F&C Asset Management plc

Annual Report and Financial Statements 2013

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Annual Report and Financial Statements 2013

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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.

Definitions

"BMO, BMO Financial" BMO Global Asset Management (Europe) Limited (a wholly-owned subsidiary of Bank of Montreal)

"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

£241.2m

Group underlying profit before tax

£69.2m

Underlying earnings per share

8.8p

Total dividends per share

3.0p

Financial and Business Highlights

- Strong investment performance, with 80 per cent of assets under management (AUM) outperforming objectives over the one and three-year periods to 31 December 2013
- Underlying earnings per share (EPS) increased 25.7 per cent to 8.8p (2012: 7.0p)
- Consumer and Institutional net inflows of £1.3bn (2012: net outflows £1.9bn)
- Cost reductions achieved in line with plan
- Underlying operating margin strengthened to 36.9 per cent in 2013 (2012: 29.2 per cent)
- AUM of £82.1bn (31 December 2012: £95.2bn); £20.3bn of Strategic Partner outflows during 2013
- Reduction in net debt to £76.0m (31 December 2012: £97.3m)

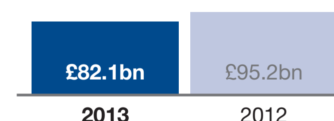
* As at the end of the reporting period

As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1 to the Consolidated Financial Statements

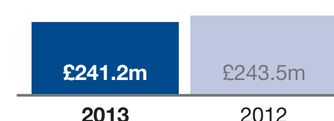
Calculations of key financial indicators are given in the 'Reconciliations of Statutory Results to Underlying Earnings' on page 138 and the underlying operating costs are analysed on page 139.

Reconciliations between statutory profit/(loss) and underlying earnings and between basic earnings/(loss) per Ordinary Share and underlying earnings per Ordinary Share are given in note 11.

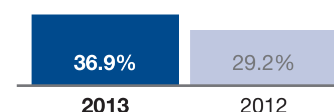
Assets under management*



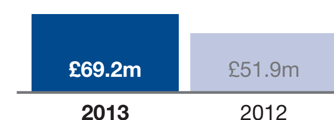
Net revenue



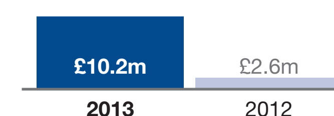
Underlying operating margin#



Group underlying profit before tax#

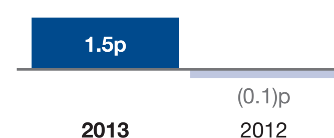


Statutory profit after tax#

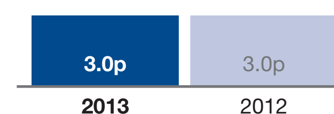


Underlying earnings per Ordinary Share#

Basic earnings/(loss) per Ordinary Share#



Total dividends per Ordinary Share



Chairman's Statement

Corporate developments

This is my first statement as Chairman of your Company, having assumed the role in August 2013 following Sherborne's distribution of shares and Edward Bramson's departure from the Board. The distribution of Sherborne's 20 per cent holding in the Company to their underlying investors not only increased the shareholdings of a number of institutions who were already owners of the Company's shares, it also resulted in the widening of the Company's shareholder base through the introduction of a number of new shareholders. We welcome both developments.

In 2013, your Company has made good progress towards its strategic goals. Overall profitability has increased, our cost base continues to fall and we have generated net inflows within our strategically important Consumer and Institutional businesses. While the business remains exposed to the future actions of our Strategic Partners, who collectively accounted for 51.5 per cent of our year-end assets under management (AUM) and 29 per cent of our 2013 net revenue, I believe that the positive momentum we have created within the business was a key factor in attracting the offer from BMO Global Asset Management (Europe) Limited (BMO), (a wholly-owned subsidiary of Bank of Montreal) announced on 28 January this year.

The proposed transaction with BMO, which the Board believes is in the best interests of shareholders, clients and staff, represents an important and positive development in your Company's history, and provides shareholders with an attractive premium against the potential medium-term standalone prospects and valuation of your Company. On 25 March 2014, shareholders approved the acquisition. Completion of the acquisition, however, remains subject to the satisfaction of certain regulatory and other conditions.

