Ordinary Shares which will be placed under award under any share incentive scheme, shall not, when aggregated with the number of Ordinary Shares placed under option or issued in that period under any other employees' share scheme operated by the Company, exceed 10 per cent of the Company's issued ordinary share capital at that time. For the purposes of measurement against this limit the following will be disregarded: any Ordinary Shares that have been, or will be purchased, rather than allotted; any Ordinary Shares issued pursuant to the Thames River MRP and/or the MIP; and any awards or grants that have lapsed or become incapable of vesting.

The Board is, within Resolution 16, seeking an extension to this authority to allow up to 15 per cent of the Company's issued share capital.

In order to ensure that the assessment of performance conditions in relation to the share incentive schemes detailed below is independent, Deloitte LLP will report to the Remuneration Committee as to whether the performance criteria under all schemes have been met.

#### **Policy on grants and awards under the share incentive schemes**

The Company's policy for the granting of awards under the LTRP is that awards and grants are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Award levels will be determined by the Remuneration Committee with reference to Group performance, market competitiveness (assessed on a total compensation basis using independent market total compensation data), and individual performance. Because of the active policy of reducing the emphasis on base salary, the Remuneration Committee will not link or limit any awards under the LTRP explicitly to a multiple of base salary, believing that making such a linkage provides an incentive to increase base salaries, and therefore fixed costs, which is contrary to shareholders' interests.

Any share incentive awards made to Executive Directors will be LTRP restricted awards.

#### **The F&C Asset Management plc Long-Term Remuneration Plan (LTRP)**

The LTRP is the primary long-term incentive arrangement of the Company.

The Committee believes that it is to the benefit of shareholders that key employees have a long-term interest in the future performance of the Group. The stability and retention of key employees is crucial to the continued success of the Group and share ownership will continue to be important in achieving this goal.

The Committee has also determined that share-based rewards should be contingent on clear performance conditions. As such the Committee will not make any further new deferred awards, other than in specific cases where it is contractually obliged to do so.

The LTRP is a discretionary contingent share award scheme unapproved by HM Revenue and Customs. The LTRP is designed to support the business objectives of the Group.

The LTRP has two categories of contingent share awards:

##### **Restricted awards**

Vesting of the Ordinary Shares that are currently the subject of a restricted award under the LTRP will be contingent upon both the specified performance conditions and conditions of continued service.

The performance conditions applied to restricted awards under the LTRP are determined by the Board.

For the awards granted in 2010 and 2011 the following four performance measures were applied with equal weighting and are measured over a three-year period:

- Real Growth in Earnings per Share over 3 years: full vesting at RPI+11 per cent p.a., 25 per cent vesting at RPI+3 per cent p.a.
- Total Shareholder Return relative to a peer group of FTSE 250 Financial Companies: full vesting at upper quartile, 25 per cent vesting at median
- Relative investment performance compared to benchmarks: full vesting at 75 per cent of revenue-weighted funds outperforming benchmark, reducing on a straight line to nil vesting for 42 per cent of revenue-weighted funds outperforming benchmark
- Achievement of annual net new business targets as approved by the Board: full vesting for achievement of 125 per cent of target, reducing on a straight line to nil vesting for achievement of 25 per cent of target

These measures were selected as at the time they were considered by the Committee to be the most relevant in capturing the critical elements of performance which reinforce value creation for shareholders.

For the awards granted in 2012 the performance condition is linked solely to the Company's underlying Earnings per share for the year ended 31 December 2015, with 20 per cent of the award vesting at 8.2 pence per share and 100 per cent vesting at 13.7 pence per share and above.

During the year a total of 1,492,537 restricted share awards were made under the LTRP to the Company's Executive Directors (2011: 2,815,730) and a further 18,208,927 restricted share awards were made to members of the senior management team (2011: 933,954).

The Remuneration Committee is considering granting LTRP awards in 2013 and will finalise the nature of the performance conditions following consultation with shareholders. Full disclosure of the vesting conditions will be provided in the 2013 Directors' Remuneration Report.

#### Deferred Awards

Deferred awards have been made of Ordinary Shares, the vesting of which is contingent on the continued employment of the participant over the three-year deferral period.

During the year, 1,382,076 deferred awards were made under the LTRP (2011: 15,437,379). Deferred awards were made to 12 staff during 2012 (2011: 217 staff).

Under the rules of the LTRP the Executive Directors are not eligible to participate in deferred share awards.

#### Achievement of performance conditions

During 2012, the growth in the Group's underlying EPS underperformed the growth in the RPI by 25.81 percentage points.

The Company's total shareholder return (TSR) ranked 4th out of a FTSE 250 Financial Companies Index comparator group of 15 companies in the period from 4 May 2010 to 31 December 2012 and 4th out of a FTSE 250 Financial Companies Index comparator group of 16 companies in the period from 4th May 2011 to 31 December 2012.

Information on the new business and investment performance results of the Company is set out in the Business Review on pages 2 to 19.

#### Share price performance

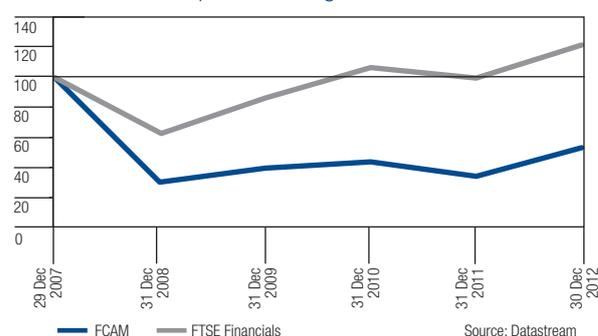
The share price at 31 December 2012 was 102.2 pence. During the year the highest price was 102.8 pence per share and the lowest price was 59.5 pence.

#### Performance graph for the share incentive schemes

The graph below compares the performance of the Company with a notional investment made up of shares of the group of companies from which the FTSE 250 Financial Companies Index of companies is calculated. The graph is based on the TSR for each period (assuming all dividends are reinvested). The FTSE 250 Financial Companies Index has been chosen as the comparator index as it is the index that includes the Company and is considered the most appropriate benchmark as there are very few comparable listed asset management businesses.

#### TSR performance compared to FTSE 250 Financial Companies Index

For the five financial periods ending 31 December



**(e) Policy on pension and other benefits**

F&C seeks to ensure that its pension policy is in line with its business strategy, objectives, values and long-term interests.

F&C has a number of pension plans which are designed to enable employees to make provision for a suitable income in retirement. In the majority of cases these are defined contribution plans. In the UK the defined benefit plan is closed to new members. Appropriate plans are also in place in non-UK locations.

Pension payments are based on basic salary and no other cash payments or benefits are pensionable.

In addition, a range of competitive employee benefits are provided including vacation and insured benefits, such as death in service, private medical and income protection.

**(f) Policy on contracts of employment**

The Company's policy regarding contracts of employment is that all senior employees, including Executive Directors, should be offered rolling contracts of no longer than twelve months. Where it is commercially appropriate to protect the Company, a longer-term initial contract with any employee, including an Executive Director, may be agreed. On completion of the initial contract, the Company's standard terms will be applied. The Remuneration Committee, in considering contracts, has regard to compensation commitments in respect of termination and believes that these are best addressed by restricting the term of the contract.

**(g) Policy on Non-executive Directors' remuneration**

Non-executive Directors' fees for the year to 31 December 2012 are set out below. None of the Non-executive Directors has a service contract. Non-executive Directors must submit to re-election on an annual basis and are not eligible for bonuses or participation in savings-related share schemes or share incentive schemes. Non-executive Directors are not eligible to join any of the Company's pension schemes. No pension contributions are made on their behalf and no Non-executive Director receives a salary from the Company. The remuneration of Non-executive Directors is determined by the Board as a whole within the limits stipulated in the Company's Articles of Association. All fees are reviewed annually.

Apart from the Chairman and the Senior Independent Director, Non-executive Directors are paid a basic fee of £60,000 per annum. The Chairman of the Board, who chairs the Nomination Committee, receives an annual all-inclusive fee of £150,000 and the Senior Independent Director receives a £15,000 supplemental fee to the Non-executive base fee. An additional fee of £12,500 per annum is paid to the Chairman of each of the Board Committees. A fee of £20,000 is paid to members of the Thames River Advisory Councils.

The Remuneration Committee sets the Chairman's annual remuneration. The Board as a whole determines the fees for Non-executive Directors, the Senior Independent Director supplement and the additional fees payable for membership and chairing of Board Committees.

**Statement on Executive Directors' service contracts and Non-executive Directors' letters of appointment**

Messrs Wilson and Logan have current service contracts with the Company that are for a rolling period of one year, details of which are summarised below. No employee of the Group has a service contract that cannot be brought to an end within one year.

Executive Directors	Date of contract	Notice period	Unexpired term	Provisions for compensation payable by the Company on early termination
				£000
Richard Wilson	4 December 2012	Twelve months	Rolling twelve months	395
David Logan	31 July 2006	Twelve months	Rolling twelve months	310

Chairman and Non-executive Directors	Date of contract	Notice period	Provisions for compensation payable by the Company on early termination
			£000
Edward Bramson	9 May 2012	One month	Nil
Keith Bedell-Pearce	9 May 2012	One month	Nil
Ian Brindle	9 May 2012	One month	Nil
Keith Jones	9 May 2012	One month	Nil
Jeff Medlock	9 May 2012	One month	Nil
Derham O'Neill	9 May 2012	One month	Nil
Keith Percy	9 May 2012	One month	Nil
Kieran Poynter	9 May 2012	One month	Nil

### Statement on Directors' remuneration (audited)

The remuneration of the Executive Chairman and the other Directors who held office during the year ended 31 December 2012 is set out in the table below:

	Salary and fees 2012 £000	Bonus 2012 £000	Benefits and allowances 2012 £000	Total 2012 (excluding pension contribution) £000	Total 2011 (excluding pension contribution) £000	Pension Contributions 2012 £000	Total 2012 £000	Total 2011 £000
<b>Executive Directors</b>								
Alain Grisay <sup>(1)</sup>	262	485	16	763	1,161	158	921	1,183
David Logan	275	325	2	602	577	41	643	617
Richard Wilson <sup>(2)</sup>	25	67	–	92	–	3	95	–
<b>Executive Chairman and Non-executive Directors</b>								
Edward Bramson (Executive Chairman)	150	–	–	150	136	–	150	136
Keith Bedell-Pearce*	108	–	–	108	114	–	108	114
Ian Brindle	60	–	–	60	36	–	60	36
Keith Jones	60	–	–	60	4	–	60	4
Jeff Medlock	60	–	–	60	55	–	60	55
Derham O'Neill	60	–	–	60	51	–	60	51
Keith Percy	70	–	–	70	4	–	70	4
Kieran Poynter*	93	–	–	93	97	–	93	97
<b>Total</b>	<b>1,223</b>	<b>877</b>	<b>18</b>	<b>2,118</b>	2,235	<b>202</b>	<b>2,320</b>	2,297

\* Served as members of the TRC Advisory Councils throughout 2011 and 2012.

<sup>(1)</sup> Retired from the Board in May 2012.

<sup>(2)</sup> Appointed to the Board in December 2012.

During 2012 Edward Bramson's fees were paid to Sherborne. No other sums were paid to third parties in respect of any Director's services.

The Company received £nil (2011: £nil) in fees payable to Executive Directors in respect of any external directorships held. No Executive Director receives any fees in respect of external appointments.

### Statement on Directors' pensions (audited)

The number of Directors who held office during the year and to whom retirement benefits are accruing is set out below:

	2012 Number	2011 Number
Members of money purchase pension scheme	3	2
	<b>2012 £000</b>	2011 £000
Company contributions paid to money purchase pension schemes:		
Alain Grisay	158	22
David Logan	41	40
Richard Wilson (from date of appointment)	3	–

During the year, the Company paid a widow's pension of £9,000 (2011: £102,000) in respect of the pension benefits which had accrued to a former Chairman and £125,000 (2011: £116,000) to Mr Jenkins, a former Chairman of the Company.

No Directors were members of a defined benefit scheme during the year.

### Statement on Directors' share incentive schemes (audited)

The Executive Directors who held office during the year and their awards under any of the Group's share incentive schemes at 31 December 2012 are shown on page 34 or below.

Non-executive Directors do not participate in any of the Group's long-term incentive plans.

### Executive Director Remuneration Plan (audited)

Details of the Executive Director Remuneration Plan are set out on page 89.

Date of Grant	Nature of award			Share price at date of award	Share price at date of vesting	Gain on vesting*	Gain on vesting*
		Alain Grisay	David Logan			£000	£000
8 July 2009	Deferred	1,649,452	539,540	64.9p			
<b>Opening position at 1 January 2012</b>		<b>1,649,452</b>	<b>539,540</b>	–	–		
	Deferred awards that vested during the year	(1,649,452)	(539,540)	64.9p	80.5p	1,584	518
	Deferred awards that lapsed during the year	–	–	–	–		
<b>Deferred awards remaining at 31 December 2012</b>		–	–	–	–		

\* The gain on vesting represents the gross value of shares and the cash equivalent of re-invested dividends thereon transferred on vesting.

### Long-Term Remuneration Plan awards (audited)

Details of the Long-Term Remuneration Plan are set out on pages 34 and 35.

Date of grant	Nature of award	Alain Grisay	David Logan	Richard Wilson	Share price at date of award
4 May 2010	Restricted	2,246,956	990,557	–	64.8p
4 May 2011	Restricted	1,978,729	837,001	300,105	77.8p
3 April 2012	Restricted	–	1,492,537	2,985,074	66.7p

No restricted awards made to Messrs Logan or Wilson vested or lapsed during the year. 548,973 restricted awards made to Mr Grisay in May 2010 lapsed during the year.

In addition to the restricted awards above, at 31 December 2012, Richard Wilson had a total of 1,111,638 LTRP deferred awards outstanding that were awarded to him in 2010 and 2011, prior to his appointment as a Director.

By order of the Board,

### W Marrack Tonkin, FCCA

Secretary

80 George Street

Edinburgh EH2 3BU

25 March 2013

# Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Consolidated and Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Consolidated and Company Financial Statements for each financial year. Under that law they are required to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Consolidated and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Consolidated Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

## Responsibility Statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Executive Chairman's Statement and Business Review include a fair review of the development and performance of the business and the position of the issuer and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



**Edward Bramson**

Chairman

25 March 2013

# Independent Auditor's Report

to the members of F&C Asset Management plc

We have audited the financial statements of F&C Asset Management plc for the year ended 31 December 2012 set out on pages 42 to 116 and 121 to 133. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 39, 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeupprivate](http://www.frc.org.uk/auditscopeupprivate).

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

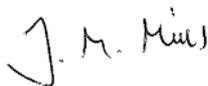
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 26, in relation to going concern;
- the part of the Corporate Governance Statement on page 26 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.



## Jonathan Mills (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
Edinburgh

25 March 2013

# Consolidated Financial Statements

for the year ended 31 December 2012

**These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).**

**The Company Financial Statements of F&C Asset Management plc, given on pages 121 to 133 have been prepared in accordance with UK Generally Accepted Accounting Practice.**

# Consolidated Income Statement

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
<b>Revenue</b>			
Investment management fees	2	252.6	279.0
Other income	2	4.8	4.2
<b>Total revenue</b>	2	257.4	283.2
Fee and commission expenses	2	(13.9)	(16.2)
<b>Net revenue</b>	2	243.5	267.0
<b>Net gains and investment income on unit-linked assets</b>	3	40.6	13.7
<b>Movement in fair value of unit-linked liabilities</b>		(40.8)	(13.4)
<b>Operating expenses</b>			
Operating expenses	4(b)	(162.5)	(183.8)
Distributions to members of LLPs	5	(11.6)	(18.3)
Amortisation of intangible assets – management contracts	13	(42.5)	(45.8)
Other exceptional net operating expenses	6(a)	(21.9)	(19.0)
<b>Total operating expenses</b>	4(a)	(238.5)	(266.9)
<b>Operating profit</b>			
Finance revenue	7	4.8	0.4
Finance costs	8	(33.4)	(35.4)
F&C REIT put option fair value gain	6(b)	11.5	8.7
TRC acquisition consideration adjustments	6(c)	–	7.6
<b>Loss before tax</b>		(2.5)	(1.5)
Tax – Shareholders		5.3	4.1
Tax – Policyholders		0.2	–
<b>Tax income</b>	9	5.5	4.1
<b>Profit for the year</b>		3.0	2.6
<b>Attributable to:</b>			
Equity holders of the parent		0.1	(0.5)
Non-controlling interests		2.9	3.1
<b>Profit for the year</b>		3.0	2.6
<b>Basic earnings/(loss) per Ordinary Share</b>	10	0.01p	(0.10)p
<b>Diluted earnings/(loss) per Ordinary Share</b>	10	0.01p	(0.10)p
		£m	£m
<b>Memo – dividends paid</b>	11	15.8	15.6
<b>Memo – dividends proposed</b>	11	10.9	10.4

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

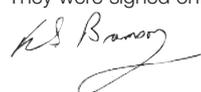
	Notes	2012 £m	2011 £m
<b>Profit for the year</b>		<b>3.0</b>	2.6
<b>Other comprehensive (expense)/income:</b>			
Gains on revaluation of available for sale financial investments	14	<b>0.7</b>	1.5
Realised gains on available for sale financial investments transferred to the Income Statement	14	<b>(1.1)</b>	(3.3)
Foreign exchange movements on translation of foreign operations		<b>(2.6)</b>	(2.0)
Net actuarial (losses)/gains on defined benefit pension schemes	24(d)	<b>(9.0)</b>	3.3
Tax income/(expense) on items taken to Other Comprehensive Income	9(a)	<b>1.6</b>	(0.5)
<b>Other comprehensive expense for the year</b>		<b>(10.4)</b>	(1.0)
<b>Total comprehensive (expense)/income for the year</b>		<b>(7.4)</b>	1.6
<b>Attributable to:</b>			
Equity holders of the parent		<b>(10.3)</b>	(1.5)
Non-controlling interests		<b>2.9</b>	3.1
		<b>(7.4)</b>	1.6

# Consolidated Statement of Financial Position

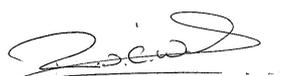
as at 31 December 2012

	Notes	31 December 2012 £m	31 December 2011 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	7.1	7.4
Intangible assets:			
– Goodwill	13	611.9	611.9
– Management contracts	13	84.5	128.6
– Software and licences	13	7.8	2.5
	13	704.2	743.0
Financial investments	14	1.3	1.7
Other receivables	19	0.4	1.1
Deferred acquisition costs	15	3.3	4.7
Deferred tax assets	16(a)	28.6	28.3
<b>Total non-current assets</b>		<b>744.9</b>	<b>786.2</b>
<b>Current assets</b>			
Financial investments	17(a)(i)	138.2	454.4
Reinsurance assets	18	–	2.0
Stock of units and shares	17(a)(ii)	0.3	0.9
Deferred acquisition costs	15	2.0	2.4
Trade and other receivables	19	87.2	83.9
Current tax receivable		1.0	0.7
Cash and cash equivalents:			
– Shareholders	20	160.7	196.9
– Policyholders	20	4.5	28.1
	20	165.2	225.0
<b>Total current assets</b>		<b>393.9</b>	<b>769.3</b>
<b>Total assets</b>		<b>1,138.8</b>	<b>1,555.5</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	21	257.4	273.8
Other payables	22	3.3	6.9
Provisions	23	5.1	7.3
Pension deficit	24	24.1	20.5
Employee benefits		5.0	5.9
Deferred income	26	5.6	7.0
Other financial liabilities	27	30.0	41.5
Deferred tax liabilities	16(a)	19.7	32.4
<b>Total non-current liabilities</b>		<b>350.2</b>	<b>395.3</b>
<b>Current liabilities</b>			
Investment contract liabilities	28	136.9	472.8
Insurance contract liabilities	29	–	2.0
Trade and other payables	22	53.2	71.7
Provisions	23	8.3	8.5
Employee benefits		24.7	28.8
Liabilities to members of LLPs		4.0	4.7
Deferred income	26	2.7	3.3
Other financial liabilities	27	3.8	3.8
Current tax payable		8.8	7.8
<b>Total current liabilities</b>		<b>242.4</b>	<b>603.4</b>
<b>Total liabilities</b>		<b>592.6</b>	<b>998.7</b>
<b>Equity</b>			
Ordinary Share capital	30	0.6	0.5
Share premium account	31	58.9	51.8
Capital redemption reserve	31	0.8	0.8
Merger reserve	31	336.8	359.7
Other reserves	31	(25.7)	(22.8)
Retained earnings	31	162.7	154.3
<b>Total equity attributable to equity holders of the parent</b>		<b>534.1</b>	<b>544.3</b>
Non-controlling interests	31	12.1	12.5
<b>Total equity</b>		<b>546.2</b>	<b>556.8</b>
<b>Total liabilities and equity</b>		<b>1,138.8</b>	<b>1,555.5</b>

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 25 March 2013. They were signed on its behalf by:



Edward Bramson  
Chairman



Richard Wilson  
Chief Executive

The accompanying notes to the Consolidated Financial Statements form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Attributable to equity holders of the parent									
	Ordinary Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Fair value reserve £m	Acquisition reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
<b>Balance at 1 January 2011</b>	0.5	51.8	0.8	383.3	44.1	2.4	(66.0)	138.2	16.5	571.6
(Loss)/profit for the year	-	-	-	-	-	-	-	(0.5)	3.1	2.6
Other comprehensive (expense)/income	-	-	-	-	(2.0)	(1.3)	-	2.3	-	(1.0)
Total comprehensive (expense)/income	-	-	-	-	(2.0)	(1.3)	-	1.8	3.1	1.6
Transactions with owners:										
Purchase of own shares	-	-	-	-	-	-	-	(3.2)	-	(3.2)
Realised element of merger reserve to offset amortisation of intangible assets	-	-	-	(23.6)	-	-	-	23.6	-	-
Share-based payment charges credited to equity	-	-	-	-	-	-	-	17.3	-	17.3
Consideration for non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	(10.7)	-	(10.7)
Tax credit associated with purchase of non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	2.9	-	2.9
Final 2010 dividend paid	-	-	-	-	-	-	-	(10.4)	-	(10.4)
Interim 2011 dividend paid	-	-	-	-	-	-	-	(5.2)	-	(5.2)
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(7.1)	(7.1)
<b>Balance at 31 December 2011</b>	<b>0.5</b>	<b>51.8</b>	<b>0.8</b>	<b>359.7</b>	<b>42.1</b>	<b>1.1</b>	<b>(66.0)</b>	<b>154.3</b>	<b>12.5</b>	<b>556.8</b>
Profit for the year	-	-	-	-	-	-	-	<b>0.1</b>	<b>2.9</b>	<b>3.0</b>
Other comprehensive expense	-	-	-	-	(2.6)	(0.3)	-	(7.5)	-	(10.4)
<b>Total comprehensive (expense)/income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2.6)</b>	<b>(0.3)</b>	<b>-</b>	<b>(7.4)</b>	<b>2.9</b>	<b>(7.4)</b>
Transactions with owners:										
Share capital allotted on issue of TRC Commutation shares	<b>0.1</b>	<b>7.1</b>	-	-	-	-	-	(7.2)	-	-
Purchase of own shares	-	-	-	-	-	-	-	(0.1)	-	(0.1)
Realised element of merger reserve to offset amortisation of intangible assets	-	-	-	(22.9)	-	-	-	22.9	-	-
Share-based payment charges credited to equity	-	-	-	-	-	-	-	13.4	-	13.4
Tax credit in respect of share-based payments	-	-	-	-	-	-	-	0.6	-	0.6
Adjustment to consideration for non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	2.8	-	2.8
Tax associated with adjustment to consideration for non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	(0.8)	-	(0.8)
Final 2011 dividend paid	-	-	-	-	-	-	-	(10.4)	-	(10.4)
Interim 2012 dividend paid	-	-	-	-	-	-	-	(5.4)	-	(5.4)
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(3.3)	(3.3)
<b>Balance at 31 December 2012</b>	<b>0.6</b>	<b>58.9</b>	<b>0.8</b>	<b>336.8</b>	<b>39.5</b>	<b>0.8</b>	<b>(66.0)</b>	<b>162.7</b>	<b>12.1</b>	<b>546.2</b>

The total of foreign currency translation reserve, fair value reserve and acquisition reserve constitutes 'Other reserves' as disclosed in the Consolidated Statement of Financial Position and amounts to a debit of £25.7m at 31 December 2012 (31 December 2011: £22.8m debit).

Cumulative defined benefit pension scheme actuarial losses (as disclosed in note 24(d)) recognised as at 31 December 2012 are £40.0m which are included in retained earnings (31 December 2011: £31.0m).

The £10.7m recognised in the Statement of Changes in Equity during 2011 represented the provisional fair value of the consideration paid for the acquisition of the 40% non-controlling interest in F&C Partners LLP, which was acquired pursuant to the valid exercise of the Put Option by the founder members. During 2012, following the final settlement of the totality of the litigation in respect of F&C Partners, the consideration has been finalised, resulting in £2.8m being credited to equity.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
<b>Cash flows from operating activities</b>			
Operating profit		4.8	0.4
<b>Adjustments for non-cash items</b>	32(a)	61.4	67.2
<b>Changes in working capital and provisions</b>	32(a)	(54.6)	18.3
<b>Cash inflows from operating activities*</b>		11.6	85.9
Income tax paid		(6.5)	(0.7)
<b>Net cash inflow from operating activities</b>		5.1	85.2
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(3.6)	(3.0)
Proceeds from disposal of property, plant and equipment		0.1	0.1
Purchase of software and licences		(5.8)	(2.2)
Payments to acquire investments		(0.1)	(0.6)
Proceeds from disposal of investments		3.3	3.7
Investment income – interest and dividends		2.0	5.9
Consideration payment for the acquisition of F&C GH†		(0.7)	–
Consideration payment for the acquisition of TRC		–	(7.4)
<b>Net cash outflow from investing activities</b>		(4.8)	(3.5)
<b>Cash flows from financing activities</b>			
Repayment of Guaranteed Loan Notes 2016		(8.0)	–
Repayment of Subordinated Loan Notes 2016/2026		(7.6)	–
Interest paid on Loan Notes		(21.6)	(21.9)
Other interest paid		(0.3)	(0.4)
Equity dividends paid	11	(15.8)	(15.6)
Distributions to non-controlling interests		(3.3)	(7.1)
Purchase of own shares		(0.1)	(3.2)
Payments in respect of debt arrangements		(0.2)	–
Payment for change in ownership interest in F&C Partners LLP		–	(8.8)
<b>Net cash outflow from financing activities</b>		(56.9)	(57.0)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(56.6)	24.7
Effect of exchange rate fluctuations on cash held		(3.2)	(1.9)
Cash and cash equivalents at 1 January		225.0	202.2
<b>Cash and cash equivalents at 31 December</b>	20	165.2	225.0
<b>Cash and cash equivalents</b>			
Shareholders	20	160.7	196.9
Policyholders	20	4.5	28.1
	20	165.2	225.0

\* Cash inflows from operating activities includes investments and disinvestments relating to unit-linked assets attributable to policyholders in the Group's insurance company. These activities can result in significant fluctuations in "cash flows from operating activities".

† Final consideration settlement in respect of the acquisition of F&C Group (Holdings) Limited in 2004.

## Non-cash transactions

During 2012, a total of 10,684,692 (2011: nil) Ordinary Shares were issued during the year in respect of TRC Initial and Deferred Commutation consideration. The fair value of these shares was £7.2m (2011: £nil).

# Accounting Policies

## Basis of preparation and statement of compliance

These are the Consolidated Financial Statements of F&C Asset Management plc and its subsidiaries (the Group) which have been prepared on a going concern basis and in accordance with International Financial Reporting Standards, as adopted by the European Union (EU adopted IFRS), and those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. These Consolidated Financial Statements are presented in millions of pounds Sterling, rounded to one decimal point, except where otherwise indicated.

Certain figures reported in the 2011 Financial Statements have been reclassified within these Financial Statements for consistency with the presentation applied within these Financial Statements. These changes are presentational in nature and do not change the previously reported financial results for the year ended 31 December 2011 nor the aggregate assets and liabilities at that date.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 19. The financial position of the Group, its cash flows and liquidity position are also described in the Business Review. In addition, note 35 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, liquidity risk and market risks.

The Group has considerable financial resources together with long-term contracts with a number of clients across different geographic areas and industries. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Financial Statements.

## New or revised standards

The revisions to the standards below, which were effective during the year ended 31 December 2012, did not have any impact on the accounting policies, financial position or performance of the Group:

### (a) Amendments to IFRS:

IFRS 7	Financial Instruments: Disclosures (Amendment)
IAS 12	Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

### (b) Improvements to IFRS (effective June 2012):

IAS 1	Presentation of Financial Statements – Clarification of the requirements for comparative information
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## Parent Company Financial Statements

The parent Company has continued to present individual Financial Statements prepared on a UK GAAP basis as permitted by section 395(1) of the Companies Act 2006, adopting the exemption of omitting the Profit and Loss Account and related notes conferred by

section 408 of that Act. The Company Financial Statements, together with their respective accounting policies and notes, are presented on pages 121 to 133.

## Accounting estimates, assumptions and judgements

The preparation of the Financial Statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date as well as the reported income and expenses for the year. While estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from these estimates.

The key sources of estimation, uncertainty and critical judgements in applying accounting policies are disclosed, where appropriate, in the following notes to the Consolidated Financial Statements:

### (a) Impairment testing of intangible assets

The projected revenue growth, projected operating cost growth and discount rates applied to cash flow projections, as disclosed in note 13.

### (b) Pension assumptions

The mortality assumptions, expected rates of return, discount rates, rates of salary increases and inflation increases, as disclosed in note 24.

### (c) Provisions

Onerous contract provisions for premises are subject to uncertainties over time, including market rent reviews and break options within the lease arrangements. Details are disclosed in note 23.

### (d) F&C REIT put option liabilities

The fair value of the F&C REIT put option liabilities is based upon an external valuation of the F&C REIT business. By its nature, the valuation is subject to a significant number of assumptions and judgements and could differ from any price ultimately agreed between the parties if the put options were exercised. Details of the key valuation assumptions used are outlined in note 27.

### (e) Share-based payments

The share-based payment expense in respect of the TRC Commutation arrangements, as detailed in notes 6(a)(iv) and 25(g), is dependent upon whether the underlying call options are exercised and, if exercised, the expense will vary according to a number of factors, including the level of earnings of the respective Investment Teams and the latest audited financial results of the F&C Group.

### (f) Deferred tax assets

The quantum of deferred tax assets recognised, as detailed in note 16, is based upon assumptions as to the future profitability of the underlying companies to which they relate.

## Summary of significant accounting policies

The accounting policies set out below have been applied consistently throughout the Group for the purposes of the Consolidated Financial Statements for the years ended 31 December 2012 and 31 December 2011.

### (a) Consolidation

#### (i) Subsidiaries

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries follow accounting policies consistent with those of the Group, unless there is a requirement for the subsidiary to follow a different accounting treatment, in which case consolidation adjustments are made to align the treatment of such subsidiaries within the Consolidated Financial Statements. The subsidiaries have coterminous reporting periods, with three exceptions.

The Consolidated Financial Statements incorporate the assets, liabilities, results and cash flows of the Company and its subsidiaries. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

NCI represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Consolidated Income Statement (Income Statement) and within equity in the Consolidated Statement of Financial Position (Statement of Financial Position), separately from parent shareholders' equity.

#### (ii) Business combinations

*IFRS 3 (Revised) (relating to Business Combinations from 1 January 2010)*

A business combination is the bringing together of separate entities or businesses into one reporting entity. The result is that one entity, the acquirer, obtains control of one or more entities or businesses. The acquisition date is the date on which the acquirer obtains control of the acquiree.

The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred for the acquisition, plus any NCI, over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are expensed in the Income Statement.

### (b) Foreign currencies

The Group's presentational currency is Sterling. Each entity in the Group determines its own functional currency, and amounts included in the financial statements of each entity are measured in that functional currency.

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the

exchange rate ruling at the reporting date, and any exchange differences arising are taken to the Income Statement.

Non-monetary assets and liabilities, other than intangible assets arising on the acquisition of foreign operations, (measured at historical cost in a foreign currency), are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Income Statement, the corresponding exchange movements are also recognised in the Income Statement. Similarly, when fair value movements in assets and liabilities are reflected directly in equity, the corresponding exchange movements (except any relating to available for sale monetary assets) are also recognised directly in equity.

#### (ii) Foreign operations

The functional currency of foreign operations is predominantly the Euro.

The assets and liabilities of, or relating to, foreign operations are translated into Sterling at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Sterling at foreign exchange rates approximating to the rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations into Sterling, including related intangible assets, are recognised directly in the Group's Foreign Currency Translation Reserve (FCTR), which is a separate component of equity, and reported in the Statement of Comprehensive Income. These exchange differences are recognised as income or expenses in the period in which the foreign operations are disposed of.

### (c) Revenue recognition

Management fees, investment advisory fees and other revenue generated from the Group's asset management activities are recognised in the Income Statement over the period which these investment management services are provided.

Initial fees received in advance, arising on open-ended funds, are taken to the Statement of Financial Position and released to the Income Statement over the period of the asset management service. The Group enters into standard contractual terms for all investors. Therefore, the period of provision of asset management services is estimated based upon the Group's experience of the average holding periods of investors. The average holding period is reassessed on an annual basis.

The Group is entitled to earn performance fees from a number of clients if the actual investment performance of clients' assets exceeds defined benchmarks by an agreed level of outperformance, generally in a set time period. Performance fees are recognised when the quantum of the fee can be estimated reliably, which is when the performance period ends when this occurs on or before the reporting date, or where there is a period of less than six months remaining to the end of the performance period and there is evidence at the reporting date which suggests that the current performance will be sustainable.

### (d) Leases

All leases entered into by the Group are operating leases, being leases where the lessor retains substantially all the risks and rewards of ownership of the leased asset. Rentals paid under

operating leases are charged to the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised by the Group as a reduction in the rental expense, allocated on a straight-line basis over the lease term. Accounting policy “(s) Provisions” discusses the recognition of provisions on onerous property leases when the leased space has ceased to be occupied by the Group.

#### (e) Fee and commission expenses

Fee and commission expenses comprise two main elements – costs associated with gaining new asset management contracts and subsequent commission paid to agents. The costs associated with gaining contracts are deferred and amortised over the estimated term of the contracts (in line with the treatment of the associated initial fees received), while the subsequent renewal commission paid to agents is expensed as the services are provided.

#### (f) Exceptional income and costs

Where the Group incurs significant non-recurring expenditure or earns significant non-recurring income in respect of items that arise outwith the Group’s normal business activities and which are sufficiently material to warrant separate disclosure, then such items are disclosed in the Income Statement as exceptional items, either separately or collectively, depending on their nature.

#### (g) Finance revenue

Finance revenue comprises interest, dividends, investment income, expected return on pension assets and net fair value gains through the Income Statement in respect of shareholder investments. Dividend income is recognised when the right to receive payment is established. Interest income is recognised in the Income Statement on an effective interest rate basis as it accrues.

#### (h) Finance costs

Finance costs comprise interest payable on borrowings, interest on pension liabilities, amortisation of loan issue costs and facility fees, unwinding of discount on provisions and net fair value losses through the Income Statement in respect of shareholder investments. Borrowing costs are recognised in the Income Statement on an effective interest rate basis.

#### (i) Income taxes

The income tax expense or income disclosed on the face of the Income Statement represents the aggregate of current tax and the movement in deferred tax. Income tax is recognised in the Income Statement for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in equity. In such cases the gain or loss shown in equity is stated separately from the attributable income tax, which is also recognised directly in equity.

Current tax is the expected tax payable to, or receivable from, the taxation authorities on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on 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 or loss, accounted for using the reporting date liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and laws enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable 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 can be utilised, except:

- where the deferred tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss; or
- in respect of taxable or deductible temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Any income tax expense or income in respect of taxable gains or losses attributable to policyholders falls to be borne by or to the benefit of the Group’s unit-linked policyholders. As a result, the Directors consider it appropriate to differentiate on the face of the Income Statement between tax attributable to policyholders and tax attributable to shareholders.

#### (j) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on property, plant and equipment is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Income Statement as an expense as incurred.

Property, plant and equipment is depreciated so as to write off the cost of assets, using the straight-line method, over their estimated useful lives, as follows:

Leasehold improvements	– over 10 years
Computer equipment	– over 3 years
Office furniture & equipment	– over 3-5 years
Motor vehicles	– over 3-4 years

Depreciation is recognised as an expense in the Income Statement.

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Income Statement in the period in which it arises.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the fair value less costs to sell) is included in the Income Statement in the year the asset is derecognised.

#### (k) Intangible assets

##### (i) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Business combinations arising after 31 December 2009 are accounted for under IFRS 3 (Revised): Business Combinations. Where the initial amount of goodwill can only be determined on a provisional basis at the end of the financial reporting period, adjustments are made to the amount of goodwill up to twelve months from the date of acquisition to the extent that they relate to revisions to the quantum of net assets acquired. Any adjustment to the initial consideration, including amounts which are conditional upon performance criteria, are recognised in the Income Statement in the period in which the subsequent change arises.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

##### (ii) Investment management contracts

Intangible assets acquired separately are measured on initial recognition at cost.

The measurement of intangible assets acquired in a business combination is recognised at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial fair value less accumulated amortisation and any accumulated impairment losses.

The useful lives of investment management contracts are finite and such contracts are amortised on a straight-line basis over their estimated useful lives or average contractual term, with amortisation being charged to the Income Statement. The amortisation period is reviewed at each financial year end. Details of estimated useful lives are shown in note 13.

##### (iii) Software and licences

Separately purchased intangible assets have a finite life and are shown at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the Income Statement in equal annual instalments, based on the following useful economic lives:

Software – 3 years

Licences – over the contractual term (3-5 years)

Subsequent expenditure on capitalised intangible assets is expensed as incurred.

#### (l) Impairment of intangible assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Any impairment arising is recognised in the Income Statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to a cash-generating unit that is expected to benefit from the synergies of the combination. Each unit to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Where intangible assets form part of a cash-generating unit and part of the operation within that unit is disposed of, the intangible assets associated with the operation disposed of are included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

#### (m) Financial instruments

Financial instruments are recognised initially at fair value plus directly attributable transaction costs, where investments are not classified as fair value through profit or loss.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid price for OEICs) at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation methodologies, as described below.

Financial instruments are classified into the categories described below:

- (i) *Financial instruments at fair value through profit or loss* include investments that are held for trading purposes or that have been specifically designated as 'at fair value through profit or loss'. They are carried in the Statement of Financial Position at fair value and movements in fair value are taken to the Income Statement in the period in which they arise. Interest and dividend income on these financial instruments is recognised separately in finance revenue.

The Group has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established in the marketplace concerned. Accordingly, such financial instruments are recognised on the date the Group commits to the purchase of the

investments, and are derecognised on the date it commits to their sale.

The Group has adopted the Fair Value Option in IAS 39, which enables the liabilities in respect of the Group's unit-linked investment contracts to be matched to the fair value of the related assets which are solely attributable to the investment contract policyholders, thus reflecting the contractual entitlement of the policyholders. Differences in fair values are taken to the Income Statement.

- (ii) *Available for sale financial assets* are also carried at fair value in the Statement of Financial Position. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines. Where insufficient information exists to produce a valuation then the price of recent investments is used. Alternative methodologies include using: recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; or discounted cash flow analysis and option pricing models.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the "Price of a Recent Investment" method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate, and whether there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators, fair value is determined to be that reported at the previous reporting date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Income Statement.

- (iii) *Loans and receivables* are measured on initial recognition at fair value plus any directly attributable transaction costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when loans and receivables are derecognised or impaired, as well as through the amortisation process.

- (iv) *Other financial liabilities* include the NCI put options which are recognised at fair value through profit or loss.

The NCI put options, over equity in majority-owned subsidiaries, are recognised at fair value at the reporting date. Upon initial recognition the fair value of the put option is debited to equity. Subsequent movements to the fair value are reflected in the Income Statement. Fair value is the

amount at which a derivative could be exchanged in a transaction at the reporting date between willing parties.

The remaining financial liabilities are recognised at amortised cost using the effective interest rate after initial recognition.

Expenses incurred in respect of raising capital on interest-bearing loans and borrowings are amortised over the term of the loan on an effective interest rate basis. These expenses are offset against the loan amount.

### **Carried interest entitlement**

The Group has a number of investments which provide it with carried interest entitlement, which is typically linked to the investment performance of the underlying funds exceeding long-term hurdle rates. In a number of instances a share of such 'carry' falls to the benefit of the individual founder members.

These carried interest investments are classified as fair value through profit or loss and any amounts payable to individual members are included within member distributions in the Income Statement and classified as a liability.

Separately, where the Group holds carried interest investments which are not linked to investment vehicles managed by the Group, then such investments are classified as available for sale.

### **Derecognition of financial assets and liabilities**

#### *Financial assets*

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

#### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

### **Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

#### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Income Statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### *Available for sale financial assets*

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Income Statement, is transferred from equity to the Income Statement. Reversals in

respect of equity instruments classified as available for sale are not recognised in the Income Statement. Reversals of impairment losses on debt instruments are taken through the Income Statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement.

**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term, highly liquid investments in money market instruments with original maturity dates of three months or less.

**(o) Investment contracts**

The Group sells unit-linked pension investment contracts through its insurance entity, F&C Managed Pension Funds Limited (MPF). These unit-linked contracts involve both the transfer of a financial instrument and the provision of investment management services. The financial instrument component is classified as a financial liability at fair value through profit or loss. The financial liability is measured using a valuation technique based on the carrying value of the assets and liabilities that are held to back the contract.

Unit-linked policyholder assets held by MPF and related policyholder liabilities are carried at fair value, with changes in fair value taken to profit or loss.

Amounts received from and paid to investors under these contracts are accounted for as deposits received or paid, and therefore not recorded in the Income Statement. At the reporting date the value of these contracts is stated at an amount equal to the fair value of the net assets held to match the contractual obligations.

**(p) Insurance contract liabilities**

Insurance contract liabilities are measured in accordance with actuarial principles and guidance. Any change in the value of the liability is taken to "Movement in fair value of unit-linked liabilities" in the Income Statement. Where these liabilities are reinsured, the element of the risk reinsured is valued on the same basis as the related liability and is included as an asset in the Statement of Financial Position. Changes in the value of the asset are taken to the Income Statement. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date.

**(q) Employee and member benefits**

*(i) Short-term employee benefits*

Short-term employee benefits are recognised as an undiscounted expense and liability when the employee has rendered services during an accounting period. Short-term compensated absences are recognised, in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences or, in the case of non-accumulating compensated absences, when the absences occur.

*(ii) Profit-sharing and bonus payments*

These are recognised when there is a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

*(iii) Profit entitlement of members of Limited Liability Partnerships*

Where a member of a Limited Liability Partnership (LLP) has an automatic entitlement to distributions of partnership profits in respect of their services, an expense (Distributions to members of LLPs) and a liability (Liabilities to members of LLPs) are recognised as their services are rendered during an accounting period.

*(iv) Pension obligations*

*Defined benefit schemes*

The Group operates a number of defined benefit pension arrangements. These schemes provide benefits based on final pensionable salary. The assets of the funded schemes are held in separate trustee-administered funds.

The pension liability recognised in the Statement of Financial Position is the present obligation of the employer, which is the estimated present value of future benefits that employees have earned in return for their services in the current and prior years, less the value of the plan assets in the schemes. The discount rate applied to the employees' benefits is the appropriate AA corporate bond yield at the reporting date. A qualified actuary performs the calculation annually using the projected unit credit method. The pension costs of the schemes in the Income Statement are analysed into:

- current service cost, which is the actuarially calculated present value of the benefits earned by the active employees in each period;
- past service costs, which relate to employee service in prior periods, and arise as a result of the introduction of, or improvement to, retirement benefits in the current period. These are recognised in the Income Statement on a straight-line basis over the period in which the increase in benefits vests;
- settlements or curtailments recognised in the Income Statement to the extent that they are not allowed for in the actuarial assumptions. Gains or losses on settlements or curtailments are recognised at the date on which there is a demonstrable commitment to making a significant reduction in the number of employees covered by the plan or an amendment to the terms of the plan;
- the expected return on pension assets recognised within 'Finance revenue'; and
- the interest on pension obligations recognised in 'Finance costs'.

The actuarial gains and losses, which arise from any new valuation and from updating the previous actuarial valuation to reflect conditions at the reporting date, are taken in full to the Statement of Comprehensive Income for the period.

*Defined contribution schemes*

Contributions made to these schemes are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

*(v) Other long-term employee benefits*

Other long-term employee benefits are recognised at the discounted present value of the obligation at the reporting date.

The benefit is determined using actuarial techniques to estimate the amount of benefit employees have earned for their services at the reporting date.

*(vi) Termination benefits*

Termination benefits are recognised as a liability and an expense when the Group is committed to the termination of employment before the normal retirement date. A commitment to such termination benefits arises when the Group has initiated detailed plans which cannot realistically be withdrawn.

**(r) Share-based payments**

The Group operates a number of share scheme arrangements which require to be accounted for as share-based payments.

All grants of shares, share options or other share-based instruments that were granted after 7 November 2002 have been recognised as an expense. Where applicable, the fair values of share-based payment awards are measured using a valuation model applicable to the terms of the awards (Black Scholes, Binomial or Monte Carlo simulation). The fair value is measured by an independent external valuer at the date the award is granted and the expense is spread over the period during which the employees become unconditionally entitled to exercise the awards, known as the vesting period. Where options exist for awards to vest on more than one date, the expense is initially spread over the period to the earliest possible vesting date. The cumulative expense recognised in the Income Statement is equal to the estimated fair value of the award multiplied by the number of awards expected to vest. Vesting of awards typically depends upon meeting defined performance criteria such as underlying earnings per share (EPS) targets and/or share price return targets or continued employment.

The fair value of share-based payment awards, where it is not considered possible to estimate reliably the fair value of these awards at the grant date, is determined by measurement of the equity instruments at intrinsic value. The intrinsic value is spread over the vesting period.

Vesting of equity-settled employee share awards depends upon meeting "market-related" and/or "non-market related" performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Income Statement and subsequent adjustments, as follows:

- (i) Non-market related conditions are performance criteria not directly linked to Company share price targets, such as EPS targets and/or continued employment. The probability of meeting non-market conditions is incorporated into the expense charge via the estimate of the number of awards expected to vest. The total cumulative expense is reassessed at each reporting date and is ultimately adjusted to reflect the actual number of awards which vest. Therefore, if no awards vest, no cumulative expense charge is ultimately recognised.
- (ii) Market-related conditions are performance criteria linked to Company share price targets. The probability of meeting market conditions is incorporated into the calculation of the fair value of the award. Should the market-based performance condition not ultimately be met, no "true-up/down" adjustment is made to reflect this. Therefore, an

expense charge is made whether market-based awards ultimately vest or not.

IFRS 2: Share-based Payment makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Income Statement with a corresponding credit to equity. Cash-settled awards are charged to the Income Statement with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

Awards to employees treated as "good leavers" or employees who cancel their savings contracts (under the Share Save Scheme) vest immediately and the remaining full expense of the awards is charged to the Income Statement at that time. Good leavers include retirees and involuntary redundancies.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted EPS.

**(s) Provisions**

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

Where the Group expects some or all of a provision to be recovered from external parties, the recovery is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Group has obligations under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements.

**(t) Share capital**

When shares are issued, any component that creates a financial liability of the Company or Group is presented as a liability in the Statement of Financial Position, measured initially at fair value, net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption.

The remainder of the issue proceeds is allocated to the equity component and included in shareholders' equity, net of transaction costs.

*Ordinary Share capital*

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. The Company's dealings in its own shares are reflected through equity.

Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders.

**(u) Accounting for Employee Benefit Trusts (EBTs)**

The Group has several EBTs which own shares in the Company and other investments to enable it to satisfy certain future settlements of share-based awards. The assets of the EBTs, which relate to unvested awards, are consolidated into the Group's results, with these own shares included within retained

earnings at cost. Consideration received for such shares is also recognised in retained earnings. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares. Other investments held by EBTs are recognised as assets in the Statement of Financial Position.

**(v) New standards and interpretations not applied**

The International Accounting Standards Board has issued the following standards, relevant to the Group, which have not yet been applied and have an effective date after the date of these Financial Statements:

<b>International Accounting Standards (IAS/IFRS)</b>		<b>Effective for accounting periods beginning on or after</b>
<b>Endorsed by the European Union and available for early adoption:</b>		
IAS 1 Amendment	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 16 Improvement	Property, Plant and Equipment	1 January 2013
IAS 19 Revised	Employee Benefits	1 January 2013
IAS 32 Improvement	Financial Instruments: Presentation	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 27 Revised	Separate Financial Statements	1 January 2014
IAS 28 Revised	Investments in Associates and Joint Ventures	1 January 2014
IAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities	1 January 2014
<b>Not yet endorsed by the European Union:</b>		
Improvements to IFRS 10, IFRS 11 and IFRS 12 (June 2012)	Transition Guidance	1 January 2013
Improvements to IFRSs (2009 – 2011) (May 2012)	Improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	1 January 2013
Investment Entities	Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
IFRS 9	Financial Instruments (issued in 2009 and revised in 2010)	1 January 2015

**Impact of new accounting standards**

The list of new standards and interpretations above are effective for periods beginning on or after 1 January 2013. The revised standard which will have a numeric impact on the 2013 Financial Statements is IAS 19 Revised – Employee Benefits.

IAS 19 Revised – Employee Benefits contains changes in recognition and measurement of employee benefits. One of the changes in respect of defined benefit pension arrangements is that a 'net interest cost' will replace the current 'interest cost and expected return on assets'. The discount rate will be used to calculate the 'net interest cost' instead of a separate assumption for 'asset returns'. In addition, administrative expenses will be shown separately and not within the 'net interest cost'. Ongoing, the quantum of the 'net interest cost' will depend on the size of the defined benefit deficit and the discount rate.

The 2012 Consolidated Income Statement will be restated upon adoption of the revised standard at 1 January 2013. The impact on the 2012 Income Statement is expected to result in the following amendments to loss before tax:

- Operating expenses to increase by £0.1m, finance revenue to reduce by £10.7m, finance costs to reduce by £10.2m resulting in an overall increase in the loss before tax of £0.6m.

It is not expected that this new standard will have a material impact to the Consolidated Statement of Financial Position at either 31 December 2011 or 31 December 2012.

Other standards effective in 2013, which will impact the Group include:

- IAS 1 Amendment – Presentation of Items in Other Comprehensive Income (OCI) is a presentational change which will require the items in OCI to be split between those which could be recycled to the Income Statement and those which cannot.
- IFRS 13 – Fair Value Measurement clarifies how fair value should be measured. This is not expected to have a significant impact on the Group's current measurement of fair values.

The Directors are investigating the impact of the other new and revised standards to be implemented in 2014 and beyond. It is anticipated that, at a minimum, additional disclosures will be required. The Group intends to adopt the standards in the reporting period in which they become effective.

# Notes to the Consolidated Financial Statements

## 1. Operating segments

From a management perspective, the Group has three operating units and therefore presents three operating segments for segment reporting purposes:

- F&C;
- F&C REIT; and
- Thames River Capital (TRC).

While there are different sources of revenue and distinct distribution channels within operating segments, and assets under management can be categorised by client type and asset class, the Directors do not consider these to constitute separate operating segments within the meaning of IFRS 8: Operating Segments.

Management monitors the results of its three operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment revenue, operating expenses, finance revenue, finance costs and profit/(loss) for the year include transactions between operating segments, which are eliminated on consolidation. The accounting policies of the operating segments are the same as those of the Group.

(a) Operating segments' financial information	F&C		F&C REIT		TRC		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Revenue</b>								
External clients	187.0	199.5	38.4	37.8	32.0	45.9	257.4	283.2
Inter-segment revenue	0.7	0.9	–	–	1.5	1.5	2.2	2.4
<b>Segment revenue</b>	<b>187.7</b>	<b>200.4</b>	<b>38.4</b>	<b>37.8</b>	<b>33.5</b>	<b>47.4</b>	<b>259.6</b>	<b>285.6</b>
Fee and commission expenses	(11.1)	(12.3)	(2.2)	(3.1)	(0.6)	(0.8)	(13.9)	(16.2)
Net gains and investment income on unit-linked assets	40.6	13.7	–	–	–	–	40.6	13.7
Movement in fair value of unit-linked liabilities	(40.8)	(13.4)	–	–	–	–	(40.8)	(13.4)
<b>Operating expenses</b>								
Operating expenses	(128.6)	(145.7)	(16.5)	(16.7)	(27.6)	(38.3)	(172.7)	(200.7)
Amortisation and depreciation	(28.4)	(31.7)	(11.0)	(11.0)	(6.7)	(6.9)	(46.1)	(49.6)
Other exceptional net operating expenses	(11.6)	(8.6)	–	–	(10.3)	(10.4)	(21.9)	(19.0)
<b>Total operating expenses</b>	<b>(168.6)</b>	<b>(186.0)</b>	<b>(27.5)</b>	<b>(27.7)</b>	<b>(44.6)</b>	<b>(55.6)</b>	<b>(240.7)</b>	<b>(269.3)</b>
<b>Operating profit/(loss)</b>	<b>7.8</b>	<b>2.4</b>	<b>8.7</b>	<b>7.0</b>	<b>(11.7)</b>	<b>(9.0)</b>	<b>4.8</b>	<b>0.4</b>
Finance revenue	20.3	39.6	0.1	0.1	0.2	0.1	20.6	39.8
Finance costs	(33.3)	(35.3)	–	–	(1.0)	(0.1)	(34.3)	(35.4)
F&C REIT put option fair value gain	11.5	8.7	–	–	–	–	11.5	8.7
TRC acquisition consideration adjustments	–	7.6	–	–	–	–	–	7.6
Tax income/(expense)	4.3	4.5	(0.8)	(0.5)	2.0	0.1	5.5	4.1
<b>Profit/(loss) for the year</b>	<b>10.6</b>	<b>27.5</b>	<b>8.0</b>	<b>6.6</b>	<b>(10.5)</b>	<b>(8.9)</b>	<b>8.1</b>	<b>25.2</b>
<b>Segment assets</b>	<b>898.9</b>	<b>1,297.5</b>	<b>197.2</b>	<b>196.2</b>	<b>55.5</b>	<b>72.1</b>	<b>1,151.6</b>	<b>1,565.8</b>
<b>Segment liabilities</b>	<b>(544.1)</b>	<b>(937.8)</b>	<b>(19.2)</b>	<b>(20.0)</b>	<b>(18.0)</b>	<b>(30.7)</b>	<b>(581.3)</b>	<b>(988.5)</b>
<b>Other information</b>								
Expenditure on non-current assets	8.8	3.9	0.5	0.4	0.3	0.5	9.6	4.8
Non-cash expenses/(income) other than depreciation and amortisation	(4.8)	(4.4)	0.2	0.1	7.0	10.0	2.4	5.7

## 1. Operating segments continued

Revenues from two external clients each represent 10% or more of the Group's total revenues.

Client	2012 £m	2011 £m	Segment(s)
Largest	26.9	31.0	F&C; F&C REIT
Second largest	26.8	29.8	F&C

### (b) Reconciliations to Group Financial Statements

	2012 £m	2011 £m
<b>Total revenue</b>		
Total revenue for reportable segments	259.6	285.6
Elimination of inter-segment revenue	(2.2)	(2.4)
<b>Group revenue</b>	<b>257.4</b>	<b>283.2</b>
<b>Operating expenses</b>		
Total operating expenses for reportable segments	240.7	269.3
Elimination of inter-segment expenses	(2.2)	(2.4)
<b>Group operating expenses</b>	<b>238.5</b>	<b>266.9</b>
<b>Finance revenue</b>		
Total finance revenue for reportable segments	20.6	39.8
Elimination of inter-segment finance revenue	(6.0)	(22.6)
<b>Group finance revenue</b>	<b>14.6</b>	<b>17.2</b>
<b>Finance costs</b>		
Total finance costs for reportable segments	34.3	35.4
Elimination of inter-segment finance costs	(0.9)	–
<b>Group finance costs</b>	<b>33.4</b>	<b>35.4</b>
<b>Profit for the year</b>		
Total profit for reportable segments	8.1	25.2
Adjustment for inter-segment profit distributions	(5.1)	(22.6)
<b>Group profit for the year</b>	<b>3.0</b>	<b>2.6</b>
<b>Assets</b>		
Total assets for reportable segments	1,151.6	1,565.8
Elimination of inter-segment assets	(12.8)	(10.3)
<b>Group assets</b>	<b>1,138.8</b>	<b>1,555.5</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	(581.3)	(988.5)
Elimination of inter-segment liabilities	12.8	10.3
Unallocated defined benefit pension liabilities	(24.1)	(20.5)
<b>Group liabilities</b>	<b>(592.6)</b>	<b>(998.7)</b>

The reportable segments' totals for all other line items reported in the table at note 1(a) are the same as those for the Group, with no reconciling differences.

### (c) Geographical information

Revenue by location of clients	2012 £m	2011 £m
United Kingdom	105.4	108.9
Continental Europe*	132.3	150.3
Rest of the World	19.7	24.0
<b>Group total</b>	<b>257.4</b>	<b>283.2</b>
<b>Non-current assets by domicile†</b>	<b>2012 £m</b>	<b>2011 £m</b>
United Kingdom	60.2	84.2
Continental Europe*	28.6	39.3
Rest of the World	10.6	15.0
Unallocated	99.4	138.5
<b>Group total</b>	<b>611.9</b>	<b>611.9</b>
	<b>711.3</b>	<b>750.4</b>

\* Continental Europe is defined as being within the European Economic Area.

† Excluding financial investments, other receivables, deferred acquisition costs and deferred tax assets.

## 2. Net revenue

	2012 £m	2011 £m
Base management fees	243.1	267.2
Performance-related management fees	9.5	11.8
<b>Total investment management fees</b>	<b>252.6</b>	279.0
Other income	4.8	4.2
<b>Total revenue</b>	<b>257.4</b>	283.2
Renewal commission on open-ended investment products	(8.0)	(8.8)
Other selling expenses	(5.9)	(7.4)
<b>Fee and commission expenses</b>	<b>(13.9)</b>	(16.2)
<b>Net revenue</b>	<b>243.5</b>	267.0

Other income in 2012 includes £2.0m (2011: £1.4m) of compensation in respect of the withdrawal of strategic partner assets.

## 3. Net gains and investment income on unit-linked assets

	Notes	2012 £m	2011 £m
Interest income on financial instruments attributable to policyholders	7	6.3	7.2
Dividend income		6.8	7.3
Movement in fair values of unit-linked assets		27.5	(0.8)
	28	<b>40.6</b>	13.7

Note 17(a)(i)(1) gives further background to the unit-linked assets held by the Group.

## 4. Expenses

### (a) Total operating expenses

Total operating expenses, including exceptional costs, can be summarised into the following categories:

	2012 £m	2011 £m
Employee and member benefits and related expenses*	131.6	149.4
Premises expenses	10.7	12.6
Communication and information technology expenses	15.1	16.6
Third-party administration expenses	11.0	8.5
Promotional and client servicing expenses	5.1	7.1
Depreciation and amortisation expenses	46.1	49.6
Other expenses	18.9	23.1
<b>Total operating expenses</b>	<b>238.5</b>	266.9

\* This includes £5.4m (2011: £7.4m) of employment-related expenses, which are not included in the employee benefit expense table in note 5.

### (b) Operating expenses

Operating expenses include the following:

	Notes	2012 £m	2011 £m
Depreciation of owned tangible property, plant and equipment	12	3.0	3.2
Amortisation of software and licences	13	0.6	0.6
Auditor's remuneration	4(c)	1.2	1.3
Operating lease rentals – land and buildings (head leases)		10.3	10.7
Operating lease rentals – vehicles		0.4	0.4
Operating lease rentals – other*		2.7	2.3
Rentals receivable – operating leases (sub-leases)		(3.6)	(3.9)
Loss on disposal of property, plant and equipment		0.9	0.3
Other foreign exchange losses		2.0	–

\* Stated net of amounts receivable from brokers under Commission Sharing Arrangements.

Sub-lease rentals of £3.6m (2011: £3.9m) were received during the year, of which £3.3m (2011: £3.7m) relates to guaranteed payments and £0.3m (2011: £0.2m) relates to contingent payments.

All amounts included within operating lease and sub-lease rental payments represent minimum lease payments.

#### 4. Expenses continued

##### (c) Auditor's remuneration

Fees paid to the Group's auditor are summarised as follows:

	2012 £m	2011 £m
<b>Group auditor – KPMG</b>		
Annual audit fees	0.5	0.5
<b>Fees payable to the Group's auditor for the audit of the Group and Company's annual Financial Statements</b>	<b>0.5</b>	0.5
Audit of financial statements of subsidiaries pursuant to legislation	0.3	0.3
<b>Total audit fees of the Group</b>	<b>0.8</b>	0.8
Audit-related assurance services	0.1	0.1
Other assurance services	0.2	0.2
Other non-audit services	0.1	0.2
<b>Total auditor's remuneration</b>	<b>1.2</b>	1.3

The Group's policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance.

##### Fees to other accountancy firms

During the year the fees paid by F&C to other accountancy firms for non-audit services were as follows:

	2012 £m	2011 £m
PricewaterhouseCoopers	0.4	0.5
Deloitte	0.1	0.2
Ernst & Young	–	0.3
BDO	–	0.1
Moore Stephens	–	0.1
	<b>0.5</b>	1.2

##### Fees paid by investment funds and client portfolios

In addition to the above, the following fees were paid by OEICs, unit trusts or other client funds for services provided directly to them, for which a Group company is the Authorised Corporate Director, Manager or is responsible for the selection of the respective service provider:

	2012 £m	2011 £m
KPMG	0.5	0.6
PricewaterhouseCoopers	0.4	0.3

#### 5. Employee and member benefit expenses

Total employee benefit expenses, including remuneration of the Directors and expenses relating to LLP members, were:

	Notes	2012 £m	2011 £m
<b>Short-term employee and member benefits:</b>			
Salaries and related benefits		54.9	62.1
Bonus		15.5	19.5
<b>Wages and salaries</b>		<b>70.4</b>	81.6
Distributions to members of LLPs*		12.2	18.3
Social Security costs		11.4	10.2
		<b>94.0</b>	110.1
<b>Post-employment benefits:</b>			
Defined contribution pension expenses	24(h)	4.1	3.5
Defined benefit pension expense	24(d)	2.6	3.0
		<b>6.7</b>	6.5
<b>Total of wages and salaries, Social Security costs and post-employment benefits</b>		<b>100.7</b>	116.6
Other long-term employee benefits		0.1	–
Termination benefits		3.9	7.6
Share-based payment expense	25	21.5	17.8
<b>Total employee and member benefits expenses</b>		<b>126.2</b>	142.0

\* Includes £0.6m (31 December 2011: £nil) of exceptional employment expenses as included in note 6(a)(i).

The above table includes £15.8m (2011: £14.4m) of exceptional expenses.

The monthly average number of employees and members (including Executive Directors) of the Group during 2012 was 852 (2011: 952). F&C Asset Management plc had no employees during either year.

## 6. Exceptional income and expenditure

### (a) Other exceptional net operating expenses

The Group has classified the following operating (expenses)/income as exceptional:

	Notes	2012 £m	2011 £m
Exceptional employment expenses	(i)	<b>(8.2)</b>	(8.7)
TRC Management Retention and Incentive Plans	(ii)	<b>(6.2)</b>	(4.6)
Exceptional outsourcing expenses	(iii)	<b>(3.3)</b>	(2.7)
TRC Commutation expenses	(iv)	<b>(1.6)</b>	(5.7)
F&C Partners litigation expenses	(v)	<b>(1.3)</b>	(1.9)
Exceptional premises expenses	(vi)	<b>(1.3)</b>	–
F&C REIT variable non-controlling interests SBP income	(vii)	–	4.8
TRC integration expenses	(viii)	–	(0.2)
		<b>(21.9)</b>	(19.0)

#### (i) Exceptional employment expenses

During 2011, the Board initiated actions to achieve staff cost savings as a result of the operations outsourcing and the subsequent strategic review process. As a result, some £8.7m of non-recurring redundancy and related staff costs were incurred during that year in order to achieve the targeted level of recurring staff cost savings. During the year ended 31 December 2012 further strategic review initiatives have been implemented to achieve additional staff cost savings, resulting in the recognition of £8.2m of non-recurring employment-related expenses.

The Directors consider these non-recurring employment expenses to be exceptional in nature and have therefore excluded them from the measurement of underlying earnings in each financial year.

#### (ii) TRC Management Retention and Incentive Plans

As a condition of the acquisition of TRC, the Group established a Management Retention Plan (MRP) and Management Incentive Plan (MIP) to retain and incentivise certain TRC personnel. The MRP expense (including NIC) recognised in the Income Statement is £6.2m (2011: £4.7m). No MIP expense was incurred in 2012, as during 2011 it was assessed that none of the performance criteria would be met and, as a result, the cumulative charge previously recognised was reversed and an associated credit of £0.1m was recognised in the 2011 Income Statement. Details of these share-based payment arrangements are given in notes 25(e) and (f).

Given the quantum and nature of these awards, the Directors consider it appropriate to treat the associated net expense as exceptional and exclude them from the measurement of underlying earnings for each financial year.

#### (iii) Exceptional outsourcing expenses

During 2012, a further £2.3m of advisory and consultancy costs were incurred in respect of the continued execution of the outsourcing of certain of the Group's back and middle office investment operations to State Street. In addition, £1.0m of non-recurring costs were incurred as part of the strategic review activity to rationalise other outsourced activities of the Group.

The Directors consider these project costs to be exceptional in nature and have therefore excluded this expense from the measurement of underlying earnings for each financial year.

#### (iv) TRC Commutation expenses

The Divisional Members of TRC Investment Teams entered into put and call options at the time of the TRC acquisition, which, if exercised, will typically transfer up to 20% of their entitlement to management fee profits to the F&C Group. Under IFRS, the share element of the consideration payable under these Commutation arrangements requires to be accounted for as a share-based payment.

The net expense of £1.6m recognised in 2012 comprises a £3.5m charge for the Investment Teams where options have been, or are expected to be exercised, offset by a credit of £1.9m for those teams where it is no longer expected that F&C would exercise its call option. At 31 December 2012, F&C's call options are the only remaining options; they become exercisable in September 2013.

Given the capital nature of these arrangements, the Directors consider it appropriate to treat the total Commutation expense as exceptional in nature and exclude it from the measurement of underlying earnings for each financial year.

#### (v) F&C Partners litigation expenses

As highlighted in note 23, the F&C Partners litigation was settled in June 2012, resulting in a net expense of £1.3m being recognised in the Income Statement for the year ended 31 December 2012.

Given the quantum and nature of this expense and the previous costs incurred, the Directors continue to consider it appropriate to treat these costs as exceptional in nature and exclude them from the measurement of underlying earnings in both financial years.

## 6. Exceptional income and expenditure continued

### (vi) Exceptional premises expenses

As part of the strategic review programme, significant annualised cost savings are expected as a result of premises restructuring activity. As part of this programme, following lease changes and restructuring work at the Group's Head Office in London, a net expense of £1.3m has been recognised in the Income Statement for the year to 31 December 2012. This comprises £2.7m of non-recurring premises-related costs associated with the restructuring activities, offset by a £1.4m credit in respect of an accelerated release of lease incentive liabilities.

### (vii) F&C REIT variable non-controlling interests SBP income

30% of F&C REIT, the Group's property asset management business, is held by the former owners of REIT, two of whom occupy key management roles within F&C REIT.

The former owners have the opportunity to increase their ownership of F&C REIT by a further 10% through the achievement of performance targets over the six-year period to 31 December 2014. This earn-out mechanism meets the criteria of, and is accounted for as, a share-based payment. In 2011 it was assessed that the performance target is unlikely to be achieved in any of the remaining performance periods. As a result, the cumulative charge previously recognised was reversed and a credit of £4.8m was recognised in the 2011 Income Statement. As at 31 December 2012 this assessment remains unchanged.

This credit has been excluded from underlying earnings as this arrangement is considered to be of a capital nature. Further details of this arrangement are given in note 25(c).

### (viii) TRC integration expenses

Following the acquisition of TRC in 2010, the Group incurred a number of integration expenses associated with the alignment of certain activities within the enlarged Group in 2011. No such costs were incurred in the year ended 31 December 2012.

Given the nature of this expense, the Directors considered it appropriate to treat it as exceptional and excluded it from the measurement of underlying earnings.

### (b) F&C REIT put option fair value gain

	2012 £m	2011 £m
F&C REIT put option fair value gain	11.5	8.7

The fair value of the F&C REIT put option liability, as disclosed in note 27, reflects the value of the portion of the F&C REIT business which is currently owned by the non-controlling interest partners and which is the subject of options. The £11.5m reduction in the fair value of the options during 2012 has been recognised as a gain in the Income Statement (2011: gain of £8.7m).

The Directors consider the value of these options and movements therein to be of a capital nature, and have therefore excluded these gains from the measurement of underlying earnings.

### (c) TRC acquisition consideration adjustments

	2012 £m	2011 £m
Net asset consideration adjustment	–	0.1
Deferred consideration adjustment	–	7.5
	–	7.6

The total consideration of £48.6m recognised in 2010 for the acquisition of TRC included a £7.5m estimate of further cash consideration and £7.5m of estimated conditional consideration payable if certain performance criteria were achieved.

During 2011, a payment of £7.4m was made to the vendors of TRC, under the terms of the Sale and Purchase Agreement, representing an adjustment to the initial cash consideration to reflect the excess of net assets acquired over and above the agreed target. As the payment was less than the estimate of £7.5m, the excess of £0.1m was credited to the Income Statement in accordance with IFRS.

Neither of the conditional consideration performance targets relating to the acquisition were achieved. As a result, the associated liability of £7.5m was also released to the 2011 Income Statement in accordance with IFRS.

Due to the capital nature of these items, the Directors excluded the total credit of £7.6m from the calculation of underlying earnings for 2011.