In 2008/9 the Company was in a prolonged offer period as a result of Friends Provident's strategic review. Shareholders may recall the significant challenges that this presented to client and staff retention, as well as limiting our ability to attract new funds flows. I am therefore pleased to report that we have received an overwhelmingly positive reaction from our clients, employees and other stakeholders to this transaction. This means that to date we have seen limited impact from the announcement. The Board is focused on ensuring the risk to the business from any further prolonged period of corporate uncertainty is minimised.

2013 results and dividend

Underlying earnings per share (EPS) rose 25.7 per cent to 8.8 pence with underlying profit after tax rising from £37.1 million in 2012 to £49.0 million in 2013. On a statutory reporting basis, which includes exceptional and non-cash items, the Group made a profit after tax of £10.2 million, compared to a profit after tax of £2.6 million in 2012. Basic EPS therefore also rose from a loss of 0.1 pence to earnings of 1.5 pence. Further details of the improved profitability are set out in Richard Wilson's Chief Executive Report, accompanying this statement.

In the 28 January 2014 announcement, we declared an ordinary course dividend of 2.0 pence per share for the year ended 31 December 2013, payable on 20 May 2014 (or earlier if the cash consideration pursuant to the intended transaction with BMO is dispatched to shareholders ahead of that date) to shareholders on the register at 4 April 2014. This brings full-year dividends to 3.0 pence per share, which is the same as that paid in respect of 2012.

Board changes

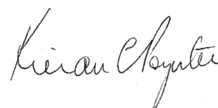
As highlighted in last year's Annual Report, Ian Brindle and Jeff Medlock retired from the Board on conclusion of the Annual General Meeting held on 10 May 2013. Since that date we have welcomed two new Directors to the Board, Charlie Porter and Ruth Sack. Charlie was formerly Chief Executive of Thames River Capital and therefore joined the Board as a non-independent Non-executive Director. Ruth is a partner in The Alliance coaching partnership and joined the Board as an Independent Non-executive Director. Both Charlie and Ruth have made significant contributions to Board discussions and are important additions to the Board.

It is with great sadness that we record the death of Alain Grisay. Alain had been with F&C from 2001 until his retirement in 2012, and had been the Company's Chief Executive since 2006. Alain's contribution to F&C, not least steering the Company through the financial crisis in 2008 and the demerger of F&C from Friends Provident in 2009, was very significant. He was a visionary executive and business leader with the utmost integrity and someone who was always concerned about fairness and equality for employees. Alain will be sadly missed by all of us who had the privilege of both knowing him and of working together. Our thoughts are with his family and friends.

Summary

2013 has been an eventful year for your Company and one in which we have made good progress. The improved profitability reflected in the Financial Statements demonstrates the focus your Board, the management team and all staff have had on developing the business in recent years. It also illustrates the focus we have on meeting or exceeding the expectations of our clients, without whom we would have no business. Our corporate values, placing clients' interests at the centre of all we do, will continue to remain of paramount importance to us in the future.

My thanks go to our management and staff for their efforts throughout the year that have enabled us to report the improvement in our results.



Kieran Poynter
Chairman

9 April 2014

Chief Executive's Report

Summary and outlook

2013 was a positive year for the Group, as we delivered progress in line with the strategic objectives set. Our investment performance was strong, we launched a number of new products in areas of growing client demand, our cost base reduced in line with the targets we previously set out and, importantly, net fund flows in our Consumer and Institutional business improved substantially.

However, the Group faces significant headwinds in the short term as our Strategic Partner assets decline and the growth from our Consumer and Institutional business, which is starting to emerge, takes time to develop. In 2013 some £20 billion of Strategic Partner assets were withdrawn as their contracts matured. The combined annualised revenue loss associated with these assets and related fee changes, including F&C REIT, is some £35.5 million, of which £11.3 million is reflected in the 2013 results given the timing of withdrawals during the year. Whilst Consumer and Institutional net inflows were some £1.3 billion during 2013, as described later in this report, the annualised net revenue increase from these inflows will be modest. In contrast to 2012 and 2013, there will be no further material cost reductions to compensate for the full-year revenue impact in 2014 of the Strategic Partner withdrawals in 2013. The Group remains on track to deliver the remaining cost savings associated with the original cost-reduction programme. However, the increased importance of and focus on asset growth and new revenue generation from Consumer and Institutional will require investment in our sales and distribution functions, as well as ensuring that we retain the investment talent required to offer our clients the investment performance and solutions they require.

Irrespective of these financial challenges, F&C will continue to strive to deliver what our clients expect in terms of investment performance and client service. It is this that will build F&C's franchise and enable the Company to achieve its ambitious plans for growth.

Business flows and revenues

The Group incurred overall net outflows of £19.0 billion during the year, comprising some £20.3 billion of Strategic Partner outflows and £1.3 billion of Consumer and Institutional net inflows. The Strategic Partner outflows predominantly reflect the maturity and changing nature of the contractual relationships with these parties, while the Consumer and Institutional inflows demonstrate the growing momentum in this area of our business. The level of Strategic Partner outflows during 2013 was anticipated, but the annualised loss of revenue associated with them remains significant and is estimated at approximately £24.3 million with some £8.0 million of this impact recognised in 2013. In addition, contractual terms were renegotiated with a major institutional client of F&C REIT, and as a result of this the revenues from that client will reduce on an annualised basis by £8.5 million, of which some £2.8 million is reflected in the 2013 results.

Third-Party Institutional gross sales were strong during 2013, with £5.1 billion of new mandates funded, an increase of some £2.2 billion over the prior year. Although outflows from the institutional business were £0.3 billion higher than 2012, our net flow position improved considerably, with net inflows of £1.2 billion (2012: net outflows of £0.7 billion). This encouraging result is indicative of our much improved position with investment consultants, where our credentials in areas such as fixed income and Liability Driven Investments (LDI) have gained strong recognition. Our Consumer business also had a good year, generating net inflows of £519 million (2012: net outflows of £40 million).

While the combined Consumer and Institutional business achieved net inflows of some £1.3 billion during 2013, the revenue margin on the gross inflows was lower than that on outflows, and accordingly, the annualised net revenue increase associated with these inflows will be modest. This is driven by two factors. Firstly, the Consumer and Institutional business incorporates a range of clients with very different fee characteristics and secondly, as we start to win larger institutional mandates, with strong absolute revenues, these are often at lower fee margins than the smaller mandates we were previously gaining.

Results

Net revenue for the year was £241.2 million (2012: £243.5 million). Within this overall figure, revenue from Strategic Partners fell £10.8 million, whilst revenues from the Consumer and Institutional business increased by £8.5 million, as a result of the combination of fund flows described above, together with market and exchange movements in our asset base and changes in revenue yields.

Underlying operating costs, excluding amortisation of intangible assets and exceptional items, were £152.4 million (2012: £172.2 million). Core operating expenses declined by £19.3 million during the year, whilst distributions to the individual members of the Thames River LLPs declined by £0.5 million. The reduction in core operating expenses reflects the ongoing recognition of savings resulting from the implementation of actions from our strategic review process in 2011 and 2012, and we remain on track to generate the original cumulative savings target of £48.8 million.

The Group also incurred a number of exceptional and non-recurring costs which totalled £11.2 million (2012: a net cost of £10.4 million) and are excluded from underlying results. These represent the final costs associated with our back and middle office outsourcing, the remaining one-off expenses of implementing our cost-reduction programme, the costs associated with the Thames River retention plan and commutation agreements, and the movement in the F&C REIT put option liability.

Group underlying operating profit increased from £71.1 million in 2012 to £89.0 million in 2013. After net interest expense, tax and a deduction for the share of the Group's profit attributable to the non-controlling interests in F&C REIT, this resulted in underlying earnings per share for the year of 8.8 pence (2012: 7.0 pence) attributable to shareholders.

On a statutory basis, which includes non-recurring and other exceptional items, the Group reported a profit after tax of £10.2 million for 2013 (2012: £2.6 million).

The Group closed the year with £182.0 million of shareholders' cash reserves and net debt reduced to £76.0 million (2012: £97.3 million). A significant proportion of the shareholders' cash reserves are held in our regulated subsidiaries against their capital requirements.

Gross debt of some £258 million (2012: £258 million) comprises £116 million of subordinated loan notes and £142 million of senior loan notes, neither of which include any financial covenants.