## 7. Finance revenue

	Note	2012 £m	2011 £m
<b>Loans and receivables:</b>			
Bank interest receivable		0.8	1.8
Other interest receivable		0.2	0.2
<b>Designated as fair value through profit or loss:</b>			
Gain on fair value of investments		0.7	–
Gain on redemption of bonds		1.1	–
<b>Designated as available for sale:</b>			
Investment income receivable		1.1	3.7
		<b>3.9</b>	5.7
<b>Other finance revenue:</b>			
Expected return on pension plan assets	24(d)	10.7	11.5
<b>Total finance revenue</b>		<b>14.6</b>	17.2

	Note	2012 £m	2011 £m
<b>Summary of total interest income:</b>			
Bank interest receivable		0.8	1.8
Other interest receivable		0.2	0.2
Interest income on other financial instruments attributable to policyholders	3	6.3	7.2
<b>Total interest income</b>		<b>7.3</b>	9.2

## 8. Finance costs

	Note	2012 £m	2011 £m
<b>Interest expense on financial liabilities recognised at cost using the effective interest rate method:</b>			
Fixed/Floating Rate Subordinated Notes 2016/2026		8.4	8.4
Guaranteed Fixed Rate Loan Notes 2016		13.1	13.5
Bank charges and other interest payable		0.3	0.4
<b>Total interest expense</b>		<b>21.8</b>	22.3
Amortisation of loan note issue costs and facility fees		0.3	1.0
Unwinding of discount on onerous provisions		0.3	0.5
<b>Designated as fair value through profit or loss:</b>			
Loss on fair value of investments		–	0.1
<b>Other finance costs:</b>			
Interest cost on pension obligations	24(d)	11.0	11.5
<b>Total finance costs</b>		<b>33.4</b>	35.4

## 9. Income tax

### (a) Analysis of tax income in the year

The major components of tax (income)/expense recognised in the Income Statement and Statement of Changes in Equity are:

	2012 £m	2011 £m
<b>Current income tax:</b>		
UK	0.7	3.7
Overseas	5.3	5.7
Adjustments in respect of previous years	(1.9)	(0.1)
<b>Deferred income tax:</b>		
Relating to origination and reversal of temporary differences	(10.8)	(12.7)
Adjustments in respect of previous years	1.3	0.1
Adjustments in respect of Corporation Tax rate change	(0.1)	(0.8)
<b>Tax income reported in the Income Statement</b>	<b>(5.5)</b>	(4.1)

**9. Income tax continued**

<b>Deferred and current income tax related to items charged or credited directly to Other Comprehensive Income or Equity:</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Fair value movements on financial investments	<b>(0.1)</b>	(0.5)
Net actuarial movements on defined benefit pension schemes	<b>(2.1)</b>	1.0
Other overseas pension schemes movements	<b>0.3</b>	(0.3)
Adjustments in respect of Corporation Tax rate change	<b>0.3</b>	0.3
<b>Tax (income)/expense recognised in Other Comprehensive Income</b>	<b>(1.6)</b>	0.5
Tax associated with purchase of NCI in F&C Partners LLP	<b>0.8</b>	(2.9)
Share-based payments	<b>(0.6)</b>	–
<b>Tax income recognised in Statement of Changes in Equity</b>	<b>(1.4)</b>	(2.4)

**(b) Factors affecting the tax income for the year**

A reconciliation between the actual tax income and the accounting loss multiplied by the Group's domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
<b>Loss before tax</b>	<b>(2.5)</b>	(1.5)
At the Group's statutory income tax rate of 24.5% (2011: 26.5%)	<b>(0.6)</b>	(0.4)
Adjustments in respect of previous years	<b>(0.6)</b>	–
Disallowed expenses	<b>0.8</b>	0.2
Non-taxable income	<b>(3.6)</b>	(5.3)
Overseas tax at different rates	<b>0.3</b>	0.2
Unrecognised losses	<b>(0.1)</b>	0.1
Share-based payments	<b>(1.6)</b>	1.9
Disallowed distributions to LLP members	<b>3.0</b>	4.9
Non-taxable income attributable to LLP members	<b>(3.0)</b>	(4.9)
Corporation Tax rate change	<b>(0.1)</b>	(0.8)
<b>Tax income reported in the Income Statement</b>	<b>(5.5)</b>	(4.1)

Deferred tax assets and liabilities are shown in note 16.

**(c) Effective rate of tax and factors affecting future tax charges**

Various announcements by the Chancellor of the Exchequer, since the Emergency Budget of 22 June 2010, mean that the UK rate of corporation tax is expected to reduce to 20% by 2015.

Two UK corporation tax rate changes were substantively enacted during 2012. The effect of the tax rate changes enacted during the year has been to decrease the net deferred tax assets of the Group by £0.2m comprising a £0.1m credit through the Income Statement and a £0.3m charge to equity reflecting the deferred tax that is expected to reverse through equity.

The current corporation tax rate of 24% became effective from 1 April 2012, leading to a statutory UK corporation tax rate of 24.5% for 2012 for the Group.

The 1% reduction to 23%, effective from 1 April 2013, was substantively enacted on 3 July 2012 and will lead to a statutory UK corporation tax rate of 23.25% for 2013.

No rate changes have been substantively enacted since the reporting date.

The Directors are of the view that, due to the significant level of estimation required, it is not yet possible to quantify the effect of the proposed 3% rate reduction to 20% in future years, although this will further reduce the Group's current tax charge in future and impact the Group's deferred tax assets/(liabilities) recognised in the Statement of Financial Position.

## 10. Earnings per share

Basic earnings/(loss) per share amounts are calculated by dividing the earnings/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the earnings/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares at the reporting date.

In the opinion of the Directors the 'underlying earnings' as quantified in the 'Reconciliation of earnings/(loss)' table below, more accurately reflects the underlying earnings performance of the Group.

	2012 p	2011 p
<b>Reconciliation of earnings/(loss) per Ordinary Share</b>		
<b>Basic earnings/(loss) per Ordinary Share</b>	<b>0.01</b>	(0.10)
Amortisation of intangibles	<b>5.25</b>	5.61
Exceptional employment expenses	<b>1.13</b>	1.24
TRC Management Retention and Incentive Plans	<b>1.02</b>	0.80
Exceptional outsourcing expenses	<b>0.47</b>	0.39
TRC Commutation expenses	<b>0.30</b>	1.10
F&C Partners litigation expenses	<b>0.19</b>	0.16
Exceptional premises expenses	<b>0.21</b>	–
F&C REIT variable NCI SBP income	–	(0.93)
TRC integration expenses	–	0.01
Deferred Tax – Corporation Tax rate change	<b>0.36</b>	0.39
F&C REIT put option fair value gain	<b>(2.16)</b>	(1.69)
TRC acquisition consideration adjustments	–	(1.47)
<b>Underlying earnings per Ordinary Share</b>	<b>6.78</b>	5.51
Foreign exchange losses included within underlying earnings per share	<b>0.28</b>	–
<b>Underlying earnings per Ordinary Share excluding foreign exchange losses</b>	<b>7.06</b>	5.51
	<b>2012 p</b>	<b>2011 p</b>
<b>Diluted earnings/(loss) per Ordinary Share*</b>	<b>0.01</b>	(0.10)
<b>Diluted underlying earnings per Ordinary Share</b>	<b>6.10</b>	4.93
<b>Diluted underlying earnings per Ordinary Share excluding foreign exchange losses</b>	<b>6.35</b>	4.93

\* Where the Group has incurred a basic loss per Ordinary Share, no dilution arises despite the 'dilutive potential weighted average number of Ordinary Shares' being greater than the 'weighted average number of Ordinary Shares used to determine the basic loss per share'. As a result, the reported basic and diluted loss per Ordinary Share are the same in 2011.

All amounts disclosed in the table above are stated net of any attributable tax, as presented in the 'Reconciliation of earnings/(loss)' table below.

## 10. Earnings per share continued

The following tables disclose the earnings/(loss) and share capital data used in the earnings/(loss) per share calculations:

	2012			2011		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
<b>Reconciliation of earnings/(loss)</b>						
<b>Earnings/(loss) attributable to ordinary equity holders of the parent for basic earnings/(loss) per share</b>	<b>(5.1)</b>	<b>5.2</b>	<b>0.1</b>	(4.0)	3.5	(0.5)
Amortisation of intangibles <sup>(1)</sup>	39.3	(11.4)	27.9	42.6	(13.7)	28.9
Exceptional employment expenses	8.2	(2.2)	6.0	8.7	(2.3)	6.4
TRC Management Retention and Incentive Plans	6.2	(0.8)	5.4	4.6	(0.5)	4.1
Exceptional outsourcing expenses	3.3	(0.8)	2.5	2.7	(0.7)	2.0
TRC Commutation expenses	1.6	–	1.6	5.7	–	5.7
F&C Partners litigation expenses	1.3	(0.3)	1.0	1.9	(1.1)	0.8
Exceptional premises expenses	1.3	(0.2)	1.1	–	–	–
F&C REIT variable NCI SBP income	–	–	–	(4.8)	–	(4.8)
TRC integration expenses	–	–	–	0.2	(0.1)	0.1
Deferred Tax – Corporation Tax rate change	–	1.9	1.9	–	2.0	2.0
F&C REIT put option fair value gain	(11.5)	–	(11.5)	(8.7)	–	(8.7)
TRC acquisition consideration adjustments	–	–	–	(7.6)	–	(7.6)
<b>Underlying earnings attributable to ordinary equity holders of the parent</b>	<b>44.6</b>	<b>(8.6)</b>	<b>36.0</b>	41.3	(12.9)	28.4
Foreign exchange losses included within underlying earnings	2.0	(0.5)	1.5	–	–	–
<b>Underlying earnings attributable to ordinary equity holders of the parent excluding foreign exchange losses</b>	<b>46.6</b>	<b>(9.1)</b>	<b>37.5</b>	41.3	(12.9)	28.4

<sup>(1)</sup> Excludes £2.2m (2011: £2.0m) of amortisation of intangibles (net of tax) which is attributable to NCI. The tax amount includes the related deferred tax movement associated with the Corporation Tax rate change.

	2012 No.	2011 No.
<b>Share capital</b>		
Weighted average number of Ordinary Shares <sup>(2)</sup>	530,962,557	515,372,721
<b>Weighted average dilutive potential Ordinary Shares exercisable:</b>		
The Long-Term Remuneration Plan awards	31,802,958	30,316,564
TRC Management Retention Plan awards	19,045,652	12,554,160
TRC Commutation arrangements	6,606,750	13,175,821
The Executive Director Remuneration Plan awards	1,126,146	2,157,665
Purchased Equity Plan awards	543,416	606,632
Deferred Share awards	188,288	975,054
<b>Dilutive potential weighted average number of Ordinary Shares</b>	<b>590,275,767</b>	<b>575,158,617</b>

<sup>(2)</sup> Excludes own shares held by Nominees/Employee Benefit Trusts.

In the period between the reporting date and the approval of the Consolidated Financial Statements, 155,356 share awards (2011: 1,112,958) vested which were satisfied by the utilisation of own shares held by Employee Benefit Trusts and 201,369 shares were distributed from holdings in a nominee capacity in respect of TRC Commutations.

### Potential future dilution

The following share-based payment arrangements could potentially dilute basic earnings per share in the future, but were not included in the above calculation of diluted earnings per share because they were either anti-dilutive for the years presented or had not met the relevant performance criteria at the reporting date:

- Long-Term Remuneration Plan (restricted awards)
- F&C REIT variable NCI SBP

This earn-out arrangement gives the F&C REIT NCI partners the opportunity to increase their ownership of F&C REIT from 30% to 40% before 31 December 2014. At 31 December 2012, the Directors do not expect any of the ownership percentage to transfer. Any transfer would potentially dilute the profits attributable to the equity holders of the parent. However, the principle of this incentive arrangement is that the incremental profits which would become attributable to NCI as a result of achieving the performance criteria are funded from the increased level of absolute profits generated by F&C REIT for the year in which vesting arises, rather than diluting the current level of profits attributable to equity holders of the parent. There can be no guarantee that, subsequent to vesting, the higher level of profits which met the vesting criteria would be sustainable.

- TRC Management Incentive Plan

## 10. Earnings per share continued

- TRC Commutation arrangements

F&C has call options to acquire up to 20% of Investment Team's entitlement to management fee profits. The exercise of these options would be expected to enhance the profits attributable to equity holders of the parent. However, there can be no guarantee that, subsequent to the exercise of the options, a higher level of absolute profits would be sustainable.

- Share Save Scheme
- 2002 Executive Share Option Scheme

At 31 December 2012 all options outstanding have vested. These have exercise prices between 139.00p and 240.83p and are anti-dilutive as the option prices are above the average share price for the year.

Details of all potentially dilutive share awards, together with the total number of awards outstanding at each reporting date, are disclosed in note 25.

## 11. Ordinary dividends

	2012 £m	2011 £m
<b>Declared and paid during the year</b>		
Equity dividends on Ordinary Shares:		
Final dividend for 2011: 2.0p (2010: 2.0p)	<b>10.4</b>	10.4
Interim dividend for 2012: 1.0p (2011: 1.0p)	<b>5.4</b>	5.2
	<b>15.8</b>	15.6
<b>Proposed for approval at the Annual General Meeting</b>		
Equity dividends on Ordinary Shares:		
Final dividend for 2012: 2.0p (2011: 2.0p)	<b>10.9</b>	10.4

The entitlement of Employee Benefit Trusts to receive dividends (on some of their holdings of F&C shares) has been waived by the Trustees. This has resulted in the following dividends being waived:

	Shares	£m
<b>2012 Dividends</b>		
2011 Final	<b>10,079,379</b>	<b>0.2</b>
2012 Interim	<b>8,990,080</b>	<b>0.1</b>
2011 Dividends		
2010 Final	14,436,341	0.3
2011 Interim	11,008,289	0.1

## 12. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
<b>Cost:</b>					
At 1 January 2011	13.5	8.7	2.6	1.0	25.8
Additions	0.6	1.5	0.3	0.3	2.7
Disposals	(0.8)	(0.2)	–	(0.3)	(1.3)
At 31 December 2011	<b>13.3</b>	<b>10.0</b>	<b>2.9</b>	<b>1.0</b>	<b>27.2</b>
Additions	<b>1.1</b>	<b>2.1</b>	<b>0.1</b>	<b>0.4</b>	<b>3.7</b>
Disposals	<b>(7.1)</b>	<b>(1.9)</b>	<b>(1.1)</b>	<b>(0.3)</b>	<b>(10.4)</b>
<b>At 31 December 2012</b>	<b>7.3</b>	<b>10.2</b>	<b>1.9</b>	<b>1.1</b>	<b>20.5</b>
<b>Depreciation and impairment:</b>					
At 1 January 2011	8.2	7.0	1.9	0.4	17.5
Depreciation charge for the year	1.7	1.1	0.2	0.2	3.2
Disposals	(0.6)	(0.1)	–	(0.2)	(0.9)
At 31 December 2011	<b>9.3</b>	<b>8.0</b>	<b>2.1</b>	<b>0.4</b>	<b>19.8</b>
Depreciation charge for the year	<b>1.3</b>	<b>1.3</b>	<b>0.2</b>	<b>0.2</b>	<b>3.0</b>
Disposals	<b>(6.2)</b>	<b>(1.9)</b>	<b>(1.1)</b>	<b>(0.2)</b>	<b>(9.4)</b>
<b>At 31 December 2012</b>	<b>4.4</b>	<b>7.4</b>	<b>1.2</b>	<b>0.4</b>	<b>13.4</b>
<b>Net book values:</b>					
At 31 December 2010	5.3	1.7	0.7	0.6	8.3
At 31 December 2011	4.0	2.0	0.8	0.6	7.4
<b>At 31 December 2012</b>	<b>2.9</b>	<b>2.8</b>	<b>0.7</b>	<b>0.7</b>	<b>7.1</b>

There are no restrictions on the Group's title to the above assets and none are pledged as security for liabilities.

The cost of fully depreciated property, plant and equipment which is still in use at 31 December 2012 is £5.9m (31 December 2011: £9.1m).

## 13. Goodwill and other intangible assets

	Goodwill £m	Investment management contracts £m	Software and licences £m	Total £m
<b>Cost:</b>				
At 1 January 2011	611.9	704.6	5.8	1,322.3
Additions	–	–	2.1	2.1
Foreign exchange losses	–	(1.1)	–	(1.1)
At 31 December 2011	<b>611.9</b>	<b>703.5</b>	<b>7.9</b>	<b>1,323.3</b>
Additions	–	–	<b>5.9</b>	<b>5.9</b>
Disposals	–	–	<b>(1.2)</b>	<b>(1.2)</b>
Foreign exchange losses	–	<b>(1.6)</b>	–	<b>(1.6)</b>
<b>At 31 December 2012</b>	<b>611.9</b>	<b>701.9</b>	<b>12.6</b>	<b>1,326.4</b>
<b>Amortisation and impairment:</b>				
At 1 January 2011	–	529.1	4.8	533.9
Amortisation charge for the year	–	45.8	0.6	46.4
At 31 December 2011	–	<b>574.9</b>	<b>5.4</b>	<b>580.3</b>
Amortisation charge for the year	–	<b>42.5</b>	<b>0.6</b>	<b>43.1</b>
Disposals	–	–	<b>(1.2)</b>	<b>(1.2)</b>
<b>At 31 December 2012</b>	–	<b>617.4</b>	<b>4.8</b>	<b>622.2</b>
<b>Net book values:</b>				
At 31 December 2010	611.9	175.5	1.0	788.4
At 31 December 2011	611.9	128.6	2.5	743.0
<b>At 31 December 2012</b>	<b>611.9</b>	<b>84.5</b>	<b>7.8</b>	<b>704.2</b>

Software and licences additions consists of £5.7m (2011: £2.1m) of internally generated software and £0.2m (2011: £nil) of acquired licences.

The cost of software and licences where amortisation has not yet commenced at 31 December 2012 is £5.9m (31 December 2011: £1.8m).

### 13. Goodwill and other intangible assets continued

#### Goodwill

Goodwill has arisen from various business combinations and, reflecting the Group's reportable operating segments disclosed in note 1, is represented by three cash generating units (CGUs), as follows:

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
F&C	<b>467.2</b>	467.2
F&C REIT	<b>127.9</b>	127.9
Thames River Capital	<b>16.8</b>	16.8
	<b>611.9</b>	611.9

Goodwill is not amortised but is tested for impairment annually at individual CGU level, or when indicators of potential impairment are identified. The carrying value of goodwill attributable to each CGU was tested for impairment as at 31 December 2012, as described below; to date, none of the CGUs has suffered any impairment of goodwill.

#### Investment management contracts (management contracts)

Management contracts predominantly relate to contracts arising from business acquisitions.

Management contracts are amortised over their expected useful lives and are tested for impairment only when indicators of potential impairment are identified. No such indicators have been identified since the last impairment review undertaken as at 31 December 2008 and therefore no impairment review of management contracts has been undertaken this year. Management contract impairment losses recognised in prior years relate entirely to the F&C operating segment; the accumulated impairment losses at 31 December 2012 were £218.3m (31 December 2011: £218.3m).

The foreign exchange losses recognised in the year arise from the relative weakening of the Euro over the course of 2012, decreasing the value of Euro-denominated contracts, (primarily F&C insurance contracts), in Sterling terms.

The categories of management contracts, their carrying amounts at the year end, remaining amortisation periods and estimated useful lives are as follows:

	31 December 2012			31 December 2011		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
RSAl* insurance contracts	–	–	10	0.3	½	10
F&C OEICs/RSAl* retail contracts	1.9	0 – 2	10	4.7	½ – 3	10
F&C insurance contracts	25.8	2	10	41.6	3	10
F&C institutional contracts	3.0	2	10	4.8	3	10
F&C investment trust contracts	7.5	3½	10	9.7	4½	10
F&C advisory and sub-advisory contracts	8.8	2	10	14.0	3	10
Private equity fund of funds	0.8	12	20	0.8	13	20
REIT property contracts	27.1	3	7	37.3	4	7
Thames River Capital contracts	9.6	2	4	15.4	3	4
	<b>84.5</b>			128.6		

\* Royal Sun Alliance Insurance (RSAl).

#### Impairment testing of goodwill

The recoverable amount of the CGUs has been determined on their value in use (including terminal value) at each respective testing date for 2011 and 2012. The value in use is calculated by discounting the cash flow projections based on the latest annual financial budget, and management's forecasts. A Euro/Sterling exchange rate of €1.23/£1, which was assumed for the purposes of the 2013 budget (2012 budget: €1.16/£1), has been kept constant for determining future cash flows. A long-term growth rate is used to extrapolate the cash flows reflecting the nature of the Group's business and the Board's current view that there is no reason to believe that the CGUs will not continue in operation in perpetuity.

The key assumptions adopted in these calculations for each operating segment are as follows:

	31 December 2012			31 December 2011		
	F&C	F&C REIT	TRC	F&C	F&C REIT	TRC
Discount rate	9.15%	9.15%	11.15%	10.15%	10.15%	12.15%
Long-term market growth rate	5.35%	4.45%	5.65%	5.20%	4.30%	5.45%
Inflation rate*	3.80%	3.80%	3.80%	3.95%	3.95%	3.95%

\* The costs included in year one of the projections reflect those included in the budget for the respective year.

### 13. Goodwill and other intangible assets continued

The discount rate is based on the Group's weighted average cost of capital to estimate a market relevant rate, calculated as at the year end, and takes into account the relative risks associated with the Group's various revenue streams included in the respective operating segments. The same discount rate has been applied to the F&C and F&C REIT CGUs, reflecting the fact that the Board considers that the risk profiles are similar across those segments, with a degree of commonality in their client base. Indeed, were it not for the distinct internal governance arrangements and separate management structures in place, the F&C REIT business would form part of a larger F&C CGU. The discount rates disclosed above are the post-tax rates which have been applied in the projections; the pre-tax discount rates are 11.10% and 13.40% for F&C/F&C REIT and TRC respectively (2011: 12.50% and 14.65% respectively). All discount rates shown subsequently within this note are stated after tax.

Revenues are based on the budget for each operating segment, and management's net business flow forecasts for the subsequent four years. Thereafter, revenues have been grown in line with the Group's long-term view of market growth, consistent with that experienced historically, in the long-term, across the markets in which assets are invested. The different rates reflect the composite mix of assets held in each operating segment for each period. Net new business revenues are included at the levels assumed in the 2013 budget and management's forecasts up to 2017 with no further net new business included thereafter. Additional costs associated with the increased revenues have been included in the projections, primarily to reflect variable remuneration costs. Where revenues earned from significant contracts with a fixed term are assumed to terminate at the end of the fixed term, the operating costs have been reduced by an amount which assumes associated profit margins of 85% (2011: 50%).

Projected operating costs for the first year are driven by the budgeted profit margins for each operating segment for 2013. Thereafter, both existing budgeted costs and, as noted above, further costs added associated with net new business revenue forecasts have been grown at inflation rates to accord with anticipated future salary and other cost increases, with specific reductions made in respect of cost savings targeted for 2014 and 2015.

Values in use are compared to the carrying values of goodwill, attributable management contracts and other intangible assets (net of associated deferred tax provisions), and property, plant and equipment in order to ascertain whether any impairment exists.

As this annual impairment review of goodwill indicated surpluses in all segments, no impairment has been recognised in the year in respect of goodwill (2011: £nil).

The key assumptions noted in the above table are those to which the calculated values in use are most sensitive. These assumptions, together with the inclusion in the projections of forecast net new business revenues and associated costs, result in the following surpluses of goodwill:

	31 December 2012			31 December 2011		
	F&C £m	F&C REIT £m	TRC £m	F&C £m	F&C REIT £m	TRC £m
<b>Excess of recoverable amount over carrying value</b>	<b>866.1</b>	<b>43.9</b>	<b>69.4</b>	557.8	16.8	94.4

In order to assess the sensitivity of the key assumptions on the carrying values of goodwill, an analysis was conducted to ascertain the change that would be required to derive values in use which approximated to the carrying values of goodwill, and beyond which impairment would arise.

The absolute levels, on a standalone basis, of the key assumptions which most closely resulted in a match in the values in use to the carrying values of goodwill were as follows:

	31 December 2012			31 December 2011		
	F&C	F&C REIT	TRC	F&C	F&C REIT	TRC
Discount rate	<b>18.28%</b>	<b>11.37%</b>	<b>28.81%</b>	16.97%	11.02%	30.80%
Long-term market growth rate	<b>1.01%</b>	<b>2.16%</b>	<b>(2.37%)</b>	1.67%	3.49%	(2.29%)
Inflation rate	<b>7.75%</b>	<b>6.21%</b>	<b>9.74%</b>	8.39%	5.10%	11.83%
Per cent achievement of new business targets	<b>&lt;0.00%</b>	<b>30.93%</b>	<b>&lt;0.00%</b>	<0.00%	72.56%	<0.00%

## 14. Financial investments

The following assets are designated as available for sale:

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Unquoted investments</b>		
At 1 January	<b>1.7</b>	3.5
Fair value gains in the year	<b>0.7</b>	1.5
Realised fair value gains transferred to the Income Statement	<b>(1.1)</b>	(3.3)
<b>At 31 December</b>	<b>1.3</b>	1.7

Unquoted investments include the Group's direct investment, co-investments and certain carried interest entitlements in private equity limited partnerships. The investments have no fixed maturity date or coupon rate.

The fair value of the unquoted investments has been estimated using International Private Equity and Venture Capital Valuation Guidelines.

The Directors believe that the estimated fair values resulting from the valuation technique applied to unquoted shares which are recorded in the Statement of Financial Position, and the related realised fair value gains recorded in the Income Statement, are reasonable and the most appropriate at the reporting date.

Included within the unquoted financial investments at 31 December 2012 are £0.1m (31 December 2011: £0.1m) of equity instruments measured at the price of recent investments. The fair value of these investments cannot be measured reliably as the Group does not have access to the underlying information to produce fair value valuations for these investments. These investments consist of loans and carried interest in private equity limited partnerships. These investments are managed by external fund managers and the Group obtains income when the investments are realised. The Group intends to hold these investments until all the private equity investments are realised. In 2012, the Group received £0.4m (2011: £0.4m) in respect of the investments held at cost.

## 15. Deferred acquisition costs

	<b>2012</b>	2011
	<b>£m</b>	£m
At 1 January	<b>7.1</b>	8.8
Costs deferred in the year	<b>0.6</b>	1.1
Amortisation in the year	<b>(2.4)</b>	(2.8)
<b>At 31 December</b>	<b>5.3</b>	7.1

	<b>31 December</b>	31 December
	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Split as follows:</b>		
Non-current assets	<b>3.3</b>	4.7
Current assets	<b>2.0</b>	2.4
	<b>5.3</b>	7.1

Deferred acquisition costs represent the commission paid to gain new asset inflows into open-ended funds. These costs are amortised over the expected terms of the contracts, in line with the initial fees received from investors, as disclosed in note 26.

## 16. Deferred tax assets and liabilities

### (a) Recognised deferred assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2012			31 December 2011		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Employee benefits*	6.8	–	6.8	6.9	–	6.9
Share-based payments	12.2	–	12.2	11.1	–	11.1
Unused tax losses	6.6	–	6.6	5.5	–	5.5
Property, plant and equipment	1.7	–	1.7	2.7	–	2.7
Receivables, payables and provisions	1.3	–	1.3	2.1	–	2.1
Intangible assets – management contracts	–	(19.4)	(19.4)	–	(32.1)	(32.1)
Unrealised fair value gains on available for sale assets	–	(0.3)	(0.3)	–	(0.3)	(0.3)
<b>Net deferred tax assets/(liabilities)</b>	<b>28.6</b>	<b>(19.7)</b>	<b>8.9</b>	<b>28.3</b>	<b>(32.4)</b>	<b>(4.1)</b>

\* Includes £5.7m (31 December 2011: £5.1m) relating to deferred tax on defined benefit pension deficit.

Based on Board-approved budgets and forecasts, the Directors believe that it is appropriate to recognise deferred tax assets at the reporting date because it is considered probable that there will be suitable future taxable profits from which the underlying temporary differences can be deducted.

### (b) Movement in temporary differences during the year

	1 January 2012 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	31 December 2012 £m
Employee benefits	6.9	(1.4)	1.4	(0.1)	6.8
Share-based payments	11.1	0.6	0.6	(0.1)	12.2
Unused tax losses	5.5	–	1.1	–	6.6
Property, plant and equipment	2.7	(1.0)	–	–	1.7
Receivables, payables and provisions	2.1	(0.9)	–	0.1	1.3
Intangible assets – management contracts	(32.1)	12.3	–	0.4	(19.4)
Unrealised fair value gains on available for sale assets	(0.3)	–	0.1	(0.1)	(0.3)
	<b>(4.1)</b>	<b>9.6</b>	<b>3.2</b>	<b>0.2</b>	<b>8.9</b>

	1 January 2011 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	31 December 2011 £m
Employee benefits	8.3	(0.4)	(0.9)	(0.1)	6.9
Share-based payments	12.8	(1.7)	–	–	11.1
Unused tax losses	4.2	1.3	–	–	5.5
Property, plant and equipment	2.9	(0.2)	–	–	2.7
Receivables, payables & provisions	2.7	(0.5)	(0.1)	–	2.1
Intangible assets – management contracts	(47.3)	14.9	–	0.3	(32.1)
Unrealised fair value gains on available for sale assets	(0.8)	–	0.5	–	(0.3)
	<b>(17.2)</b>	<b>13.4</b>	<b>(0.5)</b>	<b>0.2</b>	<b>(4.1)</b>

### (c) Unrecognised deferred tax assets and liabilities

At 31 December 2012 the Group has unrecognised tax losses of £0.3m (31 December 2011: £0.3m) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they cannot be used to offset taxable profits elsewhere in the Group, and they have arisen in companies that have not reported taxable profits for some time.

## 17. Financial instruments

### (a) Analysis of assets and liabilities at the reporting date

Financial investments held in relation to the activities of the Group's insurance subsidiary have been classified as fair value through profit or loss within current assets.

Stocks of units and shares are held in relation to fund management activities and are classified as held for trading within current assets.

Financial investments included within non-current assets are classified as available for sale and are carried at fair value (or at amortised cost if fair value cannot be measured reliably). Other loans and receivables included within non-current assets are carried at amortised cost.

### (i) Designated as fair value through profit or loss

	Notes	31 December 2012 £m	31 December 2011 £m
Financial investments in respect of unit-linked contracts	(1)	134.2	447.8
Other financial investments	(2)	4.0	6.6
		<b>138.2</b>	454.4

### (1) Financial investments in respect of unit-linked contracts

	31 December 2012 £m	31 December 2011 £m
<b>Equity securities:</b>		
OEICs and unit trusts	104.9	124.7
Listed	21.9	116.0
<b>Total equity securities</b>	<b>126.8</b>	240.7
<b>Debt and fixed income securities:</b>		
Participation in pooled investments	7.4	10.2
Other listed fixed interest securities	–	80.4
Index-linked gilts	–	69.7
Government bonds	–	46.8
<b>Total debt and fixed income securities</b>	<b>7.4</b>	207.1
<b>Total unit-linked financial investments designated as fair value through profit or loss</b>	<b>134.2</b>	447.8

### Financial instruments relating to unit-linked contracts

The Group's insurance subsidiary, F&C Managed Pension Funds Limited, provides unit-linked pension wrappers. From F&C's perspective, the risks and rewards of managing these assets are the same as other assets under management, as the financial risks and rewards attributable to the assets invested fall to be borne by, or to the benefit of, the Group's clients. Hence, while a number of significant financial instruments are recognised in the Statement of Financial Position in respect of this subsidiary, the key risk to the Group is the impact on the level of management fees which are earned from this entity and which are directly affected by the underlying value of policyholder assets. While F&C Managed Pension Funds Limited had some insurance risks, these risks were fully reinsured, thereby negating any net insurance risk to the Group's equity holders.

The amounts included in the Statement of Financial Position in respect of assets and liabilities held within unit-linked funds are as follows:

	31 December 2012 £m	31 December 2011 £m
<b>Fair value through profit or loss:</b>		
Financial investments	134.2	447.8
<b>Loans and receivables:</b>		
Deferred acquisition costs	0.1	0.1
Trade and other receivables	0.3	0.1
<b>Payables:</b>		
Trade and other payables	–	(0.3)
<b>Cash and cash equivalents*</b>	<b>2.3</b>	25.1
<b>Total unit-linked assets less liabilities</b>	<b>136.9</b>	472.8

\* Excludes £2.2m of non-linked policyholders' cash (31 December 2011: £3.0m).

These unit-linked assets are matched by the associated investment contract liabilities disclosed in note 28.

**17. Financial instruments continued****(2) Other financial investments**

		<b>31 December 2012</b>	31 December 2011
	Note	<b>£m</b>	£m
NIC hedge		<b>2.5</b>	2.4
TRC Employee Benefit Trust assets		<b>1.2</b>	1.1
Mutual funds		<b>0.3</b>	0.3
Purchased Equity Plan	25(h)(ii)	–	1.5
Bonus – investments		–	1.0
Corporate bonds		–	0.3
		<b>4.0</b>	6.6

The 'NIC hedge' represents an investment in equities and other assets made via an Employee Benefit Trust for the purpose of funding future national insurance contributions (NIC) on legacy employee share plans. The provision for the NIC liability is separately recognised.

'TRC Employee Benefit Trust assets' represents investments held by an Employee Benefit Trust in TRC funds for the purpose of future settlement of TRC bonus awards. A corresponding liability is recognised in employee benefit liabilities.

'Mutual funds' represents investments in mainly fixed interest funds.

The 'Purchased Equity Plan' represented investments held by an Employee Benefit Trust in F&C funds and was used during 2012 to settle the liability in respect of Purchased Equity Plan awards.

'Bonus – investments' represented investments in managed funds. These were used during 2012 to settle deferred bonus liabilities.

'Corporate bonds' represented an investment in corporate bonds held by F&C Managed Pension Funds Limited.

**(ii) Designated as held for trading**

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
Stock of units and shares	<b>0.3</b>	0.9

The Group holds a stock of units and shares in respect of its OEIC and unit trust operations. This stock of units and shares is commonly referred to as the 'Manager's Box'. The Group's stock of units and shares is valued using quoted market values. The Group is therefore exposed to market value movements in the value of these assets.

**(iii) Designated as loans and receivables**

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Cash and cash equivalents</b>	<b>165.2</b>	225.0
<b>Trade and other receivables:</b>		
Trade debtors	<b>32.0</b>	13.3
Accrued income	<b>30.6</b>	29.0
Other debtors	<b>5.2</b>	4.8
OEIC and unit-trust debtors	<b>10.6</b>	29.5
Amounts owed by TRC related party entities	<b>0.7</b>	0.6
Amounts owed by F&C REIT related party entities	<b>0.1</b>	0.1
	<b>244.4</b>	302.3

**(b) Fair values****(i) Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by category of valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## 17. Financial instruments continued

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2012 £m
<b>Assets measured at fair value</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Financial investments in respect of unit-linked contracts	125.7	8.5	–	134.2
Other financial investments	0.9	3.1	–	4.0
<b>Classified as held for trading:</b>				
Stock of units and shares	0.3	–	–	0.3
<b>Available for sale financial assets:</b>				
Unquoted investments	–	0.1	1.2	1.3
	<b>126.9</b>	<b>11.7</b>	<b>1.2</b>	<b>139.8</b>

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2012 £m
<b>Liabilities measured at fair value</b>				
<b>Financial liabilities at fair value through profit or loss:</b>				
F&C REIT put options	–	–	(33.8)	(33.8)
Investment contract liabilities	–	(136.9)	–	(136.9)
	–	<b>(136.9)</b>	<b>(33.8)</b>	<b>(170.7)</b>

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2011 £m
<b>Assets measured at fair value</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Financial investments in respect of unit-linked contracts	396.2	51.2	0.4	447.8
Other financial investments	1.8	4.6	0.2	6.6
<b>Classified as held for trading:</b>				
Stock of units and shares	0.9	–	–	0.9
<b>Available for sale financial assets:</b>				
Unquoted investments	–	–	1.7	1.7
	<b>398.9</b>	<b>55.8</b>	<b>2.3</b>	<b>457.0</b>

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2011 £m
<b>Liabilities measured at fair value</b>				
<b>Financial liabilities at fair value through profit or loss:</b>				
F&C REIT put options	–	–	(45.3)	(45.3)
Investment contract liabilities	–	(472.8)	–	(472.8)
	–	<b>(472.8)</b>	<b>(45.3)</b>	<b>(518.1)</b>

**17. Financial instruments continued****Level 3 assets/(liabilities) measured at fair value**

	Financial assets at FVTPL		Available for sale financial assets	Financial liabilities at FVTPL	Total £m
	Financial investments in respect of unit-linked contracts £m	Other financial investments £m	Unquoted investments £m	F&C REIT put options £m	
<b>Fair value movements</b>					
At 1 January 2011	1.4	0.2	3.5	(54.0)	(48.9)
Total gains or losses:					
In profit or loss	(0.2)	–	(3.3)	8.7	5.2
In other comprehensive income	–	–	1.5	–	1.5
Settlements	(0.6)	–	–	–	(0.6)
Transfers out of level 3*	(0.2)	–	–	–	(0.2)
At 31 December 2011	<b>0.4</b>	<b>0.2</b>	<b>1.7</b>	<b>(45.3)</b>	<b>(43.0)</b>
Total gains or losses:					
In profit or loss	–	<b>0.2</b>	<b>(1.1)</b>	<b>11.5</b>	<b>10.6</b>
In other comprehensive income	–	–	<b>0.6</b>	–	<b>0.6</b>
Purchases	<b>0.2</b>	–	–	–	<b>0.2</b>
Settlements	<b>(0.6)</b>	<b>(0.4)</b>	–	–	<b>(1.0)</b>
<b>At 31 December 2012</b>	<b>–</b>	<b>–</b>	<b>1.2</b>	<b>(33.8)</b>	<b>(32.6)</b>

\* Transfers out of level 3 resulted from investments receiving an active market price during the year.

**Total gains or losses included in the Income Statement for the year:****2012**

Net gains and investment income on unit-linked assets	–	–	–	–	–
Finance revenue	–	<b>0.2</b>	<b>1.1</b>	–	<b>1.3</b>
F&C REIT put option fair value gain	–	–	–	<b>11.5</b>	<b>11.5</b>
	<b>–</b>	<b>0.2</b>	<b>1.1</b>	<b>11.5</b>	<b>12.8</b>
<b>2011</b>					
Net gains and investment income on unit-linked assets	(0.2)	–	–	–	(0.2)
Finance revenue	–	–	3.3	–	3.3
F&C REIT put option fair value gain	–	–	–	8.7	8.7
	(0.2)	–	3.3	8.7	11.8

The gains or losses included in profit or loss for the years presented were, with the exception of the financial assets at FVTPL at 31 December 2012, all in respect of assets or liabilities held at the reporting date.

**Sensitivities for level 3**

While the Group believes that its estimates of fair value are appropriate, the use of different assumptions could lead to different measurements of fair value. In respect of level 3 financial assets and liabilities, changing one or more of the unobservable inputs to reasonably possible alternative assumptions would have the following effects:

	Effect on profit or loss		Effect on other comprehensive income	
	Favourable £m	(Unfavourable) £m	Favourable £m	(Unfavourable) £m
<b>At 31 December 2012</b>				
<b>Available for sale financial assets:</b> Unquoted investments	–	–	<b>0.1</b>	<b>(0.1)</b>
<b>Financial liabilities at FVTPL:</b> F&C REIT put options	<b>2.7</b>	<b>(2.4)</b>	–	–
<b>At 31 December 2011</b>				
Available for sale financial assets: Unquoted investments	–	–	0.2	(0.2)
Financial liabilities at FVTPL: F&C REIT put options	4.7	(3.4)	–	–

## 17. Financial instruments continued

The F&C REIT put option sensitivities were derived from reasonable changes to the assumptions, as disclosed in note 27, on the following unobservable inputs:

- Recurring discount rates +/- 1%
- Weightings of 2012 results +/- 10%
- Recurring EBITDA multiple +/- 1x
- Flexing the relative weightings of the three valuation methodologies +/- 10%

### (ii) Fair value comparisons

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments.

	Carrying amount		Fair value	
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	31 December 2011 £m
<b>Financial assets</b>				
<b>Financial investments: available for sale</b>	<b>1.3</b>	1.7	<b>1.3</b>	1.7
<b>Financial investments: fair value through profit or loss</b>	<b>138.2</b>	454.4	<b>138.2</b>	454.4
<b>Held for trading: stock of units and shares</b>	<b>0.3</b>	0.9	<b>0.3</b>	0.9
<b>Financial liabilities</b>				
<b>Interest-bearing loans and borrowings:</b>				
Fixed/Floating Rate Subordinated Notes 2016/2026	<b>(115.6)</b>	(124.4)	<b>(96.0)</b>	(80.5)
Guaranteed Fixed Rate Loan Notes 2016	<b>(141.8)</b>	(149.4)	<b>(152.9)</b>	(154.0)
<b>Other financial liabilities:</b>				
F&C REIT put options	<b>(33.8)</b>	(45.3)	<b>(33.8)</b>	(45.3)
<b>Investment contract liabilities</b>	<b>(136.9)</b>	(472.8)	<b>(136.9)</b>	(472.8)

The fair values of short-term 'trade and other receivables', 'cash and cash equivalents' and 'trade and other payables' have been excluded from the above table as their carrying amounts are a reasonable approximation of their fair value.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

#### Securities

The fair value of listed investments is based on quoted bid market prices at the reporting date without any deduction for transaction costs. The fair value of unlisted investments has been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and in accordance with the underlying limited partnership agreements.

#### Interest-bearing loans and borrowings

The fair value of the Subordinated Notes and Guaranteed Loan Notes is based on a quoted market price at the reporting date.

#### Unquoted investments

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market-related data at the reporting date.

#### Put options

The fair value is based on an external valuation of the F&C REIT business, as detailed in note 27.

## 18. Reinsurance assets

	31 December 2012 £m	31 December 2011 £m
Reinsurers' share of insurance contract liabilities	–	2.0
<b>Total reinsurance assets – current assets</b>	<b>–</b>	<b>2.0</b>

The reinsurance assets and the associated liabilities, as disclosed in note 29, were transferred to Friends Life Limited following Court Approval on 28 December 2012.

**19. Trade and other receivables**

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Non-current:</b>		
Other debtors	<b>0.3</b>	1.0
Prepayments	<b>0.1</b>	0.1
	<b>0.4</b>	1.1
<b>Current:</b>		
Trade debtors*	<b>32.0</b>	13.3
Accrued income	<b>30.6</b>	29.0
OEIC and unit trust debtors	<b>10.6</b>	29.5
Other debtors	<b>4.9</b>	3.8
Prepayments	<b>8.3</b>	7.6
Amounts owed by TRC related party entities	<b>0.7</b>	0.6
Amounts owed by F&C REIT related party entities	<b>0.1</b>	0.1
	<b>87.2</b>	83.9

\* Trade debtors are non-interest bearing and are generally receivable within 30 days.

**20. Cash and cash equivalents**

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Shareholders:</b>		
Cash at bank and in hand	<b>31.4</b>	30.4
Short-term deposits	<b>129.3</b>	166.5
	<b>160.7</b>	196.9
<b>Policyholders:</b>		
Cash at bank and in hand	<b>4.5</b>	3.2
Short-term deposits	<b>–</b>	24.9
	<b>4.5</b>	28.1
<b>Total cash and cash equivalents</b>	<b>165.2</b>	225.0

Cash and cash equivalents are held by the Group for the purpose of meeting short-term cash commitments rather than for investment or other purposes. All short-term deposits are readily convertible to a known amount of cash and are not subject to significant risk of changes in value.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are generally made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents at 31 December 2012 is £165.2m (31 December 2011: £225.0m).

**Restrictions on use of cash**

The policyholders' cash is not available for general use by the Group. These funds are held on behalf of policyholders of unit-linked insurance contracts which are included in the Statement of Financial Position.

## 21. Interest-bearing loans and borrowings

The contractual terms of the Group's interest-bearing loans and borrowings are as follows:

	<b>31 December 2012 £m</b>	31 December 2011 £m
<b>Fixed/Floating Rate Subordinated Notes 2016/2026</b>	<b>115.6</b>	124.4
being 115,973,000 notes with a nominal value of £1 (31 December 2011: 125,000,000) Interest rate of 6.75% per annum until 19 December 2016, payable annually in arrears. Issuer has the option to extend the notes beyond this date at a rate of 2.69% above three-month LIBOR until 19 December 2026, payable quarterly in arrears.		
<b>Guaranteed Fixed Rate Loan Notes 2016</b>	<b>141.8</b>	149.4
being 142,035,000 notes with a nominal value of £1 (31 December 2011: 149,711,000) Interest rate of 9.0% per annum until 19 December 2016, payable annually in arrears.		
	<b>257.4</b>	273.8

	<b>Subordinated Notes 2016/2026 £m</b>	<b>Guaranteed loan Notes 2016 £m</b>	<b>Loans total £m</b>
At 1 January 2011	124.4	149.3	273.7
Issue costs amortisation	-	0.1	0.1
At 31 December 2011	<b>124.4</b>	<b>149.4</b>	<b>273.8</b>
Debt buy-backs	<b>(9.0)</b>	<b>(7.7)</b>	<b>(16.7)</b>
Issue costs amortisation	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>
<b>At 31 December 2012</b>	<b>115.6</b>	<b>141.8</b>	<b>257.4</b>

	<b>31 December 2012 £m</b>	31 December 2011 £m
<b>Repayment periods</b>		
<b>Amounts repayable:</b>		
In one year or less, or on demand	-	-
In more than one year but not more than two years	-	-
In more than two years but not more than five years*	<b>257.4</b>	273.8
In more than five years	-	-
	<b>257.4</b>	273.8

\* Assumes Fixed/Floating Rate Subordinated Notes are not extended beyond 2016.

Additional information about the Group's exposure to interest rate risk is provided in note 36(c)(iv).

### Borrowing facilities

The Group has borrowing facilities available to it. The undrawn committed facilities available at the year end are as follows:

	<b>31 December 2012 £m</b>	31 December 2011 £m
<b>Expiring in one year or less:</b>		
Revolving credit facility	<b>20.0</b>	20.0
Bank overdraft facilities	<b>2.0</b>	2.0
	<b>22.0</b>	22.0

During 2011 the Group had a £20.0m revolving credit facility which was available for general corporate and working capital purposes. This credit facility expired on 29 February 2012, was subsequently renewed on 29 June 2012 and will now expire on 31 August 2013.

## 22. Trade and other payables

	31 December 2012 £m	31 December 2011 £m
<b>Non-current:</b>		
Accruals	0.7	2.9
Other creditors	2.6	4.0
	<b>3.3</b>	<b>6.9</b>
<b>Current:</b>		
Trade creditors*	4.8	3.7
VAT payable	–	0.9
Accruals	18.3	18.0
OEIC and unit trust creditors	16.8	27.8
Other creditors	12.8	21.3
Amounts owed to F&C REIT related party entities	0.5	–
	<b>53.2</b>	<b>71.7</b>

\* Trade creditors are non-interest bearing and are settled in accordance with the individual contractual arrangements.

During 2012, £0.7m of further consideration for the acquisition of F&C Group (Holdings) Limited was settled with Achmea B.V. This was included in other creditors at 31 December 2011.

## 23. Provisions

	Onerous premises contracts £m	NIC on share schemes £m	Long- term sickness £m	Guaranteed product £m	Long- term service award £m	F&C Partners litigation £m	Total £m
At 1 January 2011	6.6	6.6	1.0	0.4	0.1	2.4	17.1
Provided during the year	1.3	0.9	0.2	–	0.1	9.1	11.6
Utilised during the year	(1.8)	(1.3)	(0.2)	–	–	(9.5)	(12.8)
Released during the year	–	(0.1)	–	–	–	–	(0.1)
At 31 December 2011	<b>6.1</b>	<b>6.1</b>	<b>1.0</b>	<b>0.4</b>	<b>0.2</b>	<b>2.0</b>	<b>15.8</b>
Provided during the year	0.3	3.4	–	–	–	–	3.7
Utilised during the year	(1.1)	(2.0)	(0.1)	–	–	(0.7)	(3.9)
Released during the year	–	(0.5)	–	(0.4)	–	(1.3)	(2.2)
<b>At 31 December 2012</b>	<b>5.3</b>	<b>7.0</b>	<b>0.9</b>	<b>–</b>	<b>0.2</b>	<b>–</b>	<b>13.4</b>
<b>At 31 December 2012</b>							
<b>Non-current liabilities</b>	<b>2.6</b>	<b>1.6</b>	<b>0.7</b>	<b>–</b>	<b>0.2</b>	<b>–</b>	<b>5.1</b>
<b>Current liabilities</b>	<b>2.7</b>	<b>5.4</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8.3</b>
At 31 December 2011							
Non-current liabilities	4.1	1.9	0.8	0.3	0.2	–	7.3
Current liabilities	2.0	4.2	0.2	0.1	–	2.0	8.5

### Onerous premises contracts

The Group holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied or are partially occupied by the Group. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to eight years, although a significant element of this provision is expected to be utilised within the next year.

Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases are for minimum guaranteed rentals. The provision is subject to uncertainties over time, including market rent reviews and break options within the lease arrangements. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

### NIC on share schemes

The provision for national insurance contributions (NIC) on share schemes represents the potential employer's NIC liabilities in respect of a number of share-based payment schemes operated by the Group. The provision is subject to uncertainties in respect of the extent to which performance conditions are met, movements in the Company's share price, the extent to which awards are forfeited and, where eligible, the timing of when employees choose to exercise options. The current element of the provision for NIC on share schemes relates to awards which are expected to vest within one year. At 31 December 2012, £2.5m (31 December 2011: £2.4m) of financial investments were held by the Group to partially fund the NIC liability on the Deferred Investment Plan and Deferred Investment Option Plan. This is disclosed in note 17(a)(i)(2).

## 23. Provisions continued

### Long-term sickness

The Group has long-term sickness insurance arrangements which cover the cost of absence from work of all current employees. However, the cost of employees who went on long-term absence prior to these arrangements being established are self-insured by the Group. The provision represents the expected present value of income protection payments due to these individuals.

This provision has been quantified on the assumption that all employees currently on long-term sick leave do not return to the employment of the Group. The discount rate and salary growth assumptions used in each year are identical to those used for the purposes of determining UK defined benefit pension obligations.

### Guaranteed product

The provision for the guaranteed product represented the actuarially assessed cost of meeting potential obligations under certain investment products which have a guaranteed payout in the event of death of the investor. The underlying investment plan was closed to new investors during 2004 and insurance arrangements are now in place to cover any exposure to the Group. The remaining provision of £0.4m was therefore released during 2012.

### Long-term service award

This provision represents the obligation in respect of long-term service benefits to which some employees are entitled, including incremental holiday entitlement and long-term service awards.

### F&C Partners litigation

In June 2012, following a successful outcome from the Court of Appeal regarding the level of costs and interest to be borne by F&C in respect of the F&C Partners litigation, a full and final payment of £0.65m was paid to the founder partners. As a result, the excess provision of £1.35m was released during the year.

Further details of this litigation were disclosed in the Annual Report and Financial Statements for previous reporting periods.

## 24. Pension benefits

The Group operates defined benefit schemes in the United Kingdom, The Netherlands, the Republic of Ireland and participates in one in Portugal. The UK scheme is closed to new entrants. All new UK employees are eligible to benefit from defined contribution arrangements, which provide greater certainty over the future cost to the Group.

A former Chairman of the Group, Mr R W Jenkins, has a pension entitlement which commenced in January 2011 and is adjusted in line with the Retail Price Index on 1 January in each year. The annual entitlement as at 1 January 2012 was £125,000. The Group has not earmarked any assets to date with respect to this liability.

The net pension deficit is recognised under non-current liabilities in the Statement of Financial Position and is stated gross of the related deferred tax asset.

The results of the latest full actuarial valuations were updated at 31 December 2012 by qualified independent actuaries.

The pension deficits of the Group are summarised in aggregate and by scheme as follows:

		<b>31 December 2012</b>	31 December 2011
	Note	<b>£m</b>	£m
<b>Aggregate</b>			
Fair value of plan assets	24(d)	<b>232.7</b>	215.9
Benefit obligations	24(d)	<b>(256.8)</b>	(236.4)
<b>Total pension deficit</b>	24(d)	<b>(24.1)</b>	(20.5)
<b>By scheme</b>			
F&C Asset Management Pension Plan (FCAM Plan)		<b>(10.8)</b>	(10.3)
F&C Netherlands pension plan		<b>(9.4)</b>	(6.6)
F&C Ireland pension plan		<b>(0.5)</b>	(0.4)
F&C Portugal pension plan		-	-
R W Jenkins pension		<b>(3.4)</b>	(3.2)
<b>Total pension deficit</b>		<b>(24.1)</b>	(20.5)

## 24. Pension benefits continued

### Disclosure relating to the Group's defined benefit obligations

The information given in (a) to (d) below reflects the aggregate disclosures in respect of all Group defined benefit pension arrangements, except where otherwise indicated.

#### (a) Plan assets and expected rates of return

Plan assets	31 December 2012		31 December 2011	
	£m	%	£m	%
Equities	66.7	29	58.0	27
Equity-linked bond funds	66.1	28	58.4	27
LDI pools	50.1	22	67.5	31
Diversified growth funds	15.9	7	–	–
Insurance contracts	14.3	6	10.7	5
Property (including secured leases)	14.0	6	13.0	6
Cash	4.8	2	6.2	3
Corporate bonds	0.8	–	2.1	1
<b>Total fair value of plan assets</b>	<b>232.7</b>	<b>100</b>	215.9	100

Plan assets include £2.5m (31 December 2011: £13.9m) of underlying investments held by the Group pension schemes via transferable investment contracts with F&C Managed Pension Funds Limited, the Group's unit-linked pooled pension business. The plan assets do not include Ordinary Shares issued by the Company.

Expected long-term rates of return on UK plan assets	31 December 2012	31 December 2011
Equities	6.20%	6.30%
Equity-linked bond funds	6.20%	6.30%
LDI pools	3.10%	3.10%
Diversified growth funds	6.20%	n/a
Insurance contracts	4.50%	4.70%
Property (including secured leases)	4.85% – 6.20%	4.85% – 6.30%
Cash	0.50%	0.50%
Corporate bonds	4.50%	4.70%

#### Basis used to determine the expected rate of return on plan assets

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds and swaps), the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted, based on the actual asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio.

#### (b) Major assumptions used by schemes' actuaries in respect of benefit obligations

##### (i) Mortality assumptions

The mortality assumptions used for the main UK defined benefit scheme and the unfunded UK obligation are:

	31 December 2012	31 December 2011
Mortality table for males retiring in the future	S1NMA L-1 CMI 2011 1.25%	S1NMA L MC min1% – 1
Mortality table for females retiring in the future	S1NFA L-1 CMI 2011 1.25%	S1NFA L MC min1% – 1
Mortality table for current male pensioners	S1NMA L-1 CMI 2011 1.25%	S1NMA L MC min1% – 1
Mortality table for current female pensioners	S1NFA L-1 CMI 2011 1.25%	S1NFA L MC min1% – 1

The mortality assumptions for the non-UK schemes are:

	31 December 2012	31 December 2011
F&C Netherlands	Prognosetafel 2012 – 2062 generational table	Prognosetafel 2010 – 2060 generational table
F&C Ireland	Compulsory Purchase Annuity Rates	Compulsory Purchase Annuity Rates
F&C Portugal	Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)	Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)

## 24. Pension benefits continued

### (ii) Impact of mortality assumptions

To demonstrate what these mortality assumptions mean in respect of the FCAM Plan, the expected ages at death of members retiring at age 60 are as follows:

	<b>31 December 2012</b>	31 December 2011
	<b>Years</b>	Years
Expected age at death for a male retiring in the future at age 60, currently aged 40	<b>92</b>	91
Expected age at death for a female retiring in the future at age 60, currently aged 40	<b>93</b>	92
Expected age at death for a current male pensioner aged 60	<b>90</b>	89
Expected age at death for a current female pensioner aged 60	<b>91</b>	90

### (iii) Cost of annuities

The table below summarises the cost of providing annuities of £1 per annum (with associated death benefits and pension increases) for UK members currently aged 40, retiring at age 60, based on the assumptions used for the pension disclosures:

	<b>31 December 2012</b>	31 December 2011
	<b>£</b>	£
Male annuity	<b>28.40</b>	27.50
Female annuity	<b>27.60</b>	26.70

These rates assume a monthly payments model with a discount rate of 4.50% (2011: 4.70%). The rates also assume two-thirds of the members' benefit will be paid to spouses; a five-year guarantee is provided; and pensions in excess of Guaranteed Minimum Pension will increase by 3.07% (2011: 3.20%) per annum.

### (iv) Discount and growth assumptions

The range of assumptions used to determine benefit obligations are as follows:

	<b>31 December 2012</b>	31 December 2011
Discount rate	<b>3.90% – 4.50%</b>	4.70% – 5.20%
Rate of salary increase	<b>2.00% – 3.00%</b>	2.00% – 4.00%
Rate of price inflation (CPI)	<b>2.00% – 2.45%</b>	2.00% – 2.60%
Rate of inflation increase (RPI)	<b>3.15%</b>	3.30%

The range of assumptions used to determine net pension cost for the year are as follows:

	<b>2012</b>	2011
Discount rate	<b>4.70% – 5.20%</b>	5.30%
Weighted average expected long-term return on plan assets	<b>3.10% – 5.20%</b>	4.91% – 6.04%
Rate of salary increase	<b>2.00% – 4.00%</b>	2.00% – 4.00%
Rate of inflation increase (RPI)	<b>2.00% – 3.30%</b>	2.00% – 3.50%

### (v) Sensitivities

An estimate of the sensitivities regarding the principal assumptions used to measure the schemes' liabilities are set out below:

<b>Assumption</b>	<b>Change in assumption</b>	<b>Estimated impact on scheme liabilities</b>
Inflation	Increase/decrease by 0.1%	Increase/decrease by 1.7%
Salaries	Increase/decrease by 0.1%	Increase/decrease by 0.0%
Pensions	Increase/decrease by 0.1%	Increase/decrease by 1.3%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.2%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2.8%

## 24. Pension benefits continued

### (c) Profile of schemes' membership

The profile of the current membership of defined benefit arrangements in the Group is as follows:

	31 December 2012		31 December 2011	
	% of total membership	Average age	% of total membership	Average age
Active members	15%	44	16%	44
Deferred members	71%	44	71%	44
Pensioners	14%	66	13%	66
	<b>100%</b>		100%	

The profile of the liabilities of defined benefit arrangements throughout the Group is as follows:

	31 December 2012	31 December 2011
	£m	£m
Active members	61.1	52.6
Deferred members	117.8	112.3
Pensioners	77.9	71.5
<b>Benefit obligations</b>	<b>256.8</b>	236.4

### (d) Aggregate disclosures

#### Change in benefit obligations:

	2012	2011
	£m	£m
Benefit obligations at 1 January	236.4	218.0
Foreign exchange movements	(0.7)	(0.6)
Current service cost	2.2	2.3
Past service costs*	0.5	0.7
Settlement gains	(1.2)	–
Interest cost on pension obligations	11.0	11.5
Members' contributions	0.2	0.3
Net transfers out	(0.1)	–
Actuarial losses	15.6	9.1
Benefits paid	(7.1)	(4.9)
<b>Benefit obligations at 31 December</b>	<b>256.8</b>	236.4

\* The past service costs in both 2012 and 2011 relate to the augmentation of pension entitlements for certain employees.

	31 December 2012	31 December 2011
	£m	£m
<b>Analysis of defined benefit obligations:</b>		
Plans that are wholly or partly funded	253.4	233.2
Obligation that is wholly unfunded	3.4	3.2
<b>Benefit obligations at 31 December</b>	<b>256.8</b>	236.4

	2012	2011
	£m	£m
<b>Change in plan assets:</b>		
Fair value of plan assets at 1 January	215.9	190.4
Foreign exchange movements	(0.5)	(0.4)
Expected return on pension plan assets	10.7	11.5
Settlement losses	(1.1)	–
Actuarial gains	6.6	12.4
Net transfers out	(0.1)	–
Employer contributions	8.1	6.6
Member contributions	0.2	0.3
Benefits paid	(7.1)	(4.9)
<b>Fair value of plan assets at 31 December</b>	<b>232.7</b>	215.9

	31 December 2012	31 December 2011
	£m	£m
<b>Net pension deficit recognised</b>	<b>(24.1)</b>	(20.5)

## 24. Pension benefits continued

<b>Components of defined benefit pension expense/(income):</b>	<b>2012</b>	2011
	<b>£m</b>	£m
Current service cost	<b>2.2</b>	2.3
Past service cost	<b>0.5</b>	0.7
Settlement gains	<b>(0.1)</b>	–
Expected return on pension plan assets	<b>(10.7)</b>	(11.5)
Interest cost on pension obligations	<b>11.0</b>	11.5
<b>Total defined benefit pension expense recognised in the Income Statement</b>	<b>2.9</b>	3.0

<b>Classification of defined benefit pension expense/(income) in the Income Statement:</b>	Notes	<b>2012</b>	2011
		<b>£m</b>	£m
Operating expenses	5	<b>2.6</b>	3.0
Finance revenue	7	<b>(10.7)</b>	(11.5)
Finance costs	8	<b>11.0</b>	11.5
<b>Total defined benefit pension expense recognised in the Income Statement</b>		<b>2.9</b>	3.0

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Net actuarial (losses)/gains immediately recognised in the Statement of Comprehensive Income</b>	<b>(9.0)</b>	3.3
<b>The cumulative actuarial losses recognised in the Statement of Comprehensive Income</b>	<b>(40.0)</b>	(31.0)

	<b>2012</b>	2011
	<b>£m</b>	£m
<b>Actual return on plan assets</b>	<b>17.3</b>	23.9

### Five year history

	<b>2012</b>	2011	2010	2009	2008
	<b>£m</b>	£m	£m	£m	£m
Benefit obligations at 31 December	<b>(256.8)</b>	(236.4)	(218.0)	(204.2)	(167.9)
Fair value of plan assets at 31 December	<b>232.7</b>	215.9	190.4	157.5	146.1
<b>Total pension deficit</b>	<b>(24.1)</b>	(20.5)	(27.6)	(46.7)	(21.8)
<b>Difference between expected and actual return on plan assets:</b>					
Amount	<b>6.6</b>	12.4	19.4	4.2	(21.1)
Percentage of plan assets	<b>3%</b>	6%	10%	3%	(14%)
<b>Experience (losses) and gains on benefit obligations:</b>					
Amount	<b>(1.5)</b>	(0.3)	5.8	1.1	1.3
Percentage of benefit obligations	<b>(1%)</b>	0%	3%	1%	1%
<b>Total gains and (losses):</b>					
Amount	<b>(9.0)</b>	3.3	10.4	(27.2)	2.5
Percentage of benefit obligations	<b>(3%)</b>	1%	5%	(13%)	1%

### (e) Pension schemes' details

#### (i) F&C Asset Management Pension Plan (FCAM Plan)

Date of last actuarial valuation	31 March 2010
Scheme Actuary	Mercer Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date	£156.4m
Level of funding	88%

The FCAM Plan's assets, which are managed by F&C and other external investment managers, are held under the control of the Trustees and are used to secure benefits for the members of the FCAM Plan and their dependants in accordance with the Trust Deed and Rules.

#### Trustee Board of the FCAM Plan

The appointment of Trustees is determined by the FCAM Plan's trust documentation. The Trustee Board currently consists of three employer-appointed Trustees, three member-selected Trustees and an independent Trustee who is currently the Chairman of the Trustee Board. Of the current employer-appointed and member-selected Trustees, four are employees of F&C and active members of the FCAM Plan, one is a deferred member and one is retired and receiving a pension from the FCAM Plan.

## 24. Pension benefits continued

### Relationship between F&C and the Trustees of the FCAM Plan

The FCAM Plan's assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustees of the FCAM Plan are required to act in the best interests of the FCAM Plan's beneficiaries.

#### (ii) Other pension schemes

##### F&C Portugal

Certain employees in Portugal participate in the multi-employer scheme, Fundo de Pensoes do Grupo Banco Comercial Português. The assets and liabilities of the scheme are separately identifiable. There are no Trustees, and F&C Portugal controls the assets relating to the F&C members of the scheme. The pension plan has two parts: the "Basic Plan" and the "Complementary Plan". The Complementary Plan provides an old age pension as well as death and disability benefits. From 1 January 2011, this scheme has been integrated into the Social Security system and part of the employees' occupational pension benefits is funded through the Social Security system from that date. With effect from 1 January 2012, F&C Portugal decided to terminate the old age pension benefit provided to members from the Complementary Plan, and paid the value of the accrued benefits to the members (or to individual policies for the members).

##### F&C Netherlands

The Plan in The Netherlands is financed via an insurance contract. There are no Trustees, but the Works Council participates in negotiations in respect of potential changes to the Plan.

##### F&C Ireland

The Group operates a defined benefit pension scheme in Ireland. There are currently four Trustees of this plan, all of whom are employees of F&C.

#### (f) Future funding requirements

##### FCAM Plan

A revised schedule of contributions was agreed in January 2011, under which the Group agreed to pay a minimum of 17.0% of Pensionable Salaries plus £3.0m per annum in respect of deficit recovery contributions, £0.5m per annum in respect of administrative expenses and any additional amounts required as a result of the asset underperformance guarantee. Further, to the extent that the Group repays any amount of its fixed or floating rate notes after 1 January 2011, then the Group shall pay, within one month of that repayment, a special contribution to reduce the deficit determined in the valuation at 31 March 2010 in the same proportion as the aggregate reduction in fixed or floating rate notes. If there is more than one such reduction, then the special contributions necessary shall be computed taking into account the aggregate percentage reduction in fixed or floating rate notes since 1 January 2011 and the amount of any previous such special contribution paid. For the avoidance of doubt, a repayment does not include a repayment of the notes from the issue of a capital instrument specified for that purpose. The minimum estimated contribution expected to be paid into the Plan during 2013 is £5.3m (2012: £5.5m).

As the FCAM Plan is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

##### Non-UK schemes

The figures in the table below assume that contributions will continue to be paid to the overseas schemes at the level paid in 2012, with appropriate increases for future changes in salary assumptions.

##### Contributions to defined benefit schemes

Amounts paid into the Group's defined benefit schemes in the past two years and expected future payments over the next five years are as follows:

Contributions paid	£m
2011	6.6
<b>2012</b>	<b>8.1</b>
Expected future contributions	£m
2013	6.4
2014	5.9
2015	5.8
2016	5.7
2017	5.8

## 24. Pension benefits continued

### (g) Risk management

#### (i) FCAM Plan

The Trustees set general investment policy but delegate the responsibility for the selection of specific investments (other than investments in respect of members' voluntary contributions) to the investment manager. The Trustees regularly monitor the FCAM Plan's investments.

The Trustees seek advice from their investment advisor and believe they have sufficient skills and expertise to make investment decisions based on this advice.

The Trustees have set performance and risk targets for the investment managers. The performance objectives are long-term, and the Trustees monitor the investment managers on a regular basis in order to ensure that the Plan is on track to meet its long-term objectives.

The results of an asset-liability review undertaken alongside the 31 March 2010 actuarial valuation of the Plan have been used to assist the Trustees and the Group in managing volatility in the underlying investment performance and the risk of a significant increase in the FCAM Plan's deficit by providing information used to determine the FCAM Plan's investment strategy.

#### Asset allocation

During the year, the Trustees, with the agreement of F&C, decided to further diversify the FCAM Plan's investment strategy by introducing an allocation to diversified growth funds. This allocation was funded by the release of collateral received when the Liability Driven Investment (LDI) pooled hedging strategy was switched from LIBOR to SONIA-based funds. In previous periods, diversifying allocations to both UK and overseas equity-linked bond funds, an overseas private equity fund and funds investing in secured leases have been made. Previously the Trustees have implemented a LDI approach to the investment strategy. Other allocations to alternative asset classes may be made in the future.

#### Interest rate and inflation risk

The LDI pools are intended to help provide a degree of matching to the liabilities of the FCAM Plan. Each pool comprises zero coupon derivatives with the same maturity as the expected cash flows of the scheme. Each pool has leveraged exposure of varying amounts to inflation and interest rates. The pools are valued using the market values of the underlying securities.

The equity-linked bond funds also provide a degree of matching to the liabilities but in addition retain an exposure to equity market movements.

#### Currency risk

In order to increase the diversification of the equity portfolio, the FCAM Plan invests in overseas assets. However, the FCAM Plan's liabilities are denominated entirely in Sterling and, therefore, there is a risk that the appreciation of Sterling against other currencies will reduce the return from overseas assets.

#### Operational risk

The investment managers do not directly hold any of the FCAM Plan's securities. These are held by an external custodian. The assets are ring-fenced from F&C's creditors and are therefore transferable.

#### (ii) Non-UK schemes

The plan in The Netherlands is financed via an insurance contract. The value of the plan assets is the value of the reserve which the insurance company holds to match guaranteed pension liabilities. These reserves are, in effect, fixed interest instruments, so provide a reasonable match to pension liabilities.

The plan in Portugal is part of an industry-wide banking sector plan. Each participant company holds a share of the assets, which are invested using the same asset allocation as the overall plan assets. F&C Portugal is the asset manager for the overall scheme.

At 31 December 2012, the assets of both the F&C Portugal and F&C Ireland plans were invested in diversified portfolios that consisted primarily of debt and equity securities.

### (h) Cost of defined contribution plans

	Note	2012 £m	2011 £m
Group personal pension plans		3.3	3.4
Other defined contribution schemes		0.8	0.1
<b>Defined contribution pension expense</b>	5	<b>4.1</b>	3.5

The Group had no pension contributions outstanding as at 31 December 2012 (31 December 2011: £0.4m).

## 25. Share-based payments

The Group operates several share-based payment plans as part of its total employee compensation arrangements.

### Summary

The total share-based payment expense is analysed as follows:

<b>By Scheme:</b>	Note	<b>2012</b> £m	2011 £m
The Long-Term Remuneration Plan (deferred awards)		<b>9.0</b>	8.8
The Long-Term Remuneration Plan (restricted awards)		<b>2.9</b>	1.0
Executive Director Remuneration Plan (deferred awards)		<b>0.3</b>	0.6
F&C REIT variable non-controlling interests SBP		–	(4.8)
F&C REIT Long-Term Remuneration Plan		<b>1.6</b>	1.1
TRC Management Retention Plan		<b>5.6</b>	4.5
TRC Management Incentive Plan		–	(0.1)
TRC Commutation arrangements		<b>1.6</b>	5.7
Purchased Equity Plan (FCAM plc shares)		<b>0.1</b>	0.1
Purchased Equity Plan (F&C investment funds)		<b>0.2</b>	0.5
Deferred Share Awards		<b>0.2</b>	0.4
<b>Total share-based payment expense recognised in the Income Statement</b>	5	<b>21.5</b>	17.8

The total expense recognised during the year in respect of share-based payment schemes is split as follows:

	Note	<b>2012</b> £m	2011 £m
Equity-settled	32	<b>13.4</b>	17.3
Cash-settled		<b>8.1</b>	0.5
<b>Total share-based payment expense recognised in the Income Statement</b>		<b>21.5</b>	17.8

	<b>31 December</b> <b>2012</b> £m	31 December 2011 £m
<b>Total carrying amount of cash-settled liabilities</b>	<b>8.4</b>	6.0

The details of each scheme are disclosed below.

Details of option pricing models and key assumptions used to obtain the fair value of services received, or the fair value of the equity instruments granted, have been disclosed only for awards granted during the year ended 31 December 2012. Details of awards granted in previous accounting periods are disclosed in the previous years' Financial Statements.