Business review

During 2013 the Group focused on its financial objectives of delivering the planned cost savings associated with the strategic review and improving cashflow generation, while working to retain Strategic Partner assets, executing Consumer and Institutional short-term sales and growth plans, and developing product and marketing plans for the medium term.

As demonstrated by the financial information above, the Group has continued to make good progress with the cost-reduction programme initiated in 2011 and remains on schedule to achieve its previously announced target. F&C did not repurchase any further debt in 2013 as a combination of rising prices and illiquidity made this less attractive. The reduction in net debt is attributable to improved cashflow generation.

F&C's Consumer and Institutional fund flows show that we are making progress in winning new clients, whilst outflows from Strategic Partners in 2013 reflect what we announced during the year and are consistent with the maturing of the specific contracts. We continue to work closely with all our Strategic Partners to explore opportunities to extend our relationships beyond their initial contractual periods.

The long-term contract with Achmea expired during the year and they withdrew some £10 billion of "own risk" assets at maturity. We have renegotiated commercial terms for circa £6 billion of the remaining own risk assets, which are now under contract until November 2015. In addition we manage a further £7.4 billion of Achmea assets.

During 2013, we also amended our contractual arrangements with Friends First, our Irish strategic partner, allowing them to withdraw certain assets in return for revised contractual arrangements on remaining assets. Whilst this resulted in a loss of circa £1.1 billion in assets and £1.0 million in annualised revenues, we have been able to re-align F&C's cost base in Ireland and have extended some of the remaining contracts to Q4 2018. As at 31 December 2013, we managed £1.5 billion on behalf of Friends First.

The long-term contract with the Millennium BCP group expired in 2011 and, whilst we continue to manage a range of asset classes on their behalf, during 2013 they terminated mandates for approximately £260 million of property assets with £1.5 million of associated annualised revenues, placing them under the management of an in-house subsidiary. As at 31 December 2013, we managed £11.2 billion on behalf of Millennium BCP.

During 2013, Friends Life withdrew £6.0 billion of fixed income assets and transferred them to their in-house manager. At 31 December 2013, we managed £16.2 billion on behalf of Friends Life. On 18 March 2014, Friends Life announced that they have selected a new investment manager in respect of £12.2 billion assets and that they will transfer a further £2.3 billion of fixed income assets to their in-house asset manager. We anticipate that these assets will be withdrawn by the end of 2014.

Turning to our Investment Trusts, we are pleased to report that 8 out of 12 trusts issued shares during 2013, with a total value in excess of £100 million. It is also encouraging to note that we have about 172,000 customers in the F&C Investment Trust savings plans. These plans now have close to £2 billion under management, up from £1.5 billion a year ago, and we are seeing consistent monthly inflows to Investment Trusts through our savings plans.

The UK Retail market continues to experience major change. Whilst it appears that the full effects of RDR (Retail Distribution Review) will not be seen and understood in the market for some time, we continue to believe that our Multi-Manager and Lifestyle product ranges leave us well placed to benefit from emerging trends in the UK retail market place, and we will focus on continuing to improve our position in this market. New business in 2013 supported this positioning with £0.4 billion of gross inflows into these funds and £2.1 billion of gross flows across all Retail funds.

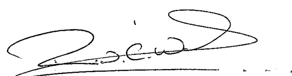
Our Third-Party Institutional business continues to make progress, with gross inflows increasing from £2.9 billion in 2012 to £5.1 billion in 2013. Importantly, a significant proportion of our inflows continue to be generated from "long duration" products, such as LDI and Property, which should have a long period under management. As we look forward, we aim to maintain and grow the gross inflows from this business, widen the product range generating gross inflows and continue to reduce the level of gross outflows. To achieve these goals we plan to increase our distribution resources focused on this market during 2014.

Our distribution ambitions will only be met if we have strong investment performance, and during 2013 our fixed income, equities and property capabilities all performed well. Relative returns were particularly good in fixed income; this is encouraging as it is a core asset class for insurance portfolios and, increasingly, for defined benefit pension schemes. On a three-year annualised asset-weighted basis, 90 per cent of our fixed income portfolios outperformed their respective benchmarks. On the same basis, 70 per cent of our equity portfolios outperformed, with our European equity performance being particularly strong. Indeed the European Equity SICAV Fund ranked in the 1st percentile of its peer group of over 1,300 funds for the three-year period to 31 December 2013. 77 per cent of our property assets are above benchmarks over the three-year period. The Company received a number of prestigious awards for investment performance and services to clients during the year.