The fair value of services received in return for awards granted is measured by reference to the fair value of share awards granted.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, being notionally re-invested in F&C Asset Management plc shares. Once the share awards vest, the value of the notional shares is paid to the employee in cash. The value of dividend payments has been separated from the equity-settled awards as these are settled in cash.

The cumulative expense for each award is "trued-up" during the vesting period and at the end of the vesting period, after allowing for actual forfeitures and, where applicable, the extent to which the performance criteria have been met.

The weighted average share price during 2012 was £0.82 (2011: £0.74).

The weighted average share price at exercise date during 2012 was £0.80 (2011: £0.77).

## 25. Share-based payments continued

The following tables summarise the inputs to the valuations used for awards granted and the fair values assigned, during the year ended 31 December 2012.

### Long-Term Remuneration Plan (LTRP) Awards

Award:	LTRP Restricted Share Awards	LTRP Deferred Share Awards
Award date	3 April 2012	3 April 2012
Number of awards granted	19,701,464	1,382,076
Share price at grant date	66.7p	66.7p
Exercise price	0.0p	0.0p
Vesting period	4 years	3 years
Full term of award	4 years	3 years
Expected dividend yield (%)	4.33%	4.33%
Expected volatility (%)	n/a	n/a
Risk-free interest rate (%) p.a.	n/a	n/a
Expected forfeiture rate (%)	0.0%	0.0%
Fair value at measurement date (per award)		
– Equity	56.10p	58.58p
– Cash	10.60p	8.12p
Valuation basis	market price	market price
Estimated vesting percentage at award date	50.0%	n/a

### F&C REIT Long-Term Remuneration Plan

Award:	2012 award
Award date	1 April 2012
Number of units in F&C REIT LLP granted	19,569.54 units
Value of unit at award date	£75.50 per unit
Vesting period	3 years
Full term of award	3 years
Expected forfeiture	0.0%
Model used	External valuation of F&C REIT LLP business

#### (a) The Long-Term Remuneration Plan

The LTRP is the primary long-term incentive arrangement of the Group. The LTRP rules allow both Deferred Share Awards and Restricted Share Awards to be made at the discretion of the Board.

#### (i) Deferred Share Awards

The LTRP allows deferred awards to be granted to employees below Executive Director level, subject only to a time-vesting period of three years.

The number of Deferred Share Awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	36,957,268	39,371,737
Granted during the year	1,382,076	15,437,379
Exercised during the year	(12,315,444)	(10,697,991)
Forfeited during the year	(850,501)	(6,170,470)
Expired during the year	(215,912)	(983,387)
<b>Outstanding at 31 December</b>	<b>24,957,487</b>	<b>36,957,268</b>
<b>Exercisable at 31 December</b>	<b>1,773,667</b>	<b>957,480</b>

The awards exercisable at 31 December 2012 and 31 December 2011 relate to good leavers.

## 25. Share-based payments continued

At 31 December 2012 the following Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
7 April 2010	12,783,798	7 April 2013	0.0p
10 March 2011	10,866,239	10 March 2014	0.0p
3 April 2012	1,307,450	3 April 2015	0.0p

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 0.8 years (31 December 2011: 1.4 years).

### (ii) Restricted Share Awards

#### 2012 Awards

The 2012 share awards under the LTRP are subject to specific underlying earnings per share (EPS) conditions and conditions of continued service being met. To the extent that the award does not vest in accordance with the performance criteria detailed below it expires immediately.

EPS for the year ended 31 December 2015	Percentage of award vesting
Less than 8.2p	0%
8.2p	20%
Between 8.2p and 11.1p	Pro rata between 20% and 75% on a straight-line basis
11.1p	75%
Between 11.1p and 13.7p	Pro rata between 75% and 100% on a straight-line basis
13.7p or above	100%

#### Pre 2012 Awards

Ordinary Shares that are the subject of a Restricted Share Award under the LTRP will vest dependent upon achieving four specified performance conditions and conditions of continued service being met. The performance conditions applied to the LTRP are determined by the Board, are measured over a three-year performance period and comprise the following:

- 25% of the award comprises an underlying EPS condition;
- 25% of the award comprises a Total Shareholder Return (TSR) condition;
- 25% of the award comprises an Investment Performance condition; and
- 25% of the award comprises a Net New Business condition.

To the extent that any element of the award has not vested in accordance with the performance criteria detailed below it expires immediately.

#### (1) The EPS element

The EPS condition is based on the amount by which the average annual percentage growth in underlying EPS exceeds the percentage increase in the Retail Price Index over the three-year performance period (EPS Outperformance Percentage).

The awards vest according to the following criteria:

EPS Outperformance Percentage	Percentage of award vesting
Less than 3%	0%
3%	25%
Equal to or greater than 11%	100%
Between 3% and 11%	Straight-line vesting between 25% and 100%

#### (2) The TSR element

The TSR condition compares the TSR of the Group over a three-year performance period (commencing on the award date) with a list of companies in a predetermined financial services comparator group. At the end of the performance period, the Group and each of the comparator companies are listed and ranked in accordance with their TSR over the performance period (TSR Position). The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period.

The awards vest according to the following criteria:

TSR Position	Percentage of award vesting
Below median	0%
Median	25%
Upper quartile	100%
Between median and upper quartile	Straight-line vesting between 25% and 100%

## 25. Share-based payments continued

### (3) The Investment Performance element

The Investment Performance condition is based on the Total Weighted Outperformance Percentage (25% of the one-year outperformance percentage and 75% of the three-year outperformance percentage) on investment management performance over a three-year period.

The awards vest according to the following criteria:

Total Weighted Outperformance Percentage	Percentage of award vesting
Equal to or less than 42%	0%
75% or more	100%
Between 42% and 75%	Straight-line vesting between 0% and 100%

### (4) The Net New Business element

The Net New Business condition is based on a comparison of the actual versus the budgeted amount of net new business for the period (Net New Business Percentage). The budgeted net new business is determined on an annual basis by the Board. Performance is measured over a three-year period.

The awards vest according to the following criteria:

Net New Business Percentage	Percentage of award vesting
Equal to or less than 25%	0%
125% or more	100%
Between 25% and 125%	Straight-line vesting between 0% and 100%

The number of Restricted Share Awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	7,085,543	3,786,486
Granted during the year	19,701,464	3,749,683
Forfeited during the year	(298,507)	(250,637)
Expired during the year	(686,061)	(199,989)
<b>Outstanding at 31 December</b>	<b>25,802,439</b>	<b>7,085,543</b>

At 31 December 2012 the following Restricted Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
4 May 2010	3,237,513	4 May 2013	0.0p
4 May 2011	3,299,057	4 May 2014	0.0p
3 April 2012	19,265,869	3 April 2016	0.0p

\* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 2.7 years (31 December 2011: 1.8 years).

### (b) The Executive Director Remuneration Plan (EDRP)

Any Executive Director of the Company is eligible to participate in the EDRP. The EDRP provides for the grant of two different forms of award, Deferred Share Awards and Restricted Share Awards. There were no Restricted Share Awards outstanding at either 31 December 2012 or 2011.

#### Deferred Share Awards

Awards vest at the end of a three-year period from grant date, subject to the continued employment of the participant within the Group. There were no performance criteria attached to the deferred shares and the vested shares transferred to the participant after vesting.

The number of Deferred Share Awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	2,188,992	3,214,632
Exercised during the year	(2,188,992)	(1,025,640)
<b>Outstanding at 31 December</b>	<b>–</b>	<b>2,188,992</b>

## 25. Share-based payments continued

### (c) F&C REIT variable non-controlling interests SBP

In accordance with the F&C REIT Partnership Agreement, the F&C REIT minority partners (Kendray Properties Limited, Leo Noé and Ivor Smith) have the potential to increase their stake in F&C REIT Asset Management LLP (F&C REIT) collectively from 30% to 40%.

A variable NCI entitlement exists as an incentive to achieve increased levels of profit including realisation of future performance fees in return for a potential increased stake in the business. This variable NCI entitlement is therefore accounted for under IFRS 2: Share-based Payment. The fair value of the "award" at date of acquisition reflected the value assessed as part of the acquisition valuation. The fair value of the award is reassessed at each reporting date and this fair value is spread over the relevant vesting period.

The minority partners have the potential to increase their stake in F&C REIT by 3.33% for every year in which the EBITDA performance target of £45.0m is achieved, up to a maximum of 10%. The performance criteria could be achieved in any year of the six calendar years ending 31 December 2014. At 31 December 2012 the Directors have continued to assess that the performance target is unlikely to be achieved in any of the remaining performance measurement periods. The cumulative charge previously recognised was reversed at 31 December 2011, but would be reinstated to the extent that any performance criteria were met.

### (d) F&C REIT Long-Term Remuneration Plan (F&C REIT LTRP)

There are two elements to the Plan which was introduced to incentivise F&C REIT employees:

- (i) Deferred Award with no performance conditions; and
- (ii) Restricted Awards with performance conditions.

Participants are awarded notional units in the F&C REIT Asset Management LLP Group (F&C REIT), each equal to 0.00005% of the market value of F&C REIT. The market value of F&C REIT is determined annually by an independent valuation.

The Deferred Awards vest at the end of a predetermined period from grant date (normally three years), subject to the continued employment of the participant. On vesting, the awards are settled by a cash payment based on the market value of each unit at the end of the vesting period, together with a pro-rated share of distributions made during the vesting period. No Restricted Awards have been granted under the performance element of this Plan to date.

The number of F&C REIT LTRP Deferred Awards is as follows:

	2012 Units	2011 Units
Outstanding at 1 January	43,608.24	28,859.60
Granted during the year	19,569.54	15,833.33
Exercised during the year	(15,890.98)	–
Forfeited during the year	(474.06)	(219.53)
Expired during the year	–	(865.16)
<b>Outstanding at 31 December</b>	<b>46,812.74</b>	<b>43,608.24</b>

At 31 December 2012 the following F&C REIT LTRP Deferred Awards were outstanding:

Grant date	No. of units outstanding	Earliest exercise date	Exercise price
1 May 2010	12,119.23	1 May 2013	0.0p
1 May 2011	15,388.89	1 May 2014	0.0p
1 April 2012	19,304.62	1 April 2015	0.0p

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 1.5 years (31 December 2011: 1.3 years).

The intrinsic value of a unit at 31 December 2012 ranged from £67.40 to £89.70 (31 December 2011: £75.50 for all awards) depending on the vesting date of the award.

## 25. Share-based payments continued

### (e) Thames River Capital Management Retention Plan (TRC MRP)

The TRC MRP was one of the two new share plans established at the date of the TRC acquisition to retain and incentivise key professionals within the TRC Group. Awards of deferred shares vest three years after completion of the acquisition, subject to continued employment within the F&C Group or membership of one of the two TRC LLPs. The TRC MRP awards are not subject to any performance criteria. The TRC MRP includes good and bad leaver provisions.

The number of TRC MRP awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	21,312,209	21,312,209
Expired during the year	<b>(2,128,908)</b>	–
<b>Outstanding at 31 December</b>	<b>19,183,301</b>	21,312,209
<b>Exercisable at 31 December</b>	<b>11,423,917</b>	–

The awards exercisable at 31 December 2012 relate to good leavers.

At 31 December 2012 the following TRC MRP awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
1 September 2010	19,183,301	1 September 2013	0.0p

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 0.7 years (31 December 2011: 1.7 years).

### (f) Thames River Capital Management Incentive Plan (TRC MIP)

The TRC MIP is the second of two plans established at the date of the TRC acquisition to further incentivise TRC employees and members of the two TRC LLPs in the six-year period from the date of acquisition (Completion) on 1 September 2010.

Awards under the TRC MIP vest upon achievements of specified financial targets as follows:

- 12.5% of the shares subject to awards vest on the date falling 30 months following Completion provided that the Run-rate EBITDA of the TRC Group as at 31 December 2011 is £15.0m or more. If the Run-rate EBITDA is £12.5m or less, none of this tranche of shares vests and the number of the shares that vest increases on a linear basis if the Run-rate EBITDA falls between the two thresholds;
- 12.5% of the shares subject to awards vest on the third anniversary of Completion provided that the Run-rate EBITDA of the TRC Group as at 30 June 2012 is £17.0m or more. If the Run-rate EBITDA is £15.0m or less, none of this tranche of shares vests and the number of the shares that vest increases on a linear basis if the Run-rate EBITDA falls between the two thresholds; and
- the remaining 75.0% of the shares subject to awards will vest in two equal instalments on each of the fifth and sixth anniversaries of Completion provided that the cumulative EBITDA of the TRC Group for the four-year period to 31 March 2014 is equal to £100.0m or more. If the cumulative EBITDA is equal to £60.0m or less, none of this tranche of shares will vest and the number of the shares that vest will increase on a linear basis if the Run-rate EBITDA falls between these two thresholds.

The first two specified financial targets were not achieved and the awards expired.

Vesting is also subject to continued employment within the F&C Group or membership of the relevant LLP (as the case may be). The terms of the TRC MIP include good and bad leaver provisions, change of control provisions and a cash-settled element. In addition, participants in the TRC MIP will receive an additional cash payment (up to a maximum aggregate amount of £3.0m), payable at the time that shares are delivered and in proportion to the number of shares which vest.

The Directors believe that the remaining financial target is not expected to be achieved and the cumulative charge was reversed at 31 December 2011.

The number of TRC MIP awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	14,208,140	14,208,140
Expired during the year	<b>(6,218,582)</b>	–
<b>Outstanding at 31 December</b>	<b>7,989,558</b>	14,208,140

No awards were exercisable at 31 December 2012 or 31 December 2011.

## 25. Share-based payments continued

At 31 December 2012 the following TRC MIP awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
1 September 2010	3,994,779	1 September 2015	0.0p
1 September 2010	3,994,779	1 September 2016	0.0p

\* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 3.2 years (31 December 2011: 3.5 years).

### (g) Thames River Capital Commutation arrangements (TRC Commutation arrangements)

The Divisional Members of Investment Teams have entered into put and call options which, if exercised, will transfer value to F&C by way of variation of the entitlements to the allocation of management fee profits (as defined in the underlying legal agreements) and capital profits in the respective LLP. The exercise of these options will increase TRC UK's share of the management fee profits of the respective Investment Teams by up to 20%.

These options are exercisable:

- 18 months after Completion:

At the option of the Investment Teams, TRC UK will purchase an additional 10% of the management fee profits of each Investment Team. The option for Investment Teams to exercise this put option is conditional on that team's respective net fund flows being positive for the twelve months preceding the option exercise period.

- 36 months after Completion:

FCAM has a call option to purchase, through TRC UK, typically, an additional 20% of the management fee profits of each of the Investment Teams. The level of 20% is reduced by the percentage of any profits which have already been commuted at an earlier date.

The 18/36 months options to acquire such management fee profits may be deferred for a period of twelve months if the F&C EBITDA Multiple, which is one of the components used to quantify the Commutation consideration, is less than five.

The Commutation consideration may be satisfied in two tranches, at F&C's sole discretion, by:

- The allotment and issue at the relevant Commutation completion date to each Divisional Member of such number of F&C shares as shall have a value equal to 50% of the consideration, or the payment to the Divisional Members of 50% of the consideration in cash at the relevant Commutation completion date; and
- The allotment and issue at the relevant Commutation completion date to a Nominee of such number of F&C shares as shall have a value equal to 50% of the consideration (Deferred Commutation Shares), or in certain circumstances the payment of 50% of the consideration in cash on the date falling 24 months after the relevant Commutation completion date. Deferred Commutation Shares shall be released by the Nominee 24 months after the Commutation completion date, provided the Member continues to provide services to the respective LLP or has ceased to do so in certain "good leaver" circumstances.

The members of the LLPs are considered to be providing services to the Group and as a result, the share element of the Commutation consideration is required to be accounted for as a share-based payment.

It is the intention of the Directors to settle these awards in equity and therefore they have been treated as equity-settled awards.

The maximum payable under Commutation arrangements is £81.4m and F&C has authority to issue a maximum of 122,511,485 shares to settle the consideration payable on exercise of the options.

The options are re-measured at intrinsic value at each reporting date and the total expense is spread over the respective vesting period. The options are considered to have non-market performance conditions – if the options are not exercised, then there is no charge to the Income Statement.

## 25. Share-based payments continued

Three TRC Investment Teams exercised their put options during the year ended 31 December 2012. These exercises transferred a further entitlement of the management fee profits (typically 10%) to the F&C Group. F&C settled these awards through the issue of FCAM shares.

	<b>31 December 2012 £m</b>	31 December 2011 £m
Cumulative TRC Commutation expense, recognised in equity	<b>12.1</b>	10.5
Total intrinsic value of unexercised Commutation options	<b>3.8</b>	14.9
	<b>No.</b>	No.
Potential number of FCAM plc shares which would be settled as at the reporting date (based on Commutation Consideration Share Issue share price at 31 December)	<b>3,761,922</b>	23,527,481

No Commutation options were exercisable at either 31 December 2012 or 31 December 2011. However, at 31 December 2012, 3.8 million shares relate to the options potentially exercisable by the Group.

The remaining Commutation arrangements are exercisable on 1 September 2013, at the option of the Company. The shares could vest at dates up to 1 September 2016.

### (h) Purchased Equity Plan (PEP)

#### (i) F&C Asset Management plc shares

The PEP operated in conjunction with the discretionary bonus scheme and was intended to encourage shareholding by management and employees of the Group by providing for the compulsory purchase of shares using annual bonus above a threshold level.

At the Board's discretion, eligible employees who were awarded in a financial year an aggregate bonus in excess of a threshold level, typically £100,000, were required to defer one-third of the element exceeding the threshold into shares (comprising either a range of investment products managed by the Group or the Company's shares) (Compulsory PEP) for three years.

The Compulsory PEP is subject to forfeiture in the event that the employee leaves the Group for any reason (other than as a good leaver) in the three-year retention period.

The number of Compulsory PEP share awards is as follows:

	<b>2012 No.</b>	2011 No.
Outstanding at 1 January	<b>691,198</b>	783,727
Exercised during the year	<b>(197,388)</b>	(66,716)
Forfeited during the year	<b>-</b>	(25,813)
<b>Outstanding at 31 December</b>	<b>493,810</b>	691,198
<b>Exercisable at 31 December</b>	<b>493,810</b>	2,728

The awards exercisable at 31 December 2012 and 31 December 2011 relate to good leavers.

At 31 December 2012 the following awards granted under the PEP to acquire Ordinary Shares were outstanding:

<b>Grant date</b>	<b>No. of awards outstanding</b>	<b>Earliest exercise date</b>	<b>Exercise price</b>
31 March 2010	493,810	31 March 2013	0.0p

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 0.3 years (31 December 2011: 0.9 years).

#### (ii) F&C Investment Funds

At the discretion of the Board, the cash bonus may be deferred on a mandatory basis into certain F&C Funds (Compulsory Purchased Equity) subject to continued service over either three or four years. This option is available as an alternative to the Compulsory PEP into FCAM plc shares. The main benefit of this arrangement is to incentivise fund managers to invest in the funds they manage, thereby further aligning employee interests with those of clients.

The settlement of awards from the Compulsory Purchased Equity is made by realisation of the holding in the fund at the vesting date and purchase of FCAM plc shares at that date. The value of the investment in F&C Funds, the FCAM plc share price and hence the ultimate number of FCAM plc shares to be settled is only known with certainty at the vesting date. Any dividends paid by F&C Funds during the vesting period are re-invested in F&C Investment Funds.

## 25. Share-based payments continued

The awards meet the criteria of IFRS 2: Share-based Payment. However, as the awards are ultimately settled in FCAM plc shares, it is not considered possible to reliably estimate the fair value of these awards at the grant date. This is due to the number of market-based criteria which ultimately combine to determine the number and value of FCAM plc shares settled. Settlement of these awards to employees is satisfied by the purchase of FCAM plc shares in the market.

The fair value of these awards at each year end has been determined by measurement of the equity instruments at intrinsic value, being the quoted price of the relevant F&C Funds, both at the grant date and at each subsequent reporting date. The intrinsic value is then spread over the vesting period. The value of the services provided is measured using the ultimate value of awards which vest. All the remaining awards vested during 2012.

The underlying investments are held within an Employee Benefit Trust.

	Note	31 December 2012 £m	31 December 2011 £m
<b>Value of F&amp;C Investments held within the Purchased Equity Plan</b>	17(a)(i)(2)	–	1.5
		<b>No.</b>	<b>No.</b>
<b>Number of FCAM plc shares which would be settled as at the reporting date (based on year-end share price)</b>		–	2,218,877

### (i) Deferred Share Awards

The Group has made some deferred share awards which are not subject to ongoing performance conditions, but have a time-vesting period.

The number of share awards is as follows:

	2012 No.	2011 No.
Outstanding at 1 January	1,148,840	1,166,640
Granted during the year	–	22,200
Exercised during the year	(1,126,640)	(40,000)
<b>Outstanding at 31 December</b>	<b>22,200</b>	<b>1,148,840</b>

No awards were exercisable at either 31 December 2012 or 31 December 2011.

At 31 December 2012 the following Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
1 April 2011	22,200	1 April 2014	0.0p

The awards outstanding at 31 December 2012 have a weighted average outstanding term of 1.2 years (31 December 2011: 0.2 years).

### (j) Share Save Scheme

The Share Save Scheme is an “all-employee share scheme”. Participants are required to enter into a savings contract with a savings provider. At the end of the savings period employees can elect to receive cash or exercise options. The options granted entitle the holders to acquire Ordinary Shares at a price per Ordinary Share determined by the Directors prior to the issue of invitations. The price at which options are offered cannot be less than 80% of the middle-market quotation of an Ordinary Share at the date of grant.

The number and weighted average exercise prices (WAEP) of share options are as follows:

	2012		2011	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	106,429	1.45	197,102	1.56
Forfeited during the year	(80,425)	1.44	(68,268)	1.51
Expired during the year	(23,735)	1.48	(22,405)	1.71
<b>Outstanding at 31 December</b>	<b>2,269</b>	<b>1.44</b>	<b>106,429</b>	<b>1.45</b>
<b>Exercisable at 31 December</b>	<b>2,269</b>	<b>1.44</b>	<b>3,766</b>	<b>1.71</b>

The 2007 (five-year) award vested during 2012. No options were exercised and the options expired.

## 25. Share-based payments continued

At 31 December 2012 the following options granted under the Share Save Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
25 April 2007 (five-year)	2,269	1 January 2013	1 April 2013	144.3p

The options outstanding at 31 December 2012 have a weighted average outstanding term of 0.3 years (31 December 2011: 0.3 years).

### (k) 2002 Executive Share Option Schemes (2002 ESOS)

IFRS 2: Share-based Payment is only applied to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not vested before 1 January 2005 (i.e. the effective date of IFRS 2). The 2002 Executive Share Option Scheme granted options before 7 November 2002 and was not therefore subject to the full effects of IFRS 2 in terms of recognising an expense in the Income Statement. The standard does, however, require certain disclosures to be made in respect of this scheme.

All scheme options have now vested. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

The number and weighted average exercise price (WAEP) of share options are as follows:

	2012		2011	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	909,900	1.96	1,318,528	2.43
Forfeited during the year	(207,487)	1.82	–	–
Expired during the year	–	–	(408,628)	3.45
<b>Outstanding at 31 December</b>	<b>702,413</b>	<b>2.00</b>	909,900	1.96
<b>Exercisable at 31 December</b>	<b>702,413</b>	<b>2.00</b>	909,900	1.96

At 31 December 2012 the following options granted under the 2002 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
19 March 2003	280,278	1 January 2013	19 March 2013	139.00p
9 March 2004	422,135	1 January 2013	9 March 2014	240.83p

The options outstanding at 31 December 2012 have a weighted average outstanding term of 0.8 years (31 December 2011: 1.8 years).

## 26. Deferred income

	2012 £m	2011 £m
At 1 January	10.3	11.8
Income deferred in the year	1.4	2.4
Amortisation in the year	(3.4)	(3.9)
<b>At 31 December</b>	<b>8.3</b>	10.3
	<b>31 December</b>	31 December
	<b>2012</b>	2011
	<b>£m</b>	<b>£m</b>
<b>Split as follows:</b>		
Non-current liabilities	5.6	7.0
Current liabilities	2.7	3.3
	<b>8.3</b>	10.3

Deferred income primarily comprises initial fees arising on investments into open-ended funds. These fees are initially recognised as deferred income and released to income over the estimated period (2012: four to seven years; 2011: four to seven years) for which the investment is expected to be held.

## 27. Other financial liabilities

	<b>31 December 2012 £m</b>	31 December 2011 £m
<b>Non-current:</b>		
F&C REIT put option liabilities	<b>30.0</b>	41.5
<b>Current:</b>		
F&C REIT put option liabilities	<b>3.8</b>	3.8
<b>Total other financial liabilities</b>	<b>33.8</b>	45.3

The F&C REIT put option liabilities represent the fair value of the options to purchase the 30% interest in F&C REIT currently held by the minority interest partners in this business. The REIT parties have the right to require F&C to acquire all or part of their membership interests in F&C REIT at a valuation determined by an independent valuer, subject to an overall cap on F&C's liability of £100.0m. Ivor Smith's option is exercisable after the third anniversary of Completion and Leo Noé's option is exercisable after the seventh anniversary of Completion. While Kendray Properties Limited does not have any direct right to require F&C to acquire its holding in F&C REIT, under the terms of the Partnership Agreement, Kendray cannot hold a greater interest in F&C REIT than the aggregate of Leo Noé's and Ivor Smith's interests (or the holder of their beneficial interests) and is therefore effectively required to transfer an element of its holding such that this requirement is achieved. The consideration for such a transfer would be fair value. Hence, in determining the gross liability of the option, Kendray Properties Limited's entire holding in F&C REIT has been included. The reduction in the fair value of the F&C REIT put option liabilities of £11.5m during 2012 (2011: £8.7m reduction) has been released to the Income Statement as detailed in note 6(b).

An external valuation of the F&C REIT business is performed at each reporting date to enable a fair value to be placed on the F&C REIT put option liabilities.

The average of three valuation methodologies (equally weighted) was used to place a fair value on the F&C REIT business, namely:

1. Discounted cash flow method
2. Market earnings before interest, taxation, depreciation and amortisation (EBITDA) multiple
3. Fixed EBITDA multiple

The main assumptions used in the valuation methodologies are:

(a) Projections of the profit and loss for F&C REIT:

Net new business:	Based on the F&C REIT approved budget for year one, with management forecast projections for the subsequent four years
Revenue growth:	3.0% per annum
Cost inflation:	3.5% per annum and 5.25% per annum for staff costs

- (b) Discount rates: 12.5% on recurring cash flows  
25.0% on non-recurring cash flows

- (c) Perpetuity growth rates: 3.0% for recurring cash flows  
3.0% for non-recurring cash flows

- (d) Earnings multipliers: 9.0 x recurring EBITDA  
3.0 x non-recurring EBITDA

## 28. Investment contract liabilities

Investment contract liabilities in respect of policyholder investments at the start and end of the year and an analysis of movements during the year are as follows:

	Note	2012 £m	2011 £m
Liability as at 1 January		472.8	559.2
Contributions received		52.1	41.6
Investment return applied	3	40.6	13.7
Charges levied		(1.5)	(1.9)
Repayments		(424.2)	(139.8)
Movement in reinsurance ceded		(2.9)	–
<b>Liability as at 31 December</b>		<b>136.9</b>	472.8

All investment contract liabilities have been disclosed as current liabilities as this is considered to be appropriate to the rights of policyholders who may withdraw their investments at short notice. As at 25 March 2013 the vast majority of the remaining investment contract liabilities have been settled, in accordance with the planned closure of the underlying investment product.

## 29. Insurance contract liabilities

Insurance contract liabilities include life assurance liabilities in respect of lifetime guarantees provided with certain investment products, and annuity liabilities in respect of pension investment contracts where the investor has retired. These liabilities and related reinsurance balances at the start and end of the year, together with an analysis of movements in the year, are as follows:

	2012			2011		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
At 1 January	2.0	(2.0)	–	2.0	(2.0)	–
Claims paid	(0.2)	0.2	–	(0.2)	0.2	–
Change in economic assumptions	–	–	–	0.1	(0.1)	–
Unwinding of discount rate	0.1	(0.1)	–	0.1	(0.1)	–
Transferred out during the year	(1.9)	1.9	–	–	–	–
<b>At 31 December</b>	<b>–</b>	<b>–</b>	<b>–</b>	2.0	(2.0)	–

The reinsurance liabilities related to annuity business reinsured with Friends Life Limited. The liabilities and the associated assets were transferred to Friends Life Limited following Court Approval on 28 December 2012.

A liability adequacy test was carried out at policy level and resulted in no additional provision for either 2012 or 2011. No significant gain or loss arose on reinsurance contracts inception in 2012 or 2011.

### Assumptions

The principal assumptions used in determining the insurance contract liabilities and the reinsurer's share of these liabilities, and the process adopted to arrive at these assumptions are as follows:

Mortality rates	2012	2011
Annuities in payment	n/a	Males: 97% FCMA00; Females: 92% FCFA00

Due to the small number of annuity policies, the mortality assumptions reflected recent experience of the reinsurer together with an allowance for future mortality improvement. Experience analysis for mortality was performed annually by the reinsurer.

### Discount rate

The discount rate used at 31 December 2011 was 4.02% based on fixed interest gross redemption yields, with an adjustment for risk.

### 30. Share capital

Ordinary Share capital of 0.1p	31 December 2012		31 December 2011	
	No. of shares	£m	No. of shares	£m
<b>Allotted, called up and fully paid:</b>				
<b>Equity interests</b>				
Ordinary Shares of 0.1p*	<b>555,180,788</b>	<b>0.6</b>	532,118,789	0.5

\* Includes those categorised as own shares.

	2012	2011
	No. of shares	No. of shares
Issued at 1 January	<b>532,118,789</b>	532,118,789
Issue of shares in respect of TRC Commutation arrangements	<b>10,684,692</b>	–
Issue of shares at par to settle share-based payment awards <sup>†</sup>	<b>12,377,307</b>	–
Issued at 31 December	<b>555,180,788</b>	532,118,789

<sup>†</sup> During 2012 Ordinary Shares were allotted at par value into an EBT to settle share-based payment awards. There was no exercise price associated with these awards.

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 Group held the following Ordinary Shares in Employee Benefit Trusts (EBTs) or similar arrangements. These are categorised as own shares and are deducted from shareholders' funds:

	31 December 2012	31 December 2011
	No. of shares	No. of shares
F&C Management Limited Employee Benefit Trust	<b>8,864,824</b>	10,437,516
Held by RBC cees in a nominee capacity <sup>#</sup>	<b>4,072,180</b>	2,253,335
The Ivory & Sime Employee Benefit Trust	<b>64,176</b>	64,176
Thames River Capital (UK) Limited Family Benefit Plan	<b>–</b>	1,185,960
	<b>13,001,180</b>	13,940,987

<sup>#</sup> These are specifically held as TRC Deferred Commutation Shares in respect of Commutation arrangements.

The aggregate nominal value of own shares held by EBTs at 31 December 2012 was £13,000 (31 December 2011: £14,000). The market value of these shares at 31 December 2012 was £13.3m (31 December 2011: £9.1m).

During the year, the Group purchased 64,105 of its own 0.1p Ordinary Shares (2011: 4,125,841) to satisfy the settlements of awards granted under share schemes and to hold as own shares within an EBT. The consideration paid for the shares was £0.1m (2011: £3.2m).

### 31. Reserves

The analysis of movements in reserves is disclosed within the Consolidated Statement of Changes in Equity on page 45.

#### Nature and purpose of reserves:

##### Share premium account

The share premium account is used to record the issue of share capital in excess of par value.

##### Capital redemption reserve

The Capital redemption reserve is used to maintain the capital of the Company when shares are bought back and subsequently cancelled without Court Approval.

##### Merger reserve

The merger reserve is used to record share premium on shares issued by way of consideration in respect of acquisitions. The element of the merger reserve which relates to amortisation and impairment of intangible assets charged to the Income Statement is considered to be realised.

A transfer is made from the merger reserve to retained earnings to recognise the extent to which the merger reserve has been realised, thereby offsetting the corresponding element of the intangible amortisation and any impairment charge.

### 31. Reserves continued

#### Other reserves:

- **Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and non-Sterling denominated intangible assets.

- **Fair value reserve**

This reserve records fair value changes on available for sale investments until the investments are derecognised.

- **Acquisition reserve**

The acquisition reserve was created on the initial recognition of the F&C REIT NCI put option liabilities.

#### Retained earnings

Movements in retained earnings comprises:

- net profits and losses recognised through the Income Statement;
- dividend distributions to equity holders;
- actuarial gains and losses recognised on pension obligations;
- deferred tax on actuarial gains and losses;
- transactions relating to equity-settled share-based payments, and deferred tax movements on share-based payments reflected through equity;
- transactions with NCI in respect of their share of the partnerships;
- the purchase and sale of own shares;
- allotment of share capital for non-cash consideration; and
- transfers from merger reserve.

#### Non-controlling interests (NCI)

This reserve represents the share of the Group's net assets which are not attributable to equity holders of the parent, including the NCI share of intangible assets, and subsequent amortisation thereof, arising from business combinations.

### 32. Notes to the statement of cash flows

#### (a) Analysis of movements in statement of cash flows

	Notes	2012 £m	2011 £m
<b>Adjustments for non-cash items:</b>			
Depreciation of property, plant and equipment	12	3.0	3.2
Amortisation of intangible assets	13	43.1	46.4
Loss on disposal of property, plant and equipment		0.9	0.3
Non-cash movement in respect of adjustment to consideration for NCI in F&C Partners LLP		1.0	–
Equity-settled share-based payment expenses	25	13.4	17.3
		<b>61.4</b>	67.2
<b>Changes in working capital and provisions:</b>			
(Increase)/decrease in trade and other receivables		(2.5)	78.6
Decrease in trade and other payables		(16.5)	(56.5)
Decrease in employee benefit liabilities		(5.0)	(1.2)
Decrease/(increase) in stock of units and shares	17(a)(ii)	0.6	(0.8)
(Decrease)/increase in liabilities to members of LLPs		(0.7)	0.3
Decrease in investment contract liabilities	28	(335.9)	(86.4)
Decrease in reinsurance assets		2.0	–
Decrease in insurance contract liabilities		(2.0)	–
Decrease in deferred acquisition costs	15	1.8	1.7
Decrease in deferred income	26	(2.0)	(1.5)
Pension charge to operating profit less defined benefit pension contributions paid		(5.5)	(3.6)
Decrease in provisions		(2.5)	(3.3)
Decrease in unit-linked financial investments	17(a)(i)(1)	313.6	91.0
		<b>(54.6)</b>	18.3

#### (b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £3.7m (2011: £2.7m). Cash payments of £3.6m (2011: £3.0m) were made to purchase property, plant and equipment during the year, as detailed in note 12.

#### (c) Cash and cash equivalents

Note 20 provides details of cash and cash equivalent balances, a description of cash and cash equivalents and restrictions on use of cash, and note 21 gives details of loans and borrowing facilities.

### 33. Contingent liabilities

#### Ongoing business operations

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

### 34. Commitments

#### Operating leases

The Group has the following future minimum rentals payable in respect of non-cancellable operating leases and other contracts at the year end:

	Premises		Other contracts	
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	31 December 2011 £m
Not later than one year	8.8	12.1	0.4	3.2
Later than one year and not later than five years	31.7	35.1	0.2	1.3
Later than five years	26.6	24.5	–	–
	<b>67.1</b>	71.7	<b>0.6</b>	4.5

Commitments in respect of premises leases exclude service charges and other costs, which are variable in nature, and cannot be reliably estimated.

Obligations in respect of other contracts are stated gross and exclude amounts potentially recoverable from brokers under commission sharing arrangements.