In 2013 we have continued to re-organise our investment capabilities, investing where necessary, in order to provide the investment solutions that are being demanded of us by our clients. As the objectives of our clients change, so F&C must evolve to meet those requirements. F&C has been at the forefront of innovation in the industry for many years and it is our aspiration to ensure that this remains the case.

Recommended acquisition of the Group by BMO Global Asset Management

On 28 January 2014 we announced that agreement had been reached on the terms of a recommended cash acquisition by which the entire ordinary share capital of F&C will be acquired by BMO Global Asset Management (Europe) Limited. The Board believes that the proposed acquisition will give us the opportunity to accelerate our growth plans for the business, with the support of a financially strong and ambitious parent. On 25 March 2014 shareholders approved the resolutions necessary to support the acquisition. Completion of the acquisition, however, remains subject to a number of regulatory and other conditions.



Richard Wilson
Chief Executive Officer

9 April 2014

Strategic Report

Pages 6 to 21 of the Strategic Report set out an overview of F&C, our strategy and the principal risks to the strategy. They also illustrate the areas of key focus in 2014.

This is F&C

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

We invest globally. However, the majority of our assets are sourced from, and all our assets are managed from, Europe. Our clients are insurance companies, Institutional, Retail and Wholesale investors, representing over three million individuals – for whom we managed £82.1 billion at 31 December 2013.

2013 Key Awards

LIPPER
FUND AWARDS 2013
AUSTRIA

LIPPER
FUND AWARDS 2013
EUROPE

LIPPER
FUND AWARDS 2013
FRANCE

LIPPER
FUND AWARDS 2014
UNITED KINGDOM

LIPPER
FUND AWARDS 2013
GERMANY

LIPPER
FUND AWARDS 2013
SPAIN

LIPPER
FUND AWARDS 2013
NETHERLANDS

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 groundbreaking 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 culture

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

- **Clients:** we put our clients first, adding value and building relationships.
- **Accountability:** for performance in delivering, and indeed exceeding, all of our clients' objectives.
- **Innovation:** constantly challenging and improving the way we do things for the benefit of our clients and ourselves.
- **Respect:** integrity and trust form the cornerstone of all our activities.

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 developed tailored products and services to meet their current and evolving needs:

- 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.

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

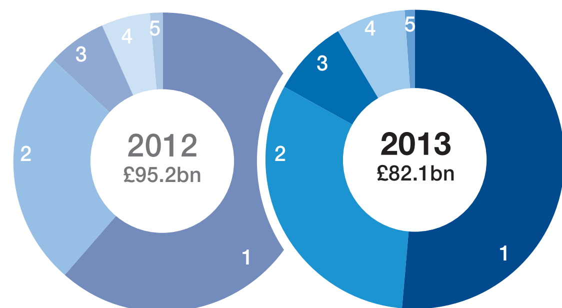
We seek to deliver strong investment performance through active management. However, as a shareholder representative, we engage with the companies in which we invest, aiming to enhance and protect long-term shareholder value. Our approach is to have constructive dialogue with companies. We cast votes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

Principal risks and uncertainties (see pages 11 and 12)

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 principal risks and uncertainties facing the business:

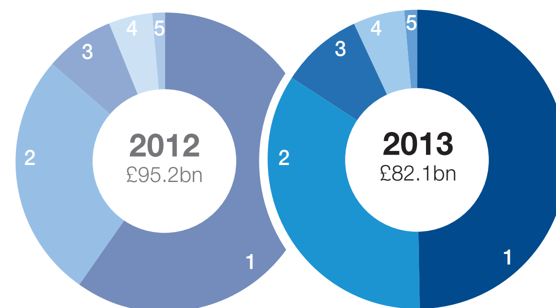
- **Effective execution of strategy**
- **Uncertain economic outlook**
- **Investment performance**
- **Loss of key employees**
- **Breach of client or portfolio limits**
- **Regulation**
- **Loss of key clients**
- **Reliance on third parties**
- **Business continuity and information technology**
-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

Assets Under Management by Client Category
as at 31 December



	2012 £bn	2013 £bn
1 Strategic Partners	58.5	**42.3**
2 Third-Party Institutional	24.4	**26.1**
3 Investment Trusts	6.0	**6.7**
4 Retail	5.0	**6.1**
5 Wholesale	1.3	**0.9**

Assets Under Management by Asset Class
as at 31 December



	2012 £bn	2013 £bn
1 Fixed Interest	56.3	**40.9**
2 Equities	25.7	**28.3**
3 Property	7.5	**7.3**
4 Liquidity	4.5	**4.6**
5 Alternative Investments	1.2	**1.0**

Group Management

Richard Wilson
Chief Executive Officer

Benjamin Apfel
Head of Legal

Peter Cole
Head of HR

Nick Criticos
Chief Executive, F&C REIT

Steve Ilott
Co-Head of Investment

David Logan
Chief Financial Officer

Mandy Mannix
Head of Client Management

Hugh Moir
Head of Operations & IT
CEO of Thames River LLP

Nigel Parry
Head of Compliance

Martin Smith
Head of Product Management

Marrack Tonkin
Head of Investment Trusts & Group Company Secretary

Richard Watts
Co-Head of Investment

Messrs 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 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 Group's strategic focus in 2013 has been on the following:

- Delivery of strong investment performance;
- Growing assets under management and revenues within our Consumer and Institutional business by generating new flows into existing products and launching new products into areas of client demand where we have the capability to deliver a differentiated offering;
- Retaining Strategic Partner assets, where it is commercial for us to do so, and maximising client retention within our Consumer and Institutional business; and
- Continuing to deliver the planned cost savings associated with the strategic review, improving cashflow generation and reducing net debt.

Investment performance

2013 key points

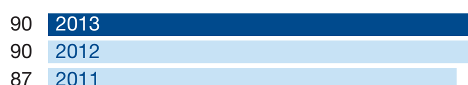
- 90 per cent of fixed income assets were ahead of agreed index benchmarks or targets over three years as at year end
- 70 per cent of equity assets were ahead of agreed index benchmarks or targets over three years as at the year end
- 77 per cent of IPD monitored property portfolios were ahead of benchmark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

2014 Priorities

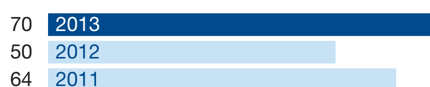
- To continue to focus on meeting or exceeding the performance objectives set by our clients
- Improve investment performance in areas of weaker relative performance, e.g. emerging equities

Key performance indicators

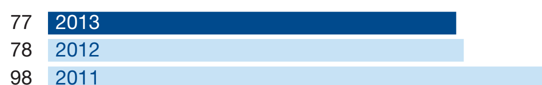
Average percentage of Fixed Income assets above index benchmark or peer group on an asset-weighted basis
% (3 years)



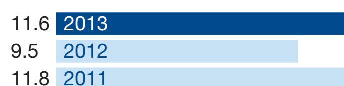
Average percentage of Equity assets above index benchmark or peer group on an asset-weighted basis
% (3 years)



Average percentage of Property assets above index benchmark or peer group on an asset-weighted basis
% (3 years)



Performance fees earned
£m



Grow new assets under management within our Consumer & Institutional business

2013 key points

- Generated £1.3 billion of Consumer and Institutional net inflows
- Good progress with institutional investment consultants, with 74 product buy ratings achieved by the end of the year
- Generated £5.1 billion of Third-Party Institutional gross sales, with a further pipeline of £0.7 billion in institutional mandates awaiting funding
- 100 new institutional clients added during the year
- Launched 4 new products into the Consumer business
- Two thirds of our Investment Trusts issued shares during the year raising in excess of £100m in new assets

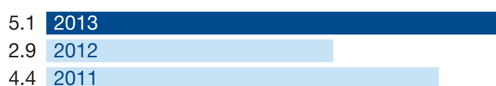
2014 Priorities

- Continued focus within the Consumer business on our Multi-Manager and Lifestyle product ranges
- Key institutional products include emerging market debt, equity-linked bond funds, liability driven investments and real estate
- Restructure our distribution resource to maximise new business growth opportunities
- Increase our distribution resource within the Institutional business
- Grow gross inflows into the business and widen the product range where opportunities are identified