#### Sub-lease receivables

Future minimum rentals receivable under non-cancellable operating leases at the year end are as follows:

	Premises	
	31 December 2012 £m	31 December 2011 £m
Not later than one year	3.0	3.3
Later than one year and not later than five years	10.6	11.5
Later than five years	5.8	8.3
	<b>19.4</b>	23.1

#### Other commitments

A number of third-party administration services are provided under contracts with a fixed-term duration. The actual amounts payable under these contracts vary according to the level of services received. The minimum amounts payable under the terms of the contracts are as follows:

	Third-party administration	
	31 December 2012 £m	31 December 2011 £m
Not later than one year	4.0	4.0
Later than one year and not later than five years	11.4	13.8
Later than five years	0.7	2.4
	<b>16.1</b>	20.2

#### Capital commitments

The amount of capital expenditure contracted for, but not provided for in the Financial Statements at 31 December 2012, was £0.3m (31 December 2011: £0.1m).

## 35. Financial risk management

### Overview

The Group has exposure to a number of business risks. The Board of Directors has overall responsibility for the Group's risk management arrangements, but has delegated the implementation and operation of the Board policies to management. The Group's risk management policies and the risk management framework for identifying, monitoring and managing risks across the Group, including strategic and operational risks, are outlined in the Directors' Report on Corporate Governance on page 31 and the key risks facing the Group, together with actions taken to mitigate these risks are outlined on pages 10 and 11 of the Business Review.

The Directors consider it appropriate to differentiate between those financial risks which directly impact the Group and those which indirectly impact the Group due to the risks borne by our clients and the consequential impact on the Group's assets under management and revenues. The Group's direct or indirect exposure to financial instruments arises from the following financial risks:

- Credit risk
- Liquidity risk
- Market risk, which comprises:
  - Market price risk
  - Foreign currency risk
  - Interest rate risk

This note presents information on the Group's direct or indirect exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. Note 36 provides numerical analysis of the Group's financial instrument exposure to such risks, including relevant sensitivity analysis, at the reporting date.

### Indirect earnings risk through client assets

As an active fund manager, the Group is responsible for managing assets in accordance with the mandates specified by our clients. The assets managed by the Group are, to varying degrees, subject to the financial risks outlined above. While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by, or fall to the benefit of, our clients.

However, as the majority of the Group's revenues are quantified as a percentage of assets under management (generally on a quarterly, monthly or daily basis), the Group's income is impacted by movements in client assets which are caused by the exposure to financial risks. As a result of the direct link of revenues to the value of client assets, the Group's interests are aligned to those of our clients.

A key risk to our business is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the heads of F&C's investment functions is to monitor the fund performance achieved by our investment professionals. Where it is considered necessary, actions are taken to change process or personnel with a view to attaining top quartile performance. The Group has the ability to earn performance fees from a number of our clients based on absolute performance or where out-performance of the benchmark or set objective is achieved. These arrangements reinforce the alignment of the Group's interests with those of our clients.

### Direct earnings and capital exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Statement of Financial Position:

- **Credit risk** – is the risk of financial loss to the Group if a client or counterparty to a financial instrument is unable to pay, in full, amounts when due, and arises principally from the Group's cash and cash equivalents and trade debtors and accrued income.
- **Liquidity risk** – is the risk of the Group failing to maintain adequate levels of financial resources to enable it to meet its financial obligations as they fall due, or can only do so at a significantly increased cost.
- **Market price risk** – the risk that the fair value or future cash flows of financial instruments will change due to movements in market prices, other than foreign exchange rates or interest rates.
- **Foreign currency risk** – the Group is exposed to foreign currency risk from the Sterling value of cash flows arising from transactions denominated in a foreign currency. In addition, foreign currency risk arises from translating balances denominated in a currency other than Sterling and therefore the Sterling value of those balances could vary adversely.
- **Interest rate risk** – the Group is exposed to interest rate risk primarily through the variable-rate interest received on cash deposits and through borrowing at fixed and floating rates.

A fuller analysis follows of the financial risks associated with the Group's financial instruments, together with the objectives, policies and processes to manage the Group's exposure to those risks.

### 35. Financial risk management continued

#### Unit-linked assets and liabilities

A significant element of the value of the Group's financial assets relates to the Group's unit-linked pooled pension entity, F&C Managed Pension Funds Limited (F&C MPF). As outlined in note 17(a)(i)(1), Financial Instruments, the risks and rewards associated with these assets, which are held by F&C MPF, fall to be borne by, or to the benefit of, the underlying policyholders. As a result, the investment contract liabilities included in the Statement of Financial Position are equal and opposite in value to the assets which are held on behalf of unit-linked policyholders. The Group has no direct exposure to fluctuations in the value of the assets arising from changes in market prices or credit default, although the revenue stream earned from managing these assets varies in line with the movement in assets held on behalf of clients.

The financial risk management disclosures therefore specifically exclude policyholders' unit-linked assets and liabilities relating to F&C MPF as there is no direct exposure to the Group from the associated financial instruments.

#### Financial investments

Recognising that the Group's revenue stream has significant financial exposure to fluctuations in assets managed on behalf of clients, a key principle of the Group Treasury Policy set by the Board is to restrict investment of the Group's assets to low risk deposits or money market instruments where the risk of capital loss is low, thereby seeking to protect the Group's capital. Advance Board approval is required for any investment or financial instrument which does not follow this general principle.

Financial investments classified as available for sale, as detailed in note 14, primarily reflect the value of certain of the Group's legacy private equity investments. These represent carried interest entitlement which arises from the Group's historical ownership of private equity businesses. The Board does not seek to manage any of the financial risks associated with these investments and recognises that uncertainty exists as to the quantum and timing of future distributions which may arise from these investments.

Other financial investments, classified as fair value through profit or loss, as detailed in note 17(a)(i)(2), primarily comprise assets held in connection with current or historic employee remuneration arrangements. The Group has no net financial exposure to TRC Employee Benefits assets as the risks and rewards of all movements in the value of these financial assets fall to the beneficiary and are offset by equal and opposite movements in the Group's associated employee benefit liabilities. The 'NIC hedge' economically hedges the Group's exposure to movements in future national insurance contributions obligations in respect of legacy employee share plans.

#### Stock of units and shares

The Group operates and manages a number of OEICs whose funds, into which retail and institutional investors can invest, have a wide range of investment objectives. The Group holds a stock of units and shares in these OEIC funds in order to facilitate the creation and redemption of units by investors. The Group's risk management policy limits the aggregate value of the units held by the Group to £2.25m, thereby capping the maximum financial risk exposure associated with these assets.

#### Trade debtors and accrued income

Trade debtors and accrued income represent amounts recognised within net revenue in the Income Statement, but which have not been settled in cash. The nature of F&C's business is such that asset management fees accrue based on daily, month-end or quarter-end asset values which, once known, are billed to clients and are due to be settled in line with individual contractual terms. As a result, the aggregate value of debtors and accrued income can typically represent up to four months of revenue at any point in time.

Before the Group takes on new clients, it undertakes the required "Know Your Client" procedures. As the Group manages assets on behalf of clients and management fees are typically charged to and paid from the underlying funds managed by the Group, there is a relatively low risk of default on management fees. The Group does not hold any credit insurance. Due to the scale of some of F&C's larger clients, the Group is exposed to a concentration of credit risk from large clients or groups of connected clients, arising from the timing difference between the recognition of income and the receipt of management fees outlined above. Very few clients have an external credit rating.

Where management fees are denominated in a currency other than Sterling, the Group is exposed to currency risk. The Board recognises that the Group has significant exposure to Euro-denominated cash flows, but at this point in time has not chosen not to enter into any medium or long-term forward exchange contracts.

#### OEIC and unit trust debtors

'OEIC and unit trust debtors' include trustee debtors and debtors due from investors in respect of the purchase of units and shares in open-ended funds. Typically, the Group recognises 'OEIC and unit trust creditors' of a similar magnitude at any point in time. In operating and managing OEICs, the Group seeks to match the purchase and sale of investments to align to the receipt or payment of funds from or to investors. However, if these obligations are not matched then there is a requirement for the Group to fund any shortfall from its corporate cash resources. The risk relating to unsettled transactions is considered small due to the short settlement period involved. In the event that investors default on sums due, then the Group is entitled to reimbursement of costs from the investor.

### 35. Financial risk management continued

#### Cash and cash equivalents

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group treasury operations are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury positions of the Group are reported to the Board on a regular basis.

The Group's cash and cash equivalent assets are exposed to a number of financial risks in the normal course of its business. The policy adopted is designed to manage risk and recognises that treasury management operations are specifically not treated as a profit centre. The key aspects of this policy and its implementation are detailed below:

- Funds on deposit will only be placed on a short-term basis (maximum term 90 days) to help maximise regulatory capital and limit any liquidity risk.
- Deposits may only be placed with counterparties approved by the Group Credit and Counterparty Approval Committee, and the Board has set a £25.0m limit for the maximum exposure to any single counterparty. The Committee's primary focus is to assess the credit position of counterparties prior to placing any assets with them and to monitor credit risk thereafter.
- Exposure to cash and cash equivalent balances held in foreign currency is managed to reduce the risk of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into Sterling. This is achieved in practice via the regular settlement of the Group's transfer pricing arrangements and through the payment of dividends from foreign subsidiaries, having regard to any restrictions in respect of their respective legal, regulatory and working capital requirements.
- Cash and deposit balances can be exposed to interest rate movements. The Group utilises the experience and skills of its professional dealing team to obtain the best interest rates, ensuring the expected maturity dates of deposits are aligned to the Group's working capital requirements.

Any exception to the treasury policy requires the prior approval of the Board.

#### Defined benefit pension deficit

The Group's defined benefit pension deficit represents the discounted value of future pension obligations in excess of plan assets, details of which are given in note 24.

The Group has exposure to movements in the market value of the plan assets, which are held across a number of asset classes. The value of defined benefit pension obligations is quantified and discounted using corporate bond rates. Movements in these rates can have a significant impact on the pension liabilities and hence the quantum of the Group's pension deficit. Details of the asset and liability risk management framework in respect of the Group's primary defined benefit pension plan are given on page 85.

#### Management of capital

The Company's Ordinary Shares are listed on the London Stock Exchange. The Board monitors significant movements in the composition of its shareholder base. Details of substantial interests in share capital are shown in the Report of the Directors on page 23. In the ordinary course of business the only movements in the absolute number of shares in issue would be through the issue of shares to satisfy obligations under share-based payment arrangements.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt-funded transactions. During 2012 some 10.7 million new shares were issued in respect of TRC Commutation arrangements.

Dividends are only declared by the Board after due consideration of a number of key items, including the financial results and the outlook of the financial position of the Company and of the Group. Specifically, as part of the 2011 Strategic Review, the Board has sought to improve dividend cover and to repurchase debt from cash generation. Cognisant of these matters, the Board declared a total dividend of 3.0 pence per share for 2012.

The overall objective of liquidity risk management is to ensure that there is sufficient liquidity over the short and medium-term to meet the needs of the business. This includes liquidity to cover, among other things, capital expenditure, servicing debt and equity capital as well as working capital to fund the Group's day-to-day operational requirements.

#### Working capital

Working capital is monitored on a daily basis to ensure that settlement terms of all forthcoming liabilities can be met. This activity includes timely collection of debtors and monitoring of cash on deposit, having regard to regulatory capital requirements, as outlined below. The Group's Finance function includes a Treasury team which manages the cash flow requirements of the Group while seeking to maximise the amount of cash on deposit.

At 31 December 2012 the Group had a £20m revolving credit facility and bank overdraft facilities available to it which provided some protection against any short-term cash-flow deficiencies. The undrawn committed facilities available at the reporting date are shown in note 21, as are details of the Group's interest-bearing loans and borrowings.

### 35. Financial risk management continued

At 31 December 2012, the Group had some £142m of Guaranteed Fixed Rate Loan Notes which mature in December 2016 together with some £116m of Fixed/Floating Rate Subordinated Notes in issue. The earliest repayment date for these Subordinated Notes is 2016, but this can be extended at the option of the Group to 2026. In addition, the Group has the option to defer interest payments on this subordinated debt, but if it elects to do so then no dividend can be paid to Ordinary Shareholders until the cumulative amount of any unpaid interest due on the subordinated debt is settled in full. No such interest payments have been deferred.

The Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of the Group's net assets, without prior Board approval, recognising the general principle of seeking to minimise capital loss.

#### Regulatory capital requirements

The Group is required to maintain a minimum level of capital in accordance with the Capital Requirements Directive (CRD) prescribed in the UK by the Financial Services Authority (FSA).

The Group has a waiver, granted by the FSA, from meeting any minimum capital requirements under the consolidated supervision rules of the CRD. This waiver expires in April 2016.

At 31 December 2012, there were 14 regulated companies in the Group, of which 10 are registered in the United Kingdom and are subject to regulation by the FSA. This includes F&C MPF which, being a regulated insurance firm, as opposed to an investment firm, is not part of the consolidation Group for regulatory capital reporting purposes. Overseas regulated companies, registered in the Republic of Ireland, The Netherlands, Portugal and Hong Kong are subject to regulatory capital requirements set out by their respective local regulatory authority, as embedded within the legislation of those jurisdictions.

Regulations set out the measurement of Capital Resources and Capital Resources Requirements (CRR) to determine the regulatory capital surplus or deficit. This CRR is referred to as the Pillar 1 capital requirements under CRD.

For the UK-regulated investment firms, the CRR is the higher of:

- the sum of the 'credit risk capital requirement' and the 'market risk capital requirement'; and
- the 'fixed overhead requirement'.

Credit risk represents the risk of a party being unable to meet its obligations to a firm and is calculated using risk weighted percentages applied to the various exposure amounts. The market risk for F&C represents the risk of loss from fluctuations in exchange rates and is calculated as a percentage of the total of the long or short positions, denominated in foreign currencies, whichever is the greater. The fixed overhead requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the previous year's audited Financial Statements.

The regulated companies are required to submit financial returns to the FSA, or the local regulatory authority for overseas companies, setting out the calculation of the regulatory capital surplus (or deficit). The Group's regulated companies are required to submit financial returns monthly, quarterly or semi-annually and the Group must submit a consolidated return semi-annually.

The CRD requires the Group to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that companies have adequate capital to enable them to manage risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward-looking exercise which includes stress-testing key risks, considering how the company would cope with a significant market downturn for example, and an assessment of the Group's ability to mitigate the risks.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout 2011 and 2012.

### 36. The extent of risks arising from financial instruments

Note 35 presents details of the Group's direct or indirect exposure to financial risks arising from financial instruments and the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. This note provides numerical analyses of the Group's direct exposure to such financial risk, including relevant sensitivity analysis, at each reporting date.

The disclosures in this note exclude any policyholder unit-linked assets and liabilities in respect of F&C MPF, as the risks and rewards rest primarily with the policyholders.

#### (a) Credit risk

##### (i) Maximum exposure to credit risk

The carrying amount of financial assets represents the Group's maximum exposure to credit risk. The maximum exposure of each class of financial asset is:

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Financial assets at fair value through profit or loss:</b>		
Financial investments	<b>4.0</b>	6.6
Stock of units and shares	<b>0.3</b>	0.9
<b>Available for sale financial assets:</b>		
Financial investments	<b>1.3</b>	1.7
<b>Loans and receivables:</b>		
Trade debtors	<b>32.0</b>	13.3
Accrued income	<b>30.6</b>	29.0
OEIC and unit trust debtors	<b>10.6</b>	29.5
Other debtors	<b>5.2</b>	4.8
Amounts owed by TRC related party entities	<b>0.7</b>	0.6
Amounts owned by F&C REIT related party entities	<b>0.1</b>	0.1
<b>Cash and cash equivalents – shareholders</b>	<b>160.7</b>	196.9
	<b>245.5</b>	283.4

The accrued income balance is higher than the average monthly balance during the year. This is primarily due to the level of performance fees recognised at 31 December 2012 and 31 December 2011.

The quantum of OEIC and unit trust debtors fluctuates significantly during the year; the balance is dependent upon the timing and values of creations and liquidations of units or shares.

### 36. The extent of risks arising from financial instruments continued

The credit risk of the financial assets analysed by the credit ratings of the counterparties, based on external credit ratings, is set out below:

As at 31 December 2012	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
<b>Financial assets at fair value through profit or loss:</b>						
Financial investments	–	1.2	1.1	–	1.7	4.0
Stock of units and shares	–	–	–	–	0.3	0.3
<b>Available for sale financial assets:</b>						
Financial investments	–	–	–	–	1.3	1.3
<b>Loans and receivables:</b>						
Trade debtors	–	–	0.3	–	31.7	32.0
Accrued income	–	–	0.1	–	30.5	30.6
OEIC and unit trust debtors	–	–	–	–	10.6	10.6
Other debtors	–	1.7	–	0.6	2.9	5.2
Amounts owed by TRC related party entities	–	–	–	–	0.7	0.7
Amounts owed by F&C REIT related party entities	–	–	–	–	0.1	0.1
<b>Cash and cash equivalents – shareholders</b>	<b>4.1</b>	<b>34.1</b>	<b>117.1</b>	<b>5.4</b>	<b>–</b>	<b>160.7</b>
	<b>4.1</b>	<b>37.0</b>	<b>118.6</b>	<b>6.0</b>	<b>79.8</b>	<b>245.5</b>

As at 31 December 2011

<b>Financial assets at fair value through profit or loss:</b>						
Financial investments	–	1.2	–	0.3	5.1	6.6
Stock of units and shares	–	–	–	–	0.9	0.9
<b>Available for sale financial assets:</b>						
Financial investments	–	–	–	–	1.7	1.7
<b>Loans and receivables:</b>						
Trade debtors	–	–	0.3	0.1	12.9	13.3
Accrued income	–	–	0.1	0.1	28.8	29.0
OEIC and unit trust debtors	–	–	–	–	29.5	29.5
Other debtors	–	–	–	0.3	4.5	4.8
Amounts owed by TRC related party entities	–	–	–	–	0.6	0.6
Amounts owed by F&C REIT related party entities	–	–	–	–	0.1	0.1
<b>Cash and cash equivalents – shareholders</b>	<b>6.3</b>	<b>58.1</b>	<b>118.5</b>	<b>9.8</b>	<b>4.2</b>	<b>196.9</b>
	<b>6.3</b>	<b>59.3</b>	<b>118.9</b>	<b>10.6</b>	<b>88.3</b>	<b>283.4</b>

**36. The extent of risks arising from financial instruments** continued**(ii) Analysis of financial assets past due but not impaired**

The analysis of financial assets which are receivable but have not been impaired is as follows:

As at 31 December 2012	Neither past due nor impaired £m	Less than 30 days overdue £m	Between 30 and 90 days overdue £m	Between 90 days and 1 year overdue £m	Beyond 1 year overdue £m	Total £m
<b>Financial assets at fair value through profit or loss:</b>						
Financial investments	4.0	–	–	–	–	4.0
Stock of units and shares	0.3	–	–	–	–	0.3
<b>Available for sale financial assets:</b>						
Financial investments	1.3	–	–	–	–	1.3
<b>Loans and receivables:</b>						
Trade debtors	11.0	4.2	4.0	12.7	0.1	32.0
Accrued income	30.6	–	–	–	–	30.6
OEIC and unit trust debtors	10.6	–	–	–	–	10.6
Other debtors	5.2	–	–	–	–	5.2
Amounts owed by TRC related party entities	0.7	–	–	–	–	0.7
Amounts owed by F&C REIT related party entities	0.1	–	–	–	–	0.1
<b>Cash and cash equivalents – shareholders</b>	<b>160.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>160.7</b>
	<b>224.5</b>	<b>4.2</b>	<b>4.0</b>	<b>12.7</b>	<b>0.1</b>	<b>245.5</b>

As at 31 December 2011

<b>Financial assets at fair value through profit or loss:</b>						
Financial investments	6.6	–	–	–	–	6.6
Stock of units and shares	0.9	–	–	–	–	0.9
<b>Available for sale financial assets:</b>						
Financial investments	1.7	–	–	–	–	1.7
<b>Loans and receivables:</b>						
Trade debtors	7.7	2.2	2.2	1.2	–	13.3
Accrued income	29.0	–	–	–	–	29.0
OEIC and unit trust debtors	29.5	–	–	–	–	29.5
Other debtors	4.8	–	–	–	–	4.8
Amounts owed by TRC related party entities	0.6	–	–	–	–	0.6
Amounts owed by F&C REIT related party entities	0.1	–	–	–	–	0.1
<b>Cash and cash equivalents – shareholders</b>	<b>196.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>196.9</b>
	<b>277.8</b>	<b>2.2</b>	<b>2.2</b>	<b>1.2</b>	<b>–</b>	<b>283.4</b>

Based on past experience and the nature of the Group's business, the Directors believe that no additional impairment provision is necessary at either 31 December 2012 or 31 December 2011 in respect of trade debtors. The trade debtor balances, which have been impaired at the reporting dates, are shown below.

**(iii) Impairment losses**

Details of impairment of financial assets at 31 December are as follows:

**Trade debtors provision:**

	2012 £m	2011 £m
At 1 January	1.1	0.8
Bad debt charge in the year*	0.1	0.4
Utilised in the year	(0.3)	(0.1)
<b>At 31 December</b>	<b>0.9</b>	<b>1.1</b>
<b>Gross impaired trade debtors</b>	<b>0.9</b>	<b>1.1</b>

\* Included within operating expenses in the Income Statement.

No other financial instruments have been impaired during 2012 (2011: none).

### 36. The extent of risks arising from financial instruments continued

#### (iv) Concentration risk

Specific concentration of risk in respect of amounts receivable from any one bank or financial institution, client or group of connected clients at the reporting date is given below:

	31 December 2012 £m	31 December 2011 £m
<b>Concentrations of £1.0m or more</b>		
Amounts held with banks and similar financial institutions – 2012: 19 (2011: 24)	158.6	196.8
Amounts due from OEICs and OEIC Trustees	9.6	28.0
Amounts due from other significant clients – 2012: 9 clients (2011: 9)	33.0	25.3
	<b>201.2</b>	<b>250.1</b>

Concentration risk comprises individual entities or clients with a receivable balance of £1.0m or more at the reporting date. This disclosure shows the potential impact of some of these entities or clients failing to satisfy payment of the receivable amounts. The table does not consider the likelihood of any of these entities or clients defaulting.

#### (b) Liquidity risk

The cash flow profile associated with the Group's financial liabilities is as follows:

As at 31 December 2012	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
<b>Interest-bearing loans and borrowings:</b>					
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	116.0	–	116.0
Interest on Subordinated Notes*	7.8	7.8	15.4	–	31.0
Guaranteed Fixed Rate Loan Notes 2016	–	–	142.0	–	142.0
Interest on Guaranteed Loan Notes 2016	12.8	12.8	25.1	–	50.7
<b>Trade and other payables:</b>					
Trade creditors	4.8	–	–	–	4.8
OEIC and unit trust creditors	16.8	–	–	–	16.8
Other creditors	12.8	0.5	1.4	0.7	15.4
Accruals	18.3	0.1	0.1	0.5	19.0
Amounts owed to F&C REIT related party entities	0.5	–	–	–	0.5
<b>Liabilities to members of LLPs</b>	<b>4.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4.0</b>
<b>Other financial liabilities</b>	<b>3.8</b>	<b>3.8</b>	<b>26.2</b>	<b>–</b>	<b>33.8</b>
	<b>81.6</b>	<b>25.0</b>	<b>326.2</b>	<b>1.2</b>	<b>434.0</b>

As at 31 December 2011

<b>Interest-bearing loans and borrowings:</b>					
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	125.0	–	125.0
Interest on Subordinated Notes*	8.4	8.4	25.4	–	42.2
Guaranteed Fixed Rate Loan Notes 2016	–	–	149.7	–	149.7
Interest on Guaranteed Loan Notes 2016	13.5	13.5	40.3	–	67.3
<b>Trade and other payables:</b>					
Trade creditors	3.7	–	–	–	3.7
OEIC and unit trust creditors	27.8	–	–	–	27.8
Other creditors	21.3	0.7	1.9	1.4	25.3
Accruals	18.0	1.6	0.8	0.5	20.9
<b>Liabilities to members of LLPs</b>	<b>4.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4.7</b>
<b>Other financial liabilities</b>	<b>3.8</b>	<b>3.8</b>	<b>37.7</b>	<b>–</b>	<b>45.3</b>
	<b>101.2</b>	<b>28.0</b>	<b>380.8</b>	<b>1.9</b>	<b>511.9</b>

\* To the date of the Group's option to extend the Notes beyond 19 December 2016.

### 36. The extent of risks arising from financial instruments continued

The quantum of OEIC and unit trust creditors fluctuates significantly during the year; the balance is dependent upon the timing and values of creations and liquidations of units or shares.

The maturity dates of the Group's financial liabilities have been determined by reference to the earliest contractual date on which the counterparty could demand payment and the stated amounts represent undiscounted cash flows.

Other financial liabilities comprise the F&C REIT put options, included at the earliest date at which the options could be exercised.

The Group has borrowing facilities available to it. The undrawn committed facilities available at 31 December 2012 and 31 December 2011 are shown in note 21.

#### (c) Market risks

##### (i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Financial assets at fair value through profit or loss:</b>		
Financial investments	<b>1.7</b>	5.4
Stock of units and shares	<b>0.3</b>	0.9
	<b>2.0</b>	6.3

Details of the assets held by the Group's defined benefit pension schemes, which are also exposed to market price risk, are given in note 24.

##### (ii) Other price risk

	<b>31 December 2012</b>	31 December 2011
	<b>£m</b>	£m
<b>Available for sale financial assets:</b>		
Financial investments	<b>1.3</b>	1.7

##### (iii) Currency risk

The Group is exposed to currency risk at the reporting date in respect of:

- Financial assets and liabilities denominated in foreign currencies; and
- Net assets of foreign operations.

The net monetary assets and net investment in foreign operations, in Sterling, which are denominated in foreign currencies or for which the fair value of the asset or liability varies with movements in foreign currencies are:

	<b>Euro £m</b>	<b>US Dollar £m</b>	<b>Other £m</b>	<b>Total £m</b>
<b>As at 31 December 2012</b>	<b>54.2</b>	<b>5.1</b>	<b>1.7</b>	<b>61.0</b>
As at 31 December 2011	64.0	2.8	1.4	68.2

The above table excludes intangible assets.

### 36. The extent of risks arising from financial instruments continued

#### (iv) Interest rate risk

The following tables set out the carrying amount and maturity profile of the Group's financial instruments that are exposed to interest rate risk:

	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
<b>As at 31 December 2012</b>				
<b>Fixed rate:</b>				
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	(116.0)	–
Guaranteed Fixed Rate Loan Notes 2016	–	–	(142.0)	–
Financial investments – NIC hedge	0.1	–	–	–
<b>Floating rates:</b>				
Financial investments – NIC hedge	1.1	–	–	–
Financial investments – mutual funds	0.3	–	–	–
Cash and cash equivalents – shareholder	160.7	–	–	–
	<b>162.2</b>	<b>–</b>	<b>(258.0)</b>	<b>–</b>
<b>As at 31 December 2011</b>				
<b>Fixed rate:</b>				
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	(125.0)	–
Guaranteed Fixed Rate Loan Notes 2016	–	–	(149.7)	–
Financial investments – corporate bonds	–	–	0.3	–
Financial investments – NIC hedge	0.1	–	–	–
<b>Floating rates:</b>				
Financial investments – NIC hedge	1.2	–	–	–
Financial investments – mutual funds	0.3	–	–	–
Cash and cash equivalents – shareholder	196.9	–	–	–
	<b>198.5</b>	<b>–</b>	<b>(274.4)</b>	<b>–</b>

#### (v) Sensitivity analysis

The Group has quantified the impact of specific changes in its significant market risk variables. This analysis measures the change in fair value of the Group's financial instruments.

The sensitivity analysis, which is for illustrative purposes only, is prepared based on financial instruments at the reporting dates. The sensitivity assumes changes in certain market conditions. These assumptions may differ materially from the actual outcome due to the inherent uncertainties in global financial markets. In practice, market risks rarely change in isolation and are likely to be interdependent. The methods and assumptions used are the same for both reporting periods.

The sensitivity analysis has been prepared based on the impact that a set percentage increase or decrease in the market conditions would have on the profit or loss and on total equity.

Changes in exchange rates assume an instantaneous increase or decrease of 10.0% in foreign currency to Sterling rates at the reporting date, with all other variables remaining constant.

The estimated changes in fair values of investments assume a 10.0% increase or decrease in the fair values of investments at the reporting date, with all other variables remaining constant.

Changes in market interest rates assume an increase or decrease of 1.0% in the rate applied to average cash balances in the year.

### 36. The extent of risks arising from financial instruments continued

The financial impact of market risk sensitivities, after taxation, are summarised below:

	Profit or loss sensitivity £m	Profit or loss sensitivity £m	Equity sensitivity £m	Equity sensitivity £m
<b>As at 31 December 2012</b>				
<b>Exchange rate movement*</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Sterling/Euro exchange rates	0.5	(0.6)	4.8	(5.8)
Sterling/USD exchange rates	0.2	(0.2)	0.2	(0.2)
<b>Fair value movement – Investments</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Sterling equity prices	0.2	(0.2)	0.2	(0.2)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	1.4	(1.4)	1.4	(1.4)
<b>As at 31 December 2011</b>				
<b>Exchange rate movement*</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Sterling/Euro exchange rates	1.0	(1.2)	5.5	(6.7)
Sterling/USD exchange rates	0.1	(0.2)	0.1	(0.2)
<b>Fair value movement – Investments</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Sterling equity prices	0.4	(0.4)	0.6	(0.6)
<b>Interest rate movement</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Sterling market interest rates	1.5	(1.5)	1.5	(1.5)

\* +10% represents a movement in favour of the Group and -10% represents a movement against the Group.

In addition, the F&C REIT put options are disclosed in note 27 at fair value. A 10% movement in the fair value of the options at 31 December 2012 would result in a £3.4m (31 December 2011: £4.5m) charge or credit to the Income Statement and to equity.

Impairment of financial assets can also be affected by changes in the relevant underlying risk.

#### (d) Capital

A summary of the Group's capital and the net assets which it represents is shown below:

	31 December 2012 £m	31 December 2011 £m
Share capital	0.6	0.5
Share premium account	58.9	51.8
Capital redemption reserve	0.8	0.8
Merger reserve	336.8	359.7
Other reserves	(25.7)	(22.8)
Retained earnings	162.7	154.3
Non-controlling interests	12.1	12.5
<b>Total equity</b>	<b>546.2</b>	<b>556.8</b>
<b>Net assets</b>	<b>546.2</b>	<b>556.8</b>

Note 35 describes the Group's management of capital, working capital and regulatory capital requirements.

### 37. Insurance risk management

The Group's insurance contracts were all annuity contracts which guaranteed payment during the lifetime of the annuitant at a specified level or with a specified escalation factor. They were all 100% reinsured with Friends Life Limited. The insurance contracts were all transferred to Friends Life Limited in 2012.

The only risk that the Group was subject to in respect of these contracts was the credit risk of the reinsurer. Given the small amount at risk (£nil at 31 December 2012; £2.0m at 31 December 2011), this was not considered to be significant.

### 38. Subsidiary undertakings

The principal entities controlled by the parent undertaking are as follows:

	Percentage interest and voting rights*	Country of registration or incorporation	Nature of business
<b>(i) United Kingdom</b>			
FP Asset Management Holdings Limited <sup>(1)</sup>	100	England	Holding company
F&C Asset Management Services Limited <sup>(1)</sup>	100	Scotland	Employee service company
ISIS Investment Manager plc <sup>(1)</sup>	100	England	Investment management
F&C Managed Pension Funds Limited <sup>(1)</sup>	100	England	Unit-linked pooled pensions business
F&C Treasury Limited <sup>(1)</sup>	100	England	Treasury management company
F&C Group (Holdings) Limited <sup>(1)</sup>	100	England	Holding company
F&C Group ESOP Trustee Limited <sup>(1)</sup>	100	Scotland	ESOP Trustee
F&C Investment Business Limited <sup>(1)</sup>	100	Scotland	Investment management
F&C Finance plc <sup>(1)</sup>	100	England	Debt financing company
F&C Aurora (GP) Limited <sup>(1)</sup>	100	Scotland	General Partner
The Aurora Fund (Founder Partner) LP <sup>(1)</sup>	50†	Scotland	Founder Partner
F&C European Capital Partners (GP) Limited <sup>(1)</sup>	100	Scotland	General Partner
F&C European Capital Partners (Founder Partner) LP <sup>(1)</sup>	50†	Scotland	Founder Partner
F&C Climate Opportunity Partners (GP) Limited <sup>(1)</sup>	100	Scotland	General Partner
F&C Climate Opportunity Partners (Founder Partner) LP <sup>(1)</sup>	50†	Scotland	Founder Partner
F&C REIT Asset Management LLP <sup>(1)</sup>	70†	England	Property asset management
FP Fund Managers Limited <sup>(2)</sup>	100	England	Investment management
F&C Asset Managers Limited <sup>(2)</sup>	100	England	Investment management
F&C Property Limited <sup>(2)</sup>	100	England	Property asset management
WAM Holdings Limited <sup>(3)</sup>	100	England	Holding company
F&C Property Investments Limited <sup>(4)</sup>	100	England	Property asset management
F&C Fund Management Limited <sup>(4)</sup>	100	England	OEIC investment management
F&C Managers Limited <sup>(4)</sup>	100	England	Investment management
F&C Alternative Investments (Holdings) Limited <sup>(5)</sup>	100	England	Holding company
F&C Group Management Limited <sup>(5)</sup>	100	England	Holding company
F&C Holdings Limited <sup>(6)</sup>	100	England	Holding company
F&C (CI) Limited <sup>(7)</sup>	100	England	Investment company
F&C Investment Services Limited <sup>(7)</sup>	100	England	Support services company
F&C Management Limited <sup>(7)</sup>	100	England	Investment management
FCEM Holdings (UK) Limited <sup>(8)</sup>	100	England	Holding company
F&C Emerging Markets Limited <sup>(9)</sup>	100	England	Investment management
F&C Partners LLP <sup>(10)</sup>	100†	England	Hedge fund investment management
F&C Private Equity Nominee Limited <sup>(11)</sup>	100	England	Investment company
F&C REIT Property Asset Management plc <sup>(12)</sup>	70	England	Property asset management
REIT Asset Management Limited <sup>(12)</sup>	70	England	Property asset management
F&C REIT Corporate Finance Limited <sup>(13)</sup>	70	England	Property asset management
F&C REIT Property Management Limited <sup>(14)</sup>	70	England	Property asset management
Tier Services Limited <sup>(15)</sup>	70	England	Property asset management
Thames River Capital UK Limited <sup>(17)</sup>	100	England	Employee service company
Thames River Capital LLP <sup>(18)#</sup>	100†	England	Investment management
Thames River Multi-Capital LLP <sup>(19)#</sup>	100†	England	Investment management
<b>(ii) Non United Kingdom</b>			
Thames River Capital Group Limited <sup>(1)</sup>	100	Cayman Islands	Holding company
F&C Netherlands B.V. <sup>(5)</sup>	100	The Netherlands	Investment management
F&C Ireland Limited <sup>(5)</sup>	100	Republic of Ireland	Investment management
F&C Portugal Gestao de Patrimonios S.A. <sup>(5)</sup>	100	Portugal	Investment management
F&C Asset Management Asia Limited. <sup>(5)</sup>	100	Hong Kong	Investment management
F&C Management Luxembourg S.A. <sup>(5)</sup>	100	Luxembourg	Investment management
F&C REIT Asset Management S.à.r.l. <sup>(12)</sup>	70	Luxembourg	Property asset management
F&C REIT Asset Management Sweden AB <sup>(15)</sup>	70	Sweden	Property asset management
F&C REIT Asset Management Worldwide Limited <sup>(15)</sup>	70	Gibraltar	Property asset management
F&C REIT Asset Management GmbH & Co KG <sup>(15)</sup>	70†	Germany	Property asset management
F&C REIT Property Management India Pvt Ltd <sup>(15)#</sup>	70	India	Property asset management
Thames River Capital Holdings Limited <sup>(16)</sup>	100	Cayman Islands	Holding company

\* Voting rights are ordinary share capital except where indicated.