Key performance indicators

Gross Third-Party Institutional new business*

£bn

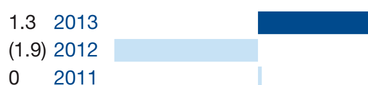


Net inflows/(outflows) in Consumer business*

£bn

Net inflows/(outflows) from Consumer & Institutional business*

£bn



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

Retaining Strategic Partner assets and maximising client retention within our Consumer and Institutional businesses

2013 key points

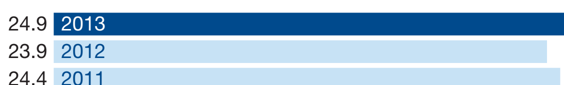
- £20.3 billion of Strategic Partner outflows reflecting the maturity and changing nature of contractual relationships with these parties
- Revised contractual arrangements signed with Friends First in Ireland over the remaining £1.5 billion of assets managed on their behalf
- Revised commercial terms agreed with Achmea on £6 billion of remaining "own risk" assets
- Continued management of £11.2 billion of assets for Millennium BCP in Portugal
- Revised contractual terms agreed with a major Institutional client of F&C REIT
- Net inflows within both our Consumer and Institutional businesses

2014 Priorities

- Continued focus on the retention of Consumer and Institutional business
- Develop and implement client specific account plans for key Institutional clients
- Retention of existing Strategic Partners where it is commercial to do so

Key performance indicators

Average basis points earned on assets under management*



* Excluding performance fees.

Delivery of the planned cost savings, improving cash flow and reducing net debt

2013 key points

- Core operating costs reduced by a further £19.3 million in 2013 (2012 reduction £23.2m)#. See page 139
- The cost reduction/realignment programme remains on target to deliver £48.8 million of annualised cost savings
- Operating margin increased to 36.9% (2012: 29.2%)
- Net debt reduced to £76.0m (2012: £97.3m)

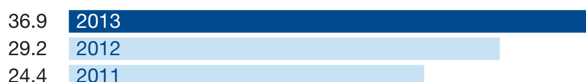
2014 Priorities

- Further reduction in net debt
- Continued focus on managing the cost base

Key performance indicators

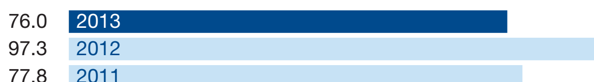
Underlying operating margin#

%



Net debt†

£m



† Excluding Policyholder cash.

\# 2012 – as restated for the adaption of IAS 19 Employee benefits (revised), as disclosed in note 1.

Managing principal risks and uncertainties

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 as well as 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 considers 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 investment ideas/strategies. The Group operates an independent Investment Risk Oversight team which monitors and challenges risks within client portfolios and provides appropriate management information. A Performance and Risk Review Committee for each individual area meets regularly (normally monthly) to ensure an appropriate level of oversight is applied to investment performance and risk. 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.

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 two years, 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. 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, the risk team conducts a regular review of mandate compliance.

Regulation

Key Risk The UK, European and global regulatory environments are evolving rapidly. 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 an ongoing risk that these clients 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 potential 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 partners are State Street Corporation (State Street) and International Financial Data Services (IFDS). State Street provides a range of back and middle office, fund accounting and transfer agency services and IFDS provides an administrative service for certain Retail and Investment Trust savings products.

Mitigation The Group conducted an extensive selection and due diligence exercise prior to selecting State Street and IFDS as outsource providers and entering into 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 contracts, 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 both State Street and IFDS are incentivised to provide the level of service that is required. The Supplier and Change Management team holds regular service review meetings with State Street and IFDS 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.

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 Counterparty Credit 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.

Scottish independence referendum

Key risk The Group's ultimate holding company is a Scottish-registered company and a number of subsidiary companies and clients are registered in Scotland. The impending Scottish Referendum creates a level of uncertainty and its outcome may have adverse financial or other consequences for the Group.

Mitigation The Group considers that, should the vote be in favour of independence, there will be a transitional period during which there will be an opportunity to assess the new situation and take any appropriate action.

Our industry view

The outlook for the asset management industry remains positive. Continued changes to the structure of pension provision have supported demand and provided impetus for ongoing innovation in products. Increasing personal wealth in the emerging economies provides a new pool of assets to manage, creating scope for growth in the industry.

With a growing number of pension schemes (of all sizes) actively seeking specialist investment expertise as they re-orientate themselves from a primary focus on return generation to de-risking and immunisation of future liabilities, demand for liability driven strategies remains strong. The asset management industry has responded to this demand with a raft of increasingly sophisticated and innovative offerings. More broadly, asset managers are increasingly providing options for those seeking sources of return outside core assets with multi-asset, emerging market debt and diversified alternatives increasingly prevalent alongside more traditional products.

As open defined benefit (DB) pension schemes become increasingly scarce the defined contribution (DC) pensions market continues to grow rapidly. Government initiatives have triggered greater inflows into DC pension products and raised public awareness of the importance of long-term pension planning. Since October 2012 UK companies have been legally obliged 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. According to the Pension Regulator, by the end of 2013, around 2.6 million employees had been automatically enrolled into an appropriate pension scheme. The National Employment Savings Trust (NEST) provides an option for individuals with no access to a company pension scheme.

Responsible investment is now firmly on the mainstream investor agenda, with a growing consensus that consideration of environmental, social and governance (ESG) issues can enhance investment analysis and underpin long-term returns. The UN Principles for Responsible Investment, to which F&C was a founder member, are proving to be an important driver in many markets, with membership growing and a new reporting framework in place which requires institutions to be more transparent about their compliance. A major emerging trend is the growth in demand for meaningful ESG integration – the assessment of ESG issues within mainstream investment processes. The aim of integration is to build a better understanding of how issues such as corporate governance, climate change and labour standards management may impact long-term company performance.

Within the Retail and Wholesale markets the Retail Distribution Review (RDR) was noticeable in its impact during the first half of 2013. Asset flows from advisers and wealth managers were lower than normal as many advisory firms were focused on adapting their business models to meet the new regulatory environment. Advisers are no longer able to receive payment from product providers for any new recommendations made to clients, and this means the cost of the adviser's fee has transferred from the product provider directly to the client. Greater transparency of costs and charges has, in turn, led to a reduction in product and fund charges as cost becomes an increasingly important differentiator between products and asset managers. It is encouraging to note that Retail fund flows from advisers picked up in the second half of the year as both advisers and clients showed signs of adjusting to the new regulatory environment.

A further impact of RDR is the sharp increase in the number of consumers choosing to make their own investment decisions. More banks announced changes to their advice propositions in 2013, further reducing availability of advice, particularly for those with lower levels of assets. We expect significant Retail market disturbance to continue, if not increase, up to the Financial Conduct Authority's (FCA) sunset clause for pre-RDR trail commission in 2016. This has come to the fore in the first quarter of 2014 with the recent flurry of revised 'clean' pricing structures across the self-directed market, ahead of the April 2014 deadline for new business. This presents a significant opportunity for well-positioned asset managers with straightforward consumer products designed for, and capable of delivering cost effectively to, the mass lower net worth market.

2013 was a positive year for the Investment Trust sector. Investment performance has, in the main, been encouraging especially relative to comparable open-ended offerings. Discounts across the industry have narrowed to their lowest level for many years, IPOs and secondary issues are up on 2012 and share buy-backs have fallen-off significantly. Demand for Investment Trusts from wealth managers has been strong, encouraged by another good year in equity markets. There is early evidence that RDR is creating some additional demand for Investment Trusts from the intermediary sector and a number of IFA platforms have been active buyers of trusts, albeit from a low base. Equally interesting is the more significant growth in Investment Trust assets under administration on direct-to-consumer platforms; clearly one outcome of RDR has been a rise in the number of individuals choosing to self-manage their investments rather than rely on advice. We are still far from seeing the full effects of RDR on the Investment Trust sector and there is more for the sector to do to ensure advisers fully understand the intricacies of Investment Trusts.

As noted above, product pricing in the UK Retail sector has increasingly come under scrutiny, and this trend is extending to the Wholesale and Institutional channel, partly as investors increased their scrutiny of fund charges during the period of lower investment returns that commenced with the financial crisis in 2008, and partly as a result of the increasing availability of lower-cost passive products in many areas of the market. Increased regulatory focus in this area is likely to ensure that this increased scrutiny is a continuing