† Partnership interest in voting rights.

# These companies have non-coterminous 31 March reporting dates, to comply with local reporting requirements and partnership agreements.

### 38. Subsidiary undertakings continued

- (1) Owned by F&C Asset Management plc
- (2) Owned by FP Asset Management Holdings Limited
- (3) Owned by F&C Treasury Limited
- (4) Owned by WAM Holdings Limited
- (5) Owned by F&C Group (Holdings) Limited
- (6) Owned by F&C Group Management Limited
- (7) Owned by F&C Holdings Limited
- (8) Owned by F&C Management Limited
- (9) Owned by FCEM Holdings (UK) Limited
- (10) Owned by F&C Alternative Investments (Holdings) Limited
- (11) Owned by F&C (CI) Limited
- (12) Owned by F&C REIT Asset Management LLP
- (13) Owned by REIT Asset Management Limited
- (14) Owned by F&C REIT Property Asset Management plc
- (15) Owned by F&C REIT Asset Management S.à.r.l.
- (16) Owned by Thames River Capital Group Limited
- (17) Owned by Thames River Capital Holdings Limited
- (18) Owned by Thames River Capital UK Limited

Other non-material entities which form part of the Group are disclosed in the annual return of the Company.

### 39. Related party transactions

In the ordinary course of business, the Group carried out transactions with related parties, as defined by IAS 24: Related Party Disclosures.

The principal subsidiary undertakings of the Company are shown in note 38.

During the year, the Group entered into the following transactions with related parties:

#### (a) Compensation of key management personnel of the Group

In aggregate these are set out below:

	Total compensation 2012 £m	Outstanding at 31 December 2012 £m	Total compensation 2011 £m	Outstanding at 31 December 2011 £m
Short-term employee and member benefits	14.8	5.0	13.5	6.1
Post-employment benefits	1.0	–	0.8	–
Termination benefits	0.1	–	1.7	0.7
Share-based payments	7.2	–	6.0	–
<b>Total</b>	<b>23.1</b>	<b>5.0</b>	22.0	6.8

'Key management personnel' comprise:

- Directors of all principal companies in the Group;
- Members of Group Management;
- Members of F&C REIT's Executive Committee; and
- Members of TRC's Management Committee.

Compensation of key management personnel excludes the profit entitlement attributable to non-controlling interests, which are separately disclosed within note 39(c)(ii).

Where key management personnel participate in defined benefit pension schemes which have been accounted for as such under IAS 19, the amount included as compensation reflects the current service and/or past service cost for the relevant year. Where key management personnel are members of multi-employer defined benefit arrangements or defined contribution schemes, the benefits shown reflect the contributions payable for each year.

The share-based payments disclosed in the table above reflect the value of any share-based payments vesting during the year. This is quantified as the aggregate of cash payments plus the fair value of shares on the date of vesting (after adjusting for any consideration payable on exercise) of such share-based payment awards.

### 39. Related party transactions continued

#### (b) Transactions with key management personnel of the Group

Appropriations of profits paid to key management are as follows:

	2012 £m	2011 £m
Ordinary dividends paid	0.1	0.1
Distributions paid to non-controlling interests	3.3	7.1

#### (c) Transactions and balances with Group related parties

Transactions with related parties during 2012 and 2011 and outstanding balances with these parties as at 31 December 2012 and 31 December 2011 are given below, by each group of related parties.

##### (i) Related party transactions with Sherborne

Sherborne owns approximately 20% of the Ordinary Share capital of F&C and is represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne, and Ian Brindle who is a representative of Sherborne. Sherborne is entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C. The Group's transactions with Sherborne are disclosed below:

	Total expensed and accrued during 2012 £m	Outstanding at 31 December 2012 £m	Total expensed and accrued during 2011* £m	Outstanding at 31 December 2011 £m
Ordinary dividends paid to Sherborne	3.2	–	3.0	–
Director's fees payable to Sherborne	0.2	–	0.1	–
Other expenses payable to Sherborne	0.3	–	0.2	–

\* With effect from Mr Bramson's appointment as Chairman on 3 February 2011.

##### (ii) Transactions with minority partners

###### F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of the "A" and "B" partnership units in F&C REIT Asset Management LLP (the Partnership). The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership, are:

Kendray Properties Limited	30.0%	ownership interest in "B" units
Leo Noé	22.5%	ownership interest in "A" units
Ivor Smith	7.5%	ownership interest in "A" units

These parties are considered to be related parties.

The partners are entitled to receive a share of the profits of F&C REIT Group as disclosed in the table below:

	2012 amortisation of intangible assets £m	2012 profit share £m	2012 distributions paid £m	NCI at 31 December 2012 £m	2011 amortisation of intangible assets £m	2011 profit share £m	2011 distributions paid £m	NCI at 31 December 2011 £m
Kendray Properties Limited	(1.1)	3.1	(0.5)	8.3	(1.0)	2.3	(3.5)	6.8
Leo Noé	(0.8)	1.5	(2.0)	3.4	(0.7)	1.9	(2.4)	4.7
Ivor Smith	(0.3)	0.5	(0.8)	0.4	(0.3)	0.7	(1.0)	1.0
	(2.2)	5.1	(3.3)	12.1	(2.0)	4.9	(6.9)	12.5

F&C has a shared services agreement and a staff secondment agreement with F&C REIT Asset Management LLP whereby the F&C Group provides certain administrative and professional services to the F&C REIT Group. Amounts charged under these agreements are set out below:

	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m
<b>Shared services and administrative services:</b>				
Employee benefits	9.8	6.3	9.3	4.3
Administration service fees	0.8	0.2	1.0	0.2

The above amounts are eliminated on consolidation.

In addition, F&C REIT Asset Management LLP paid Leo Noé and Ivor Smith £0.6m during 2012 (2011: £0.4m) in respect of rent for the F&C REIT Group's head office at Wigmore Street, London.

### 39. Related party transactions continued

The F&C REIT Asset Management LLP Group has balances with related parties as follows:

	<b>Balances outstanding at 31 December 2012 £m</b>	Balances outstanding at 31 December 2011 £m
Kendray Properties Limited	<b>(0.5)</b>	–
REIT Europe Limited	<b>0.1</b>	0.1

During 2011 and 2012 F&C Asset Management plc made carried interest investments in F&C REIT Carry LP and F&C REIT Carry 3 LP respectively. These investments will entitle the Company to a share of any future carried interest entitlement arising from the management of F&C REIT Club Deals LPs.

£5.1m of profit distributions were paid by F&C REIT Asset Management LLP to the Company in 2012 (2011: £13.5m), which eliminate on consolidation.

Certain management fees receivable by F&C companies outwith the F&C REIT Group are passed to the F&C REIT Group under revenue delegation agreements, as the asset management activity has been delegated to F&C REIT. Amounts payable during the year and outstanding at the year end are set out below:

	<b>Total invoiced and accrued during 2012 £m</b>	<b>Outstanding at 31 December 2012 £m</b>	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m
<b>Management fees*</b>	<b>11.6</b>	<b>4.5</b>	11.2	4.4

\* These amounts are eliminated on consolidation.

The F&C Group recognises a share-based payment credit or expense in respect of the variable NCI enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 25(c).

The F&C REIT minority partners each have a put option to sell their minority stake in F&C REIT after a minimum number of years. Details of the carrying amount of these option liabilities are disclosed in note 27.

#### (iii) Transactions with Thames River Capital related party entities

Thames River Capital UK Limited and certain of its directors are members of Nevsky Capital LLP, an entity to which Thames River Capital UK Limited provides support and infrastructure services. Thames River Capital UK Limited recharges Nevsky Capital LLP at cost for these services. Thames River Capital is also entitled to a share of profits from Nevsky Capital LLP.

	<b>Total invoiced and accrued during 2012 £m</b>	<b>Outstanding at 31 December 2012 £m</b>	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m
Support and infrastructure services	<b>1.6</b>	<b>0.6</b>	3.0	0.3
Profit share	<b>0.9</b>	<b>0.1</b>	0.3	0.3

#### (iv) Post-employment benefit plans

The Group operates and participates in several post-employment benefit plans as detailed in note 24.

The Group contributed amounts to the defined benefit plans and had amounts outstanding at 31 December each year as follows:

	<b>Employer contributions 2012 £m</b>	<b>Outstanding at 31 December 2012 £m</b>	Employer contributions 2011 £m	Outstanding at 31 December 2011 £m
F&C Asset Management Pension Plan	<b>6.9</b>	–	5.3	–
F&C Portugal <sup>(1)</sup>	<b>0.3</b>	–	0.4	–
F&C Netherlands	<b>0.7</b>	–	0.6	–
F&C Ireland	<b>0.1</b>	–	0.2	–
	<b>8.0</b>	–	6.5	–

<sup>(1)</sup> Incorporated within the Fundo de Pensoes do Grupo Banco Comercial Português scheme.

In addition to the above, the Group has an unfunded obligation to provide a former Chairman, Mr R W Jenkins, with a pension as detailed in note 24.

### 39. Related party transactions continued

The Group manages certain of the assets of the F&C Asset Management Pension Plan. The assets of the Plan managed by the Group totalled £187.7m at 31 December 2012 (31 December 2011: £189.8m).

The Group received the following investment management fees from this scheme:

	<b>Fees receivable 2012 £m</b>	<b>Outstanding at 31 December 2012 £m</b>	Fees receivable 2011 £m	Outstanding at 31 December 2011 £m
F&C Asset Management Pension Plan	<b>0.2</b>	<b>0.1</b>	0.1	–

#### (v) Asset management vehicles

The Group has some carried interest investments in asset management vehicles, which entitle the Group to a share of profits if certain investment return thresholds are achieved. No carried interest was received during 2012 (2011: £nil).

The Group provides asset management services for a number of asset management vehicles where Group companies directly sponsor or are involved in the management of underlying funds, which meet the criteria of related parties. In return, the Group receives investment management fees for provision of these services.

The investment management fees receivable from these asset management vehicles are summarised below:

	<b>Total invoiced and accrued during 2012 £m</b>	<b>Outstanding at 31 December 2012 £m</b>	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m
Investment management fees	<b>54.3</b>	<b>7.2</b>	51.9	4.5

### 40. Capital Requirements Directive

Under Pillar 3 of the Capital Requirements Directive, prescribed in the UK by the Financial Services Authority, the Group is required to disclose information relating to its risks, regulatory capital, remuneration policy and risk management objectives and policies. The Group's Pillar 3 disclosures are given on the Company's website ([www.fandc.com](http://www.fandc.com)).

### 41. Guarantees

At 31 December 2012 the Company's subsidiary, F&C Netherlands B.V., has provided a lease guarantee for £0.1m (31 December 2011: £0.3m) to the landlord of its premises at Jachthavenweg 109E, 1081 KM Amsterdam.

### 42. Parent undertaking and controlling party

In the opinion of the Directors, the Group has no ultimate parent undertaking and controlling party.

# Five Year Record

## Historical summaries

The Five Year Record is shown based on International Financial Reporting Standards which have been adopted by the Group. This Five Year Record is not part of the audited Financial Statements.

	2008 (as restated*) £m	2009 £m	2010 £m	2011 £m	2012 £m
<b>Consolidated Income Statements</b>					
<b>Revenue</b>					
Investment management fees	244.2	237.8	258.2	279.0	<b>252.6</b>
Other income	1.1	4.1	1.6	4.2	<b>4.8</b>
<b>Total revenue</b>	<b>245.3</b>	<b>241.9</b>	<b>259.8</b>	<b>283.2</b>	<b>257.4</b>
Fee and commission expenses	(15.4)	(16.8)	(16.6)	(16.2)	<b>(13.9)</b>
<b>Net revenue</b>	<b>229.9</b>	<b>225.1</b>	<b>243.2</b>	<b>267.0</b>	<b>243.5</b>
<b>Net gains/(losses) and investment income on unit-linked assets</b>					
	(208.7)	136.0	74.3	13.7	<b>40.6</b>
<b>Movement in fair value of unit-linked liabilities</b>					
	210.5	(134.6)	(73.3)	(13.4)	<b>(40.8)</b>
<b>Operating expenses</b>					
Operating expenses	(171.0)	(164.8)	(169.7)	(183.8)	<b>(162.5)</b>
Distributions to members of LLPs	–	–	(6.0)	(18.3)	<b>(11.6)</b>
Amortisation of intangible assets – management contracts	(48.9)	(49.8)	(50.7)	(45.8)	<b>(42.5)</b>
Other exceptional net operating costs	(10.6)	(19.0)	(20.9)	(19.0)	<b>(21.9)</b>
Impairment of intangible assets – management contracts	(48.3)	–	–	–	–
Unrealised (losses)/gains on forward currency contracts	(12.3)	1.2	–	–	–
<b>Total operating expenses</b>	<b>(291.1)</b>	<b>(232.4)</b>	<b>(247.3)</b>	<b>(266.9)</b>	<b>(238.5)</b>
<b>Operating profit/(loss)</b>	<b>(59.4)</b>	<b>(5.9)</b>	<b>(3.1)</b>	<b>0.4</b>	<b>4.8</b>
Finance revenue	25.7	11.5	11.1	17.2	<b>14.6</b>
Finance costs	(29.4)	(30.3)	(33.6)	(35.4)	<b>(33.4)</b>
F&C REIT put option fair value gain	–	5.6	6.4	8.7	<b>11.5</b>
TRC acquisition consideration adjustments	–	–	–	7.6	–
Gain on debt exchange	–	27.9	–	–	–
Loss on disposal of subsidiaries and associates	(4.1)	–	–	–	–
Impairment in associates and other financial investments	(0.1)	(0.1)	–	–	–
<b>(Loss)/profit before tax</b>	<b>(67.3)</b>	<b>8.7</b>	<b>(19.2)</b>	<b>(1.5)</b>	<b>(2.5)</b>
Tax – Shareholders	17.6	10.4	6.2	4.1	<b>5.3</b>
Tax – Policyholders	(0.9)	(0.4)	(0.4)	–	<b>0.2</b>
<b>Tax income</b>	<b>16.7</b>	<b>10.0</b>	<b>5.8</b>	<b>4.1</b>	<b>5.5</b>
<b>Profit/(loss) for the year</b>	<b>(50.6)</b>	<b>18.7</b>	<b>(13.4)</b>	<b>2.6</b>	<b>3.0</b>
<b>Attributable to:</b>					
Equity holders of the parent	(52.5)	15.9	(16.6)	(0.5)	<b>0.1</b>
Non-controlling interests	1.9	2.8	3.2	3.1	<b>2.9</b>
<b>Profit/(loss) for the year</b>	<b>(50.6)</b>	<b>18.7</b>	<b>(13.4)</b>	<b>2.6</b>	<b>3.0</b>
<b>Underlying earnings per Ordinary Share<sup>#</sup></b>	<b>7.56p</b>	<b>5.75p</b>	<b>6.02p</b>	<b>5.51p</b>	<b>7.06p</b>
<b>Basic earnings/(loss) per Ordinary Share</b>	<b>(10.66)p</b>	<b>3.24p</b>	<b>(3.31)p</b>	<b>(0.10)p</b>	<b>0.01p</b>
<b>Diluted earnings/(loss) per Ordinary Share</b>	<b>(10.66)p</b>	<b>3.19p</b>	<b>(3.31)p</b>	<b>(0.10)p</b>	<b>0.01p</b>
<b>Dividends</b>					
Memo					
Final dividend for 2007, 2008, 2009, 2010 and 2011	19.7	19.8	19.4	10.4	<b>10.4</b>
Interim dividend for 2008, 2009, 2010, 2011 and 2012	9.9	9.7	5.1	5.2	<b>5.4</b>
	29.6	29.5	24.5	15.6	<b>15.8</b>
Final dividend per Ordinary Share for 2007, 2008, 2009, 2010 and 2011	4.0p	4.0p	4.0p	2.0p	<b>2.0p</b>
Interim dividend per Ordinary Share for 2008, 2009, 2010, 2011 and 2012	2.0p	2.0p	1.0p	1.0p	<b>1.0p</b>
<b>Dividend cover<sup>†</sup></b>	<b>(1.78)</b>	<b>0.54</b>	<b>(0.68)</b>	<b>(0.03)</b>	<b>–</b>
Underlying dividend cover <sup>†##</sup>	1.26	0.96	1.23	1.82	<b>2.36</b>

\* As restated for the amendment to IFRS 2: Share-based Payment.

# As restated in 2008, 2009 and 2010 for the effect of the Deferred Tax – Corporation Tax rate change being excluded from Underlying EPS.

† Based on the dividends paid during 2008, 2009, 2010, 2011 and 2012.

§ Excluding foreign exchange gains and losses.

## Reconciliations of reported to underlying earnings

The following tables reconcile the reported earnings to underlying earnings attributable to equity holders of the parent. In addition, the calculation of certain key performance indicators is given below.

### Year ended 31 December 2012

£ millions unless otherwise stated

	Reported earnings	Adjustments	Adjusted Income Statement	Adjustments for FX losses	Underlying earnings	Non-controlling interests profits*	Underlying earnings (ex NCI)
<b>A Net Revenue</b>	<b>243.5</b>	<b>–</b>	<b>243.5</b>	<b>–</b>	<b>243.5</b>	<b>–</b>	<b>243.5</b>
Net policyholder expense	(0.2)	–	(0.2)	–	(0.2)	–	(0.2)
Operating expenses	(160.5)	–	(160.5)	–	(160.5)	–	(160.5)
Exchange losses	(2.0)	–	(2.0)	2.0	–	–	–
<b>Operating expenses</b>	<b>(162.5)</b>	<b>–</b>	<b>(162.5)</b>	<b>2.0</b>	<b>(160.5)</b>	<b>–</b>	<b>(160.5)</b>
Distributions to members of LLPs	(11.6)	–	(11.6)	–	(11.6)	–	(11.6)
Amortisation of intangible assets	(42.5)	42.5	–	–	–	–	–
Other exceptional net operating expenses	(21.9)	21.9	–	–	–	–	–
<b>Total operating expenses</b>	<b>(238.5)</b>	<b>64.4</b>	<b>(174.1)</b>	<b>2.0</b>	<b>(172.1)</b>	<b>–</b>	<b>(172.1)<sup>†</sup></b>
<b>B Operating profit</b>	<b>4.8</b>	<b>64.4</b>	<b>69.2</b>	<b>2.0</b>	<b>71.2</b>	<b>–</b>	<b>71.2</b>
Interest paid	(22.4)	–	(22.4)	–	(22.4)	–	(22.4)
Interest and investment income	3.2	–	3.2	–	3.2	–	3.2
F&C REIT put option fair value gain	11.5	(11.5)	–	–	–	–	–
Other non-operating items	0.4	–	0.4	–	0.4	–	0.4
Non-controlling interests profits	–	–	–	–	–	(5.8)	(5.8)
<b>(Loss)/profit before tax</b>	<b>(2.5)</b>	<b>52.9</b>	<b>50.4</b>	<b>2.0</b>	<b>52.4*</b>	<b>(5.8)</b>	<b>46.6</b>
Tax income/(expense)	5.5	(14.8)	(9.3)	(0.5)	(9.8)	0.7	(9.1)
<b>C Profit/(loss) for year</b>	<b>3.0</b>	<b>38.1</b>	<b>41.1</b>	<b>1.5</b>	<b>42.6</b>	<b>(5.1)</b>	<b>37.5</b>
<b>Underlying EPS (C÷D)</b>							<b>7.1p</b>
<b>Underlying operating margin (B÷A)</b>							<b>29.2%</b>
<b>D Weighted average number of shares (000's)</b>							<b>530,963</b>

\* Excluding NCI share of amortisation of intangible assets

† Defined as 'underlying operating costs'

‡ Defined as 'Group underlying profit before tax'

### Year ended 31 December 2011

£ millions unless otherwise stated

	Reported earnings	Adjustments	Adjusted Income Statement	Adjustments for FX losses	Underlying earnings	Non-controlling interests profits*	Underlying earnings (ex NCI)
<b>A Net Revenue</b>	<b>267.0</b>	<b>–</b>	<b>267.0</b>	<b>–</b>	<b>267.0</b>	<b>–</b>	<b>267.0</b>
Net policyholder income	0.3	–	0.3	–	0.3	–	0.3
<b>Operating expenses</b>	<b>(183.8)</b>	<b>–</b>	<b>(183.8)</b>	<b>–</b>	<b>(183.8)</b>	<b>–</b>	<b>(183.8)</b>
Distributions to members of LLPs	(18.3)	–	(18.3)	–	(18.3)	–	(18.3)
Amortisation of intangible assets	(45.8)	45.8	–	–	–	–	–
Other exceptional net operating expenses	(19.0)	19.0	–	–	–	–	–
<b>Total operating expenses</b>	<b>(266.9)</b>	<b>64.8</b>	<b>(202.1)</b>	<b>–</b>	<b>(202.1)</b>	<b>–</b>	<b>(202.1)<sup>†</sup></b>
<b>B Operating profit</b>	<b>0.4</b>	<b>64.8</b>	<b>65.2</b>	<b>–</b>	<b>65.2</b>	<b>–</b>	<b>65.2</b>
Interest paid	(23.8)	–	(23.8)	–	(23.8)	–	(23.8)
Interest and investment income	5.7	–	5.7	–	5.7	–	5.7
F&C REIT put option fair value gain	8.7	(8.7)	–	–	–	–	–
TRC acquisition consideration adjustments	7.6	(7.6)	–	–	–	–	–
Other non-operating items	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)
Non-controlling interests profits	–	–	–	–	–	(5.7)	(5.7)
<b>(Loss)/profit before tax</b>	<b>(1.5)</b>	<b>48.5</b>	<b>47.0</b>	<b>–</b>	<b>47.0*</b>	<b>(5.7)</b>	<b>41.3</b>
Tax income/(expense)	4.1	(17.6)	(13.5)	–	(13.5)	0.6	(12.9)
<b>C Profit/(loss) for year</b>	<b>2.6</b>	<b>30.9</b>	<b>33.5</b>	<b>–</b>	<b>33.5</b>	<b>(5.1)</b>	<b>28.4</b>
<b>Underlying EPS (C÷D)</b>							<b>5.5p</b>
<b>Underlying operating margin (B÷A)</b>							<b>24.4%</b>
<b>D Weighted average number of shares (000's)</b>							<b>515,373</b>

\* Excluding NCI share of amortisation of intangible assets

† Defined as 'underlying operating costs'

‡ Defined as 'Group underlying profit before tax'

## Underlying operating costs

The underlying operating costs of the Group are as follows:

	<b>Year ended 31 December 2012 £m</b>	Year ended 31 December 2011 £m
Staff costs and related expenses	<b>104.4</b>	116.9
Premises expenses	<b>12.2</b>	14.5
Communication and information technology expenses	<b>16.4</b>	17.4
Third-party administration expenses	<b>9.7</b>	8.4
Promotional and client servicing expenses	<b>5.1</b>	7.1
Other expenses	<b>12.7</b>	19.5
<b>Core operating expenses</b>	<b>160.5</b>	183.8
Distributions to members of LLPs	<b>11.6</b>	18.3
<b>Underlying operating costs</b>	<b>172.1</b>	202.1

# Company Financial Statements

for the year ended 31 December 2012

**These Financial Statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).**

**The Consolidated Financial Statements of the F&C Asset Management Group, given on pages 42 to 116 have been prepared in accordance with IFRS.**

# Company Balance Sheet

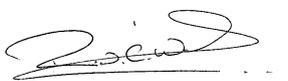
as at 31 December 2012

	Notes	31 December 2012 £m	31 December 2011 £m
<b>Fixed assets</b>			
Tangible fixed assets	4	0.5	0.9
Investments in subsidiaries	5	1,261.4	1,256.0
Other investments	6	3.6	5.4
		<b>1,265.5</b>	1,262.3
<b>Current assets</b>			
Debtors – amounts falling due:			
Within one year	7	91.8	106.7
After more than one year	7	60.4	60.6
Cash and short-term deposits		0.1	2.0
		<b>152.3</b>	169.3
<b>Creditors (amounts falling due within one year)</b>	8	<b>(8.1)</b>	(11.7)
<b>Net current assets</b>		<b>144.2</b>	157.6
<b>Total assets less current liabilities</b>		<b>1,409.7</b>	1,419.9
<b>Creditors (amounts falling due after more than one year)</b>	8	<b>(295.1)</b>	(303.9)
<b>Provisions for liabilities</b>	9	<b>(5.1)</b>	(8.3)
<b>Net assets</b>		<b>1,109.5</b>	1,107.7
<b>Capital and reserves</b>			
Called up Ordinary Share capital	14, 15	0.6	0.5
Share premium account	15	58.9	51.8
Capital redemption reserve	15	0.8	0.8
Merger reserve	15	912.7	912.7
Other reserves	15	80.5	75.4
Profit and loss account	15	56.0	66.5
<b>Total shareholders' funds</b>	15	<b>1,109.5</b>	1,107.7

The Company Financial Statements were approved by the Board of Directors and authorised for issue on 25 March 2013. They were signed on its behalf by:



Edward Bramson  
Chairman



Richard Wilson  
Chief Executive

# Company Accounting Policies

## Basis of preparation

The separate Financial Statements of the Company are presented as required by the Companies Act and are prepared under the historical cost convention, as modified by the revaluation of other investments, and in accordance with applicable accounting standards in the United Kingdom.

The principal accounting policies set out below have been applied consistently for the years ended 31 December 2012 and 31 December 2011.

The Company's Financial Statements are presented in millions of pounds Sterling (rounded to one decimal place), the Company's functional and presentational currency.

In accordance with Section 408 of the Companies Act 2006 a separate Profit and Loss Account for the Company is not presented.

The Company has taken advantage of the exemption in FRS 29: Financial Instruments: Disclosure and Presentation and has not disclosed the information required by that standard because the Company is included in the Consolidated Financial Statements which are publicly available and include disclosures given under IFRS 7: Financial Instruments: Disclosures.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 19. The financial position of the Group, its cash flows and liquidity position are also described in the Business Review. In addition, note 35 to the Consolidated Financial Statements on pages 101 to 104 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, liquidity risk and market risks.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Financial Statements.

## Turnover

Turnover comprises fees for secretarial services provided to Investment Trusts, and shared services and administration services provided to subsidiary undertakings. Fees are recognised in the Profit and Loss Account over the period for which these services are provided.

## Dividend recognition

Dividends receivable and dividends payable are recognised only when they have been declared and approved or at the date of payment for interim dividends.

## Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses. The cost includes the uplift arising from the equity-settled share-based payments calculated in accordance with FRS 20: Share-based Payment, where no cash contributions are made by the subsidiaries. The uplift is credited to a capital

contribution reserve in equity. The Company recharges certain subsidiaries when it satisfies these equity-settled awards with its own shares.

## Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on tangible fixed assets is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Profit and Loss Account as an expense as incurred.

Tangible fixed assets are depreciated, using the straight-line method, to write off the cost of assets over their estimated useful lives, as follows:

Leasehold improvements	– 10 years
Office furniture & equipment	– 3-5 years
Computer equipment	– 3 years

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Profit and Loss Account in the year in which it arises.

## Financial instruments

When financial instruments are recognised initially they are measured at fair value plus directly attributable transaction costs.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid-price for Open Ended Investment Companies) at the close of business on the balance sheet date.

Financial instruments are classified into the categories described below:

- (i) *Available for sale financial assets* are carried at fair value in the Balance Sheet. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the "Price of a Recent Investment" method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate or there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators, fair value is determined to be that reported at the previous balance sheet date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Profit and Loss Account. The following assets are classified as available for sale:

- Fixed assets
  - Other investments

- (ii) *Financial instruments at fair value through profit or loss* include investments which have been specifically designated as 'at fair value through profit or loss'. These are carried in the Balance Sheet at fair value and movements in fair value are taken to the Profit and Loss Account in the period in which they arise. The following assets are classified as financial instruments at fair value through profit or loss:

- Fixed assets
  - Other investments

- (iii) *Loans and receivables* are measured on initial recognition at fair value plus any incremental costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Profit and Loss Account when loans and receivables are derecognised or impaired, as well as through the amortisation process. The following assets and liabilities are classified as loans and receivables:

- Current assets:
  - Debtors
  - Cash and short-term deposits

- (iv) *Financial liabilities* are recognised at amortised cost using the effective interest rate method after initial recognition. The following liabilities are classified as financial liabilities:

- Creditors (amounts falling due within one year)
- Creditors (amounts falling due after more than one year)

The Company has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the assets within the timeframe established in the marketplace concerned. Accordingly, such financial instruments are recognised on the date the Company commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

## Derecognition of financial assets and liabilities

### *Financial assets*

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is either discharged, cancelled or expires.

## Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

### *Assets carried at amortised cost*

If there is objective evidence that an impairment in loans and receivables carried at amortised cost has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the expected recoverable amount. The carrying amount of the asset would be reduced and the amount of the loss recognised in the Profit and Loss Account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Profit and Loss Account to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### *Available for sale financial assets*

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Profit and Loss Account, is transferred from reserves to the Profit and Loss Account. Reversals in respect of equity instruments classified as available for sale are not recognised in the Profit and Loss Account. Reversals of impairment losses on debt instruments are taken through the Profit and Loss Account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Profit and Loss Account.

## Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a commitment to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Operating leases

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Lease incentives are recognised by the Company as a reduction of the rental expense, allocated on a straight-line basis, over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rental will be payable.

### Accounting for Employee Benefit Trusts (EBTs)

UITF 38 requires that own shares acquired through an EBT be deducted in arriving at shareholders' funds until they vest unconditionally to the employees. Consideration paid and received for the purchase or sale of these shares is included in shareholders' funds and no gain or loss is recognised. Other assets and liabilities of the EBTs are recognised as assets and liabilities of the Company.

Ordinary Shares of the Company are held by EBTs in order to satisfy a number of F&C Group share-based payment plans and future exercises of options and awards to employees of subsidiary companies. The cost relating to the share-based payment plans is recognised in the subsidiary companies which employ the staff in receipt of awards and the Company recognises any fresh issue of shares or re-issue of own shares when such a transaction occurs. These shares are included in the Financial Statements of the Company as a deduction from shareholders' funds.

### Provisions

A provision is recognised in the Balance Sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Company has obligations under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements.

### Related party disclosures

FRS 8: Related Party Disclosures requires disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of the exemption in FRS 8 not to disclose transactions between F&C Group companies which eliminate on consolidation.

### Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the balance sheet date, and any exchange differences arising are taken to the Profit and Loss Account.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was

determined. When fair value movements in assets and liabilities are reflected in the Profit and Loss Account, the corresponding exchange movements are also recognised in the Profit and Loss Account. Conversely, when fair value movements in assets and liabilities are reflected directly in equity, the corresponding exchange movements are also recognised directly in equity.

### Share-based payments

The Company operates a variable NCI incentive which is required to be accounted for as a share-based payment.

The fair value of share-based payment awards, where it is not considered possible to estimate reliably the fair value of these awards at the grant date, is determined by measurement of the equity instruments at intrinsic value. The fair value is measured by an independent external valuer at each reporting date. The intrinsic value is spread over the vesting period.

Vesting of equity-settled employee share awards depends upon meeting "non-market related" performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Profit and Loss Account and subsequent adjustments, as non-market related conditions are performance criteria such as earnings targets and/or service requirements. The probability of meeting non-market conditions is incorporated into the expense charge via the estimate of the number of awards expected to vest. The total cumulative expense is ultimately adjusted to reflect the actual number of awards which vest. Therefore, if no awards vest, no cumulative expense is ultimately recognised.

FRS 20: Share-based Payment makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Profit and Loss Account with a corresponding credit to equity. Cash-settled awards are charged to the Profit and Loss Account with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

### Ordinary Share capital

When Ordinary Shares are issued the proceeds on issue are allocated to the equity component and included in shareholders' funds, net of transaction costs.

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. Dealings in own shares are reflected through equity.

Dividends on Ordinary Shares are recognised on the date of payment or, if subject to approval, the date approved by the shareholders.

### Cash flow statement

The Company has taken advantage of the exemptions in FRS 1 (revised): Cash Flow Statements and has elected not to prepare a Cash Flow Statement as it is included within the Consolidated Cash Flow Statement in the Consolidated Financial Statements of F&C Asset Management plc.

# Notes to the Company Financial Statements

## 1. Auditor's remuneration

Amounts received by the Company's auditor in respect of services to the Company have not been disclosed as the Group-wide information is disclosed in note 4(c) to the Consolidated Financial Statements on page 58.

## 2. Directors' remuneration

Details of Directors' remuneration are as follows:

	2012 £m	2011 £m
Aggregate emoluments	2.1	2.3
Company contributions paid to defined contribution pension schemes	0.2	0.1
Aggregate value of gains made by Directors on exercise of share awards	2.8	1.9
	<b>2012 No.</b>	<b>2011 No.</b>
Members of defined contribution pension schemes	<b>3</b>	<b>2</b>

Full disclosure of Directors' remuneration is shown on page 34 and pages 37 to 38.

The Company has no employees (including Directors) under contract of employment, all F&C Group employees being employed by several subsidiary companies.

## 3. Dividends

Details of dividends paid and proposed during the year are disclosed in note 11 to the Consolidated Financial Statements on page 65.

## 4. Tangible fixed assets

	Leasehold improvements £m	Office furniture and equipment £m	Computer equipment £m	Total £m
<b>Cost:</b>				
At 1 January 2012	4.1	0.4	5.2	9.7
Disposals	–	–	(1.0)	(1.0)
<b>At 31 December 2012</b>	<b>4.1</b>	<b>0.4</b>	<b>4.2</b>	<b>8.7</b>
<b>Depreciation:</b>				
At 1 January 2012	3.2	0.4	5.2	8.8
Depreciation charge for the year	0.4	–	–	0.4
Disposals	–	–	(1.0)	(1.0)
<b>At 31 December 2012</b>	<b>3.6</b>	<b>0.4</b>	<b>4.2</b>	<b>8.2</b>
<b>Net book values:</b>				
At 31 December 2011	0.9	–	–	0.9
<b>At 31 December 2012</b>	<b>0.5</b>	<b>–</b>	<b>–</b>	<b>0.5</b>

## 5. Investments in subsidiaries

	£m
<b>Cost:</b>	
At 1 January 2012	1,259.0
Additions in respect of share-based payment awards	13.4
Recharge in respect of share-based payment awards	(8.0)
<b>At 31 December 2012</b>	<b>1,264.4</b>
<b>Cumulative impairment:</b>	
At 1 January 2012 and 31 December 2012	3.0
<b>Net book values:</b>	
At 31 December 2011	1,256.0
<b>At 31 December 2012</b>	<b>1,261.4</b>

Included within the above net book value is £79.6m (31 December 2011: £74.2m) in respect of equity-settled share-based payment awards made by subsidiary undertakings.

## 6. Other investments

The classification of investments at 31 December is as follows:

		31 December 2012	31 December 2011
	Notes	£m	£m
Available for sale	(a)	1.1	1.5
Fair value through profit or loss	(b)	2.5	3.9
		<b>3.6</b>	5.4

### (a) Available for sale

	Unquoted £m
At 1 January 2012	1.5
Fair value gain in the year	0.2
Fair value gains transferred to the Profit and Loss Account	(0.6)
<b>At 31 December 2012</b>	<b>1.1</b>

These investments represent carried interest entitlement in private equity funds.

The unquoted investments have been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and in accordance with the limited partnership agreements where possible.

### (b) Fair value through profit or loss

	Purchased Equity Plan £m	NIC hedge £m	Total £m
At 1 January 2012	1.5	2.4	3.9
Disposals in the year	(1.6)	(0.1)	(1.7)
Fair value movement in year	0.1	0.2	0.3
<b>At 31 December 2012</b>	<b>–</b>	<b>2.5</b>	<b>2.5</b>

Further details of these investments are disclosed in note 17(a)(i)(2) to the Consolidated Financial Statements, on page 72.

The cost of quoted investments as at 31 December 2012 was £2.5m (31 December 2011: £3.8m).

The valuation of quoted investments as at 31 December 2012 was £1.3m (31 December 2011: £2.6m). The fair value of quoted investments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

## 7. Debtors

		31 December 2012	31 December 2011
	Note	£m	£m
<b>Amounts due within one year:</b>			
Trade debtors		0.9	1.0
Amounts owed by subsidiary undertakings		2.8	2.2
Loan to subsidiary undertaking		81.2	94.4
Prepayments		2.3	2.3
VAT recoverable		0.6	0.5
Group relief receivable		3.2	4.6
Other debtors		0.8	1.7
		<b>91.8</b>	106.7
<b>Amounts due after more than one year:</b>			
Loan to subsidiary undertaking		60.0	60.0
Deferred tax	11	0.4	0.6
		<b>60.4</b>	60.6

The loan to the subsidiary undertaking bears interest at three-month LIBOR minus 0.25% and is with F&C Treasury Limited. The Company will give written notice of a minimum of one year to seek repayment of £60.0m. The £81.2m (31 December 2011: £94.4m) included within Amounts due within one year is repayable on demand.

## 8. Creditors

	Note	31 December 2012 £m	31 December 2011 £m
<b>Amounts due within one year:</b>			
Trade creditors		0.4	0.2
Accruals		2.4	2.5
Amounts owed to subsidiary undertakings		0.4	3.4
Other creditors		0.9	1.6
Loans from subsidiary undertakings	10	4.0	4.0
		<b>8.1</b>	11.7
<b>Amounts due after more than one year:</b>			
Loans from subsidiary undertakings		45.0	45.0
Fixed/Floating Rate Subordinated Notes 2016/2026		250.1	258.9
	10	<b>295.1</b>	303.9

During 2012, £0.7m of further consideration for the acquisition of F&C Group (Holdings) Limited was settled with Achmea B.V. This was included in other creditors at 31 December 2011.

## 9. Provisions for liabilities

	Onerous premises contracts £m	Pension Plan guarantee £m	Deferred tax £m	Litigation guarantee £m	Total £m
At 1 January 2011	5.9	0.1	0.9	–	6.9
Provided during the year	1.1	0.1	0.4	2.0	3.6
Utilised during the year	(1.3)	–	(0.9)	–	(2.2)
At 31 December 2011	<b>5.7</b>	<b>0.2</b>	<b>0.4</b>	<b>2.0</b>	<b>8.3</b>
Provided during the year	0.4	0.1	0.1	–	0.6
Utilised during the year	(1.6)	–	(0.2)	–	(1.8)
Released during the year	–	–	–	(2.0)	(2.0)
<b>At 31 December 2012</b>	<b>4.5</b>	<b>0.3</b>	<b>0.3</b>	<b>–</b>	<b>5.1</b>
<b>At 31 December 2012</b>					
<b>Falling due after more than one year</b>	<b>3.1</b>	<b>0.3</b>	<b>0.3</b>	<b>–</b>	<b>3.7</b>
<b>Falling due within one year</b>	<b>1.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.4</b>
At 31 December 2011					
Falling due after more than one year	4.1	0.2	0.4	–	4.7
Falling due within one year	1.6	–	–	2.0	3.6

### Onerous premises contracts

The Company holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied or are partially occupied by the Company. Provision has been made for the residual lease commitments, where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to eight years.

Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases and sub-leases are for minimum guaranteed rentals. The provision is subject to uncertainties over time including market rent reviews and break options within the lease arrangements. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

The amount included within the Profit and Loss Account in respect of unwinding of the discount on onerous premises provisions in 2012 is £0.1m (2011: £0.4m).

### Pension Plan guarantee

The Company has agreed to provide the F&C Asset Management Pension Plan (FCAM Plan) Trustees with a guarantee that, should F&C Asset Management Services Limited become insolvent, the Company will guarantee an amount up to the lower of the cost of securing members' benefits with an insurance company over the assets of the FCAM Plan (the 'solvency deficit') and £120.0m. The provision represents the actuarial estimate of the fair value of the guarantee at 31 December 2012 and 31 December 2011.

### Deferred tax

The deferred tax provision relates to short-term timing differences which have originated but not reversed at the balance sheet date. The provision is subject to uncertainties in respect of when timing differences might reverse. The provision relates to the revaluation of available for sale assets, which is recognised as a separate component of reserves.

A further analysis of deferred taxation is disclosed in note 11.

## 9. Provisions for liabilities continued

### Litigation guarantee

Note 23 to the Consolidated Financial Statements on page 79 summarises the Group position in respect of the F&C Partners litigation.

The Company had a joint legal obligation with F&C Alternative Investment (Holdings) Limited (F&C AIH) to settle any litigation amounts payable to the founder partners. At 31 December 2011 the Company held a provision of £2.0m in respect of this. In June 2012, following a successful outcome from the Court of Appeal regarding the level of costs and interest to be borne by F&C in respect of the litigation, a full and final payment of £0.65m was paid to the founder partners by F&C AIH. The full provision of £2.0m was therefore released by the Company during 2012.

## 10. Loans

	Notes	31 December 2012 £m	31 December 2011 £m
<b>Amounts repayable:</b>			
Fixed/Floating Rate Subordinated Notes 2016/2026	(i)	250.1	258.9
Fixed Rate inter-company loan 2016	(ii)	25.0	25.0
Fixed Rate inter-company loan 2016	(iii)	20.0	20.0
Floating Rate inter-company loan repayable on demand	(iv)	4.0	4.0
		<b>299.1</b>	<b>307.9</b>

- (i) The £251.0m (31 December 2011: £260.0m) Fixed/Floating Rate Subordinated Notes 2016/2026 bear interest at 6.75% per annum for the period 20 December 2006 – 19 December 2016, payable annually in arrears. The Company has the option to extend the Notes beyond 19 December 2016 at a rate of 2.69% above three-month LIBOR for the period 20 December 2016 – 19 December 2026, payable quarterly in arrears. At 31 December 2012 £135.0m (31 December 2011: £135.0m) of the Fixed/Floating Rate Subordinated Notes 2016/2026 were held by F&C Finance plc, a subsidiary undertaking.
- (ii) The £25.0m loan bears interest at a fixed rate of 13.26%, payable half-yearly in arrears. This loan is due to F&C Finance plc, a subsidiary undertaking, and is repayable on 19 December 2016.
- (iii) The £20.0m loan bears interest at a fixed rate of 9.66%, payable half-yearly in arrears. This loan is due to F&C Finance plc and is repayable on 19 December 2016.
- (iv) The £4.0m loan bears interest at three-month LIBOR minus 0.25%, payable quarterly in arrears. This loan is due to F&C Managed Pension Funds Limited, a subsidiary undertaking, and is repayable on demand.

	Fixed/Floating Rate Subordinated Notes 2016/2026 £m
At 1 January 2011	258.6
Issue costs amortisation	0.3
At 31 December 2011	<b>258.9</b>
Debt buy-backs	<b>(9.0)</b>
Issue costs amortisation	<b>0.2</b>
<b>At 31 December 2012</b>	<b>250.1</b>

	Note	31 December 2012 £m	31 December 2011 £m
<b>Amounts repayable:</b>			
In one year or less, or on demand	8	4.0	4.0
In more than one year but not more than two years		–	–
In more than two years but not more than five years	8	295.1	303.9
In more than five years		–	–
		<b>299.1</b>	<b>307.9</b>

### Borrowing facilities

The Company has borrowing facilities available to it. The undrawn committed facilities available at the year end are as follows:

	31 December 2012 £m	31 December 2011 £m
Revolving credit facility	20.0	20.0

Details of the revolving credit facility are disclosed in note 21 to the Consolidated Financial Statements on page 77.

## 11. Deferred taxation

	2012 £m	2011 £m
At 1 January	0.2	0.9
Provided during the year	–	0.3
Adjustments in respect of previous periods	(0.1)	(1.0)
<b>At 31 December</b>	<b>0.1</b>	<b>0.2</b>

	Notes	31 December 2012 £m	31 December 2011 £m
<b>Deferred taxation is provided as follows:</b>			
Depreciation in advance of capital allowances		0.3	0.5
Other timing differences		0.1	0.1
Revaluation of available for sale assets		(0.3)	(0.4)
		<b>0.1</b>	<b>0.2</b>
<b>Disclosed in the Financial Statements as follows:</b>			
Debtors: Amounts due after more than one year	7	0.4	0.6
Provisions for liabilities	9	(0.3)	(0.4)
<b>Net deferred tax asset</b>		<b>0.1</b>	<b>0.2</b>

The Directors believe it is appropriate to recognise a deferred tax asset because it is considered that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

## 12. Share-based payment

### F&C REIT variable non-controlling interests share-based payment (SBP)

Details of this share-based payment award are disclosed in note 25(c) to the Consolidated Financial Statements on page 90.

A combination of a reassessment of the likelihood of the financial targets being achieved and the re-measurement of the fair value of the F&C REIT business resulted in a credit being recognised in 2011. The cumulative charge was reversed at 31 December 2011, but will be reinstated should the performance criteria be met.

	2012 £m	2011 £m
<b>F&amp;C REIT variable non-controlling interests SBP</b>	<b>–</b>	<b>(4.8)</b>

## 13. Pension commitments

The sponsoring company and principal employer for the FCAM Plan is F&C Asset Management Services Limited.

The Company has provided a guarantee in respect of this Plan, further details of which are described in note 9.

## 14. Ordinary Share capital

	31 December 2012		31 December 2011	
	No. of shares	£m	No. of shares	£m
<b>Ordinary Share capital of 0.1p</b>				
<b>Allotted, called up and fully paid:</b>				
<b>Equity interests</b>				
Ordinary Shares of 0.1p*	555,180,788	0.6	532,118,789	0.5

\* Includes those categorised as own shares.

	2012 No. of shares	2011 No. of shares
Issued at 1 January	532,118,789	532,118,789
Issue of shares in respect of TRC Commutation arrangements	10,684,692	–
Issue of shares at par to settle share-based payment awards*	12,377,307	–
Issued at 31 December	<b>555,180,788</b>	532,118,789

\* During 2012 Ordinary Shares were allotted at par value into an EBT to settle share-based payment awards. There was no exercise price associated with these awards.

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.

## 14. Ordinary Share capital continued

### Contingent rights to the allotment of shares

The Group operates several share-based payment schemes and has a number of contractual obligations which have a contingent right to Ordinary Shares which may be settled by the allotment of shares in the Company. The Company may choose to purchase shares in the market or utilise its own shares to settle some of these awards.

At 31 December 2012 the maximum contingent right to the allotment of shares was as follows:

Scheme	No. of awards outstanding	Exercise price (p)	Exercise/vesting dates
Long-Term Remuneration Plan (Deferred Award)	24,957,487	0.00	7 April 2013 – 3 April 2015
Long-Term Remuneration Plan (Restricted Award)	25,802,439	0.00	4 May 2013 – 3 April 2016
TRC Management Retention Plan	19,183,301	0.00	1 September 2013
TRC Management Incentive Plan	7,989,558	0.00	1 September 2015 – 1 September 2016
TRC Commutation Awards*	3,761,922	0.00	1 September 2013 – 1 September 2016
Purchased Equity Plan (FCAM plc Shares)	493,810	0.00	31 March 2013
Deferred Share Awards	22,200	0.00	1 April 2014
Share Save Scheme	2,269	144.30	1 January 2013 – 1 April 2013
2002 Executive Share Option Scheme	280,278	139.00	1 January 2013 – 19 March 2013
2002 Executive Share Option Scheme	422,135	240.83	1 January 2013 – 9 March 2014
	<b>82,915,399</b>		

\* The potential number of shares as quantified at the reporting date.

Details of share-based payment arrangements are given in note 25 to the Consolidated Financial Statements.

### Employee Benefit Trusts (EBTs)

The following shares are held in EBTs where the Company is the sponsoring employer or in Nominee for the Company. These are categorised as own shares and deducted from shareholders' funds:

	31 December 2012 No. of shares	31 December 2011 No. of shares
F&C Management Limited Employee Benefit Trust	<b>8,864,824</b>	10,437,516
The Ivory & Sime Employee Benefit Trust	<b>64,176</b>	64,176
Held by RBC cees in a nominee capacity*	<b>4,072,180</b>	2,253,335
	<b>13,001,180</b>	12,755,027

\* These are specifically held as TRC Deferred Commutation Shares in respect of Commutation arrangements.

The aggregate nominal value of own shares held by EBTs at 31 December 2012 was £13,000 (31 December 2011: £13,000). The market value of these shares at 31 December 2012 was £13.3m (31 December 2011: £8.4m).

The Trustees of the EBTs have waived their right to the dividend entitlement on some of these shares.

During the year, the Company purchased 64,105 of its own Ordinary Shares (2011: 4,079,341) of 0.1p to satisfy the settlement of awards granted under share schemes and to hold as own shares in EBTs. The consideration paid for the shares was £0.1m (2011: £3.2m).

## 15. Reserves

Reconciliation of movement in reserves:

	Ordinary Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Fair value reserve <sup>(1)</sup> £m	Capital contribution reserve <sup>(1)</sup> £m	Profit and loss account £m	Total shareholders' funds £m
Balance at 1 January 2011	0.5	51.8	0.8	912.7	2.4	73.4	52.3	1,093.9
Profit for the year	-	-	-	-	-	-	16.5	16.5
Purchase of own shares	-	-	-	-	-	-	(3.2)	(3.2)
Equity-settled share-based payment charge	-	-	-	-	-	17.3	-	17.3
Transfer to Profit and Loss Account on settlement of share-based payment awards by subsidiaries	-	-	-	-	-	(16.5)	16.5	-
Fair value gains in the year	-	-	-	-	1.6	-	-	1.6
Fair value gains transferred to Profit and Loss Account	-	-	-	-	(3.3)	-	-	(3.3)
Tax on fair value movements	-	-	-	-	0.5	-	-	0.5
Final 2010 dividend paid	-	-	-	-	-	-	(10.4)	(10.4)
Interim 2011 dividend paid	-	-	-	-	-	-	(5.2)	(5.2)
<b>Balance at 31 December 2011</b>	<b>0.5</b>	<b>51.8</b>	<b>0.8</b>	<b>912.7</b>	<b>1.2</b>	<b>74.2</b>	<b>66.5</b>	<b>1,107.7</b>
Profit for the year	-	-	-	-	-	-	4.6	4.6
Share capital allotted on issue of TRC Commutation shares	0.1	7.1	-	-	-	-	(7.2)	-
Purchase of own shares	-	-	-	-	-	-	(0.1)	(0.1)
Equity-settled share-based payment charge	-	-	-	-	-	13.4	-	13.4
Transfer to Profit and Loss Account on settlement of share-based payment awards by subsidiaries	-	-	-	-	-	(8.0)	8.0	-
Fair value gains in the year	-	-	-	-	0.2	-	-	0.2
Fair value gains transferred to Profit and Loss Account	-	-	-	-	(0.6)	-	-	(0.6)
Tax on fair value movements	-	-	-	-	0.1	-	-	0.1
Final 2011 dividend paid	-	-	-	-	-	-	(10.4)	(10.4)
Interim 2012 dividend paid	-	-	-	-	-	-	(5.4)	(5.4)
<b>Balance at 31 December 2012</b>	<b>0.6</b>	<b>58.9</b>	<b>0.8</b>	<b>912.7</b>	<b>0.9</b>	<b>79.6</b>	<b>56.0</b>	<b>1,109.5</b>

<sup>(1)</sup> The Fair value reserve and Capital contribution reserve constitute 'Other reserves' as disclosed on the face of the Balance Sheet and amount to £80.5m at 31 December 2012 (31 December 2011: £75.4m).

The profit after tax of the Company for the year, before dividends paid, was £4.6m (2011: £16.5m).

## 16. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases:

	Premises	
	31 December 2012 £m	31 December 2011 £m
Commitments expiring within one year	-	-
Commitments expiring within two to five years	1.2	0.1
Commitments expiring outwith five years	3.3	4.5
	<b>4.5</b>	4.6

The premises financial commitments disclosed above do not include any sub-leasing arrangements which the Company may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

## 17. Capital commitments

There are no capital commitments not provided for at 31 December 2012 (31 December 2011: £nil).

## 18. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in note 38 to the Consolidated Financial Statements on pages 112 and 113.

## 19. Related party transactions

The Company has taken exemption from the requirement to disclose related party transactions with wholly-owned members of the F&C Asset Management plc Group on the basis that these companies are included within the Consolidated Financial Statements of F&C Asset Management plc.

### (a) Related party transactions with Sherborne

Sherborne owns approximately 20% of the Ordinary Share capital of F&C and is represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne, and Ian Brindle who is a representative of Sherborne. Sherborne is entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C. The Company's transactions with Sherborne are disclosed below:

	Total expensed and accrued during 2012 £m	Outstanding at 31 December 2012 £m	Total expensed and accrued during 2011* £m	Outstanding at 31 December 2011 £m
Ordinary dividends paid to Sherborne	3.2	–	3.0	–
Other expenses payable to Sherborne	0.3	–	0.2	–

\* With effect from Mr Bramson's appointment as Chairman on 3 February 2011.

### (b) Transactions with entities which are not wholly owned

#### F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of the "A" and "B" partnership units in F&C REIT Asset Management LLP (the Partnership). The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership, are:

Kendray Properties Limited	30.0% ownership interest in "B" units
Leo Noé	22.5% ownership interest in "A" units
Ivor Smith	7.5% ownership interest in "A" units

These parties are considered to be related parties.

#### Shared services and administrative services

The Company has a shared services agreement with F&C REIT Asset Management LLP whereby it provides certain administrative and professional services to F&C REIT Asset Management LLP. Amounts charged under this agreement are set out below:

	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m
<b>Administration service fees</b>	<b>0.8</b>	<b>0.2</b>	0.8	0.1

£5.1m of profit distributions were paid to the Company by F&C REIT Asset Management LLP in 2012 (2011: £13.5m).

F&C Asset Management plc recognises a share-based payment credit or expense in respect of the variable non-controlling interest enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 25(c) to the Consolidated Financial Statements on page 90.

The F&C REIT minority partners each have a put option, requiring the Company to purchase their minority stake in F&C REIT after a minimum number of years, at fair value. The fair value of the option is nil, as the potential amount payable is the same as the fair value of the interests to be acquired.

In the Consolidated Financial Statements the gross amount payable under the option is dealt with as a liability, in accordance with IAS 32 as an obligation for purchase of own equity. As at 31 December 2012, the value of this commitment is estimated at £33.8m (31 December 2011: £45.3m). Further details are provided in note 27 to the Consolidated Financial Statements on page 96.

During 2011 and 2012 the Company made carried interest investments in F&C REIT Carry LP and F&C REIT Carry 3 LP respectively. These investments will entitle the Company to a share of any future carried interest entitlement arising from the management of the F&C REIT Club Deals LPs.

## 20. Guarantees

The Company has provided the following guarantees as at 31 December 2012:

- A guarantee in respect of the F&C Asset Management Pension Plan. Details of this guarantee are disclosed in note 9.
- A guarantee for the £142.0m 9% Guaranteed Fixed Rate Loan Notes 2016 issued by F&C Finance plc, details of which are disclosed in note 21 to the Consolidated Financial Statements on page 77. These Loan Notes are unconditionally and irrevocably guaranteed by the Company.
- Guaranteed funding for its subsidiary F&C Treasury Limited until 20 September 2013 for satisfying its liabilities. At 31 December 2012, F&C Treasury Limited had net liabilities of £26.2m.
- Guaranteed funding for its subsidiary FP Asset Management Holdings Limited until 20 September 2013 for satisfying its liabilities. At 31 December 2012, FP Asset Management Holdings Limited had net liabilities of £0.6m.
- Guaranteed funding for its subsidiary F&C Alternative Investments (Holdings) Limited until 9 November 2013 for satisfying its liabilities. At 31 December 2012, F&C Alternative Investments (Holdings) Limited had net liabilities of £8.7m.

## 21. Contingent liabilities

### Ongoing business operations

In the normal course of its business, the Company is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

## 22. Parent undertaking and controlling party

In the opinion of the Directors, the Company has no ultimate parent undertaking and controlling party.

# Notice of Annual General Meeting

Notice is hereby given that the thirty-third Annual General Meeting of F&C Asset Management plc will be held at Ironmongers Hall, Shaftesbury Place, Barbican, London EC2Y 8AA on Friday 10 May 2013 at 11 a.m. (UK time) for the following purposes:

## Ordinary Business

To be proposed as ordinary resolutions:

1. To receive the Financial Statements and the Reports of the Directors and the Independent Auditor for the year ended 31 December 2012.
2. To declare a final dividend of 2.0 pence per share on the ordinary shares of the Company to be paid on 24 May 2013 to members whose name appears on the register of members at the close of business on 5 April 2013.
3. To elect Richard Wilson as a Director.
4. To re-elect Edward Bramson as a Director.
5. To re-elect Keith Bedell-Pearce as a Director.
6. To re-elect Keith Jones as a Director.
7. To re-elect David Logan as a Director.
8. To re-elect Keith Percy as a Director.
9. To re-elect Derham O'Neill as a Director.
10. To re-elect Kieran Poynter as a Director.
11. To approve the Directors' Remuneration Report for the year ended 31 December 2012.
12. To re-appoint KPMG Audit Plc as Auditor to the Company to hold office until the conclusion of the next general meeting at which Financial Statements are laid before the Company and to authorise the Directors to determine their remuneration.

### 13. THAT:

- (A) pursuant to section 551 of the Companies Act 2006 ('the Act'), the Directors be generally and unconditionally authorised to allot:
- (1) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £185,041.76, subject to **paragraph A(2)**; and
  - (2) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Act) up to a maximum nominal amount (when aggregated with any allotment made pursuant to **paragraph A(1)**) of £370,083.52 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;
- (B) the authorities given in this Resolution:
- (1) shall be in substitution for all pre-existing authorities to allot shares under section 551 of the Act (other than the specific authorities granted at the general meeting of the Company held on 18 June 2010 to allot shares to satisfy the consideration payable in relation to the acquisition of Thames River and the related commutation

arrangements and for the settlement of awards made under the management share plans) but without prejudice to the exercise of any such authority prior to the date hereof; and

- (2) unless renewed, revoked or varied in accordance with the Act, shall expire at the completion of the Annual General Meeting of the Company to be held in 2014, save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the right to subscribe for or to convert any security into shares in the Company, after such expiry; and
- (C) for the purpose of this Resolution, "Pre-Emptive Offer" means an offer of equity securities to:
- (1) holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and
  - (2) other persons entitled to participate in such offer by virtue of the rights attaching to any other equity securities held by them,

in each case, subject to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractional entitlements, legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

To be proposed as special resolutions:

### 14. THAT:

- (A) subject to the passing of resolution 13 set out in this Notice ('the Allotment Authority'), the Directors be given power pursuant to section 570 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash, pursuant to the authorities given by the Allotment Authority, and to sell treasury shares wholly for cash, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that such power shall be limited to the allotment of equity securities or the sale of treasury shares:
- (1) in the case of **paragraph A(1)** of the Allotment Authority, (a) in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting; or (c) otherwise, up to a maximum nominal amount of £27,759.04;
  - (2) in the case of **paragraph A(2)** of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue;
- (B) the power given in this Resolution:
- (1) shall be in substitution for all pre-existing authorities under section 570 of the Act but without prejudice to the exercise of any such authority prior to the date hereof; and

- (2) unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry.

This power applies to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the Act as if the words “in the case of **paragraph A(1)** of the Allotment Authority,” and “in the case of **paragraph A(2)** of the Allotment Authority,” were omitted from, respectively, **paragraphs A(1)** and **A(2)** of this resolution.

15. THAT, in substitution for any existing power under section 701 of the Companies Act 2006 (‘the Act’), but without prejudice to the exercise of any such power prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693 of the Act) of fully paid ordinary shares of 0.1 pence each in the capital of the Company (‘ordinary shares’) in such terms and in such manner as the Directors of the Company may decide, provided that:

- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 55,518,079 (being approximately 10 per cent of the issued ordinary share capital of the Company excluding treasury shares as at 22 March 2013);
- (ii) the minimum price which may be paid for an ordinary share is 0.1 pence (exclusive of expenses); and
- (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase,

such authority to expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2014, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts as if this authority had not expired.

### Special Business

To be proposed as an ordinary resolution:

16. THAT the amendment to the rules of the F&C Asset Management plc Long-Term Remuneration Plan (the “LTRP”) that is (i) summarised in the appendix to this Notice and (ii) contained in the amended rules of the LTRP produced in draft to the meeting and initialled by the Chairman for the purpose of identification be and is hereby approved and the Directors be

and are hereby authorised to do all such acts and things as they may consider necessary or appropriate to carry the same into effect.

To be proposed as a special resolution:

17. THAT the period of notice for calling a general meeting (other than an Annual General Meeting) shall be not less than 14 clear days provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2014.

By order of the Board

### W Marrack Tonkin, FCCA

Secretary

80 George Street  
Edinburgh EH2 3BU

25 March 2013

### Notes

- (i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and speak and vote on his/her behalf. A member may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
- (ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with the Annual Report and Financial Statements. To be valid, the Form of Proxy should be completed and signed and sent or delivered, together with any power of attorney or other authority under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, in accordance with the instructions contained therein, so as to reach the Company’s registrars, at the address stated thereon, not later than 11 a.m. (UK time) on 8 May 2013.
- (iii) Alternatively, shareholders who would like to lodge their proxy electronically may do so via the Sharevote website ([www.sharevote.co.uk](http://www.sharevote.co.uk)) or through CREST in each case so as to be received by no later than 11 a.m. (UK time) on 8 May 2013. Further details relating to proxy appointments through CREST are set out in note (xvi) below. If you return more than one valid proxy appointment in respect of the same share, either by paper or electronic communication, the one which is received last will take precedence. If the Company is unable to determine which of them was received last, none of them will be treated as valid in respect of that share.
- (iv) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting and voting should he or she wish to do so.
- (v) To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6.00 p.m. on Wednesday, 8 May 2013 (or, in the event of any adjournment, on the date which is two days (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- (vi) If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint a proxy. See note (vii) below.

- (vii) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ('Relevant Member') to be appointed or to have someone else appointed as a proxy for the meeting.
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- (viii) Any corporation which is a shareholder can appoint one or more corporate representative(s) who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
- (ix) Under section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
- (x) Any shareholder attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (xi) In accordance with section 311A of the Companies Act 2006, the contents of this Notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice of meeting will be available on the Company's website at [www.fandc.com](http://www.fandc.com).
- (xii) As at 22 March 2013 (being the latest practicable date prior to publication of this Notice) the Company's issued share capital consisted of 555,180,788 ordinary shares of 0.1 pence each carrying one vote each. No shares are held in treasury. Therefore, total voting rights in the Company as at 22 March 2013 are 555,180,788.
- (xiii) Copies of the following documents will be made available for inspection at the registered office of the Company and at the Company's head office during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this notice until the close of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting:
- the Executive Directors' service contracts and Non-executive Directors' letters of appointment; and
  - the articles of association of the Company; and
  - the rules of the LTRP marked up to show the proposed amendments.

- (xiv) A member may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purpose other than those expressly stated.
- (xv) The Company has made provision for shareholders who would like to vote by electronic means. You are referred to the section headed "Voting Online" on page 139 of the Annual Report and Financial Statements.
- (xvi) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by our Registrars, Equiniti (ID RA19) by 11 a.m. (UK time) on 8 May 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instruction to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## Appendix to Notice of Annual General Meeting

### Summary of the proposed amendment to the F&C Asset Management plc Long-Term Remuneration Plan

#### 1. Introduction

The LTRP was originally adopted on 4 October 2004 and is used to grant awards over Ordinary Shares to selected employees, including the Company's Executive Directors.

#### 2. Current dilution limit

The rules of the LTRP currently provide that the number of Ordinary Shares which may be placed under award on any day must not, when added to the aggregate number of Ordinary Shares placed under award or option in the previous ten years under the LTRP and any other employees' share scheme operated by the Company, exceed such number as represents 10% of the Company's issued ordinary share capital at that time.

For the purposes of this limit, the following are disregarded:

- (a) any Ordinary Shares that have been, or will be purchased, rather than allotted;
- (b) certain shares issued pursuant to the historic F&C Asset Management plc Reinvestment Plan;
- (c) certain shares issued pursuant to the acquisition of Thames River Capital and the related commutation arrangements and for the settlement of awards made under the Thames River Management Retention Plan and Management Incentive Plan; and
- (d) any Ordinary Shares subject to an award or option that has lapsed or otherwise become incapable of vesting.

#### 3. Proposed amendment to the dilution limit

For the reasons outlined on page 24 of the Annual Report and Financial Statements that accompany this Notice of Annual General Meeting, resolution 16 seeks shareholder approval to amend the LTRP's rules by raising the above dilution limit from 10% to 15% of the Company's issued ordinary share capital. No other change to these provisions is proposed and they will continue to be assessed over a rolling 10-year period.

#### 4. Defined terms

In this appendix, the following words and expressions bear the following meanings unless the context requires otherwise:

**"LTRP"** The F&C Asset Management plc Long-Term Remuneration Plan; and

**"Ordinary Shares"** Ordinary Shares of 0.1p each in the capital of the Company.

# Notice To US Shareholders – Certain PFIC Considerations

Shareholders should consult their own tax advisors as to the tax considerations applicable to them relating to the purchase, ownership and disposition of our ordinary shares (the 'Shares'), including the applicability of US Federal state and local tax laws and non-US tax laws. This discussion does not address tax considerations applicable to US Shareholders other than the passive foreign investment company rules.

F&C Asset Management plc (the 'Company') and certain of its subsidiaries may be treated as passive foreign investment companies (each, a 'PFIC') within the meaning of section 1297 of the US Internal Revenue Code of 1986, as amended (the 'Code') for US Federal income tax purposes.

Treatment of the Company or any of its subsidiaries as a PFIC could result in adverse tax consequences for US Shareholders.

A foreign corporation generally will be treated as a PFIC in any year in which either 75 per cent or more of its gross income constitutes passive income or at least 50 per cent of the value of its assets is attributable to assets which produce or are held for the production of passive income. In applying these tests, a non-US corporation that directly or indirectly owns at least 25 per cent, by value, of the stock of another corporation is treated as if it held directly its proportionate share of the other corporation's assets and received directly its proportionate share of the other corporation's income.

Whether a non-US company is a PFIC is determined annually, and the status of the Company, or any of its subsidiaries, could change depending among other things upon the changes in the composition of its gross receipts and assets, and the nature of its business.

US Shareholders are particularly urged to consult their own Tax Advisors regarding the US tax considerations relating to an investment in a company that may be or may become a PFIC, including the availability and consequences of elections that may be available to mitigate the adverse Federal income tax consequences of owning or disposing of PFIC shares. In that regard, US Shareholders should be aware that the Company does not intend to satisfy the record keeping and other requirements that would permit a US Shareholder to make a qualified electing fund ('QEF') election with respect to the Company or any of its subsidiaries.

Each taxpayer is hereby notified that: (a) any discussion of US Federal tax issues herein is not intended or written to be used, and cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under US Federal tax law; (b) any such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) the taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

# Corporate Information

## Directors

Edward Bramson, Chairman<sup>‡</sup>  
 Richard Wilson, Chief Executive  
 Keith Bedell-Pearce, Senior Independent Non-executive<sup>††</sup>  
 Ian Brindle, Non-executive  
 Keith Jones, Non-executive<sup>\*°</sup>  
 David Logan, Chief Financial Officer  
 Jeff Medlock, Non-executive<sup>\*†°</sup>  
 Derham O'Neill, Non-executive<sup>\*†</sup>  
 Keith Percy, Non-executive<sup>°</sup>  
 Kieran Poynter, Non-executive<sup>\*†°</sup>

<sup>‡</sup> Member of Nomination Committee

<sup>\*</sup> Member of Remuneration Committee

<sup>†</sup> Member of Audit & Compliance Committee

<sup>°</sup> Member of the Risk Committee

## Head Office

Exchange House  
 Primrose Street  
 London EC2A 2NY  
 Telephone 020 7628 8000  
 Facsimile 020 7628 8188  
 Email: enquiries@fandc.com

## Secretary and Registered Office

W Marrack Tonkin, FCCA  
 80 George Street  
 Edinburgh EH2 3BU  
 Telephone 0131 718 1000  
 Facsimile 0131 225 2375

## Solicitors

Norton Rose LLP  
 3 More London Riverside  
 London SE1 2AQ

Shepherd and Wedderburn LLP  
 1 Exchange Crescent  
 Conference Square  
 Edinburgh EH3 8UL

## Shareholder services available from Equiniti Limited

### Shareview

The Company's registrar, Equiniti, offers a Shareview service enabling shareholders to have more control over their shares and other investments:

- Direct access to data held on the share register including recent share movements and dividend details.
- The ability to change address details or dividend payment instructions online.
- To sign up for Shareview, shareholders need the "shareholder reference" printed on the proxy form or dividend stationery, and there is no charge to register.

On registration, shareholders can select their preferred format (post or e-mail) for shareholder communications. Shareholders selecting "e-mail" as their mailing preference will be sent shareholder communications, such as proxy forms and notice of Company results by e-mail instead of post, as long as this option is available. Shareholders selecting "post" as their preference will be sent paper documents as usual. Details of software and equipment requirements are given on the website, [www.shareview.co.uk](http://www.shareview.co.uk)

### Voting Online

In accordance with good governance practice, the Company is offering shareholders use of an online voting service, "sharevote", offered by Equiniti, at [www.sharevote.co.uk](http://www.sharevote.co.uk). Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (11 a.m. (UK time) on 8 May 2013) applies as for the Personalised Voting Form to vote or appoint a proxy by post to vote. Shareholders need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on the Personalised Voting Form to use this service.

## Principal Banker

The Royal Bank of Scotland plc  
 142-144 Princes Street  
 Edinburgh EH2 4EQ

## Stockbrokers

J.P. Morgan Cazenove  
 10 Aldermanbury  
 London EC2V 7RF

Jeffries Hoare Govett  
 Vintners Place  
 68 Upper Thames Street  
 London EC4V 3BJ

HSBC Bank plc  
 8 Canada Square  
 Canary Wharf  
 London E14 5HQ

## Auditor

KPMG Audit Plc  
 Saltire Court  
 20 Castle Terrace  
 Edinburgh EH1 2EG

## Registrar and Transfer Office

Equiniti Limited  
 34 South Gyle Crescent  
 South Gyle Business Park  
 Edinburgh EH12 9EB

## Corporate information

F&C Asset Management plc  
 Registered in Scotland  
 Company Registration Number SC73508

## Website

Shareholders are encouraged to visit our website

[www.fandc.com](http://www.fandc.com)



**F&C Asset Management plc**

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Website: [www.fandc.com](http://www.fandc.com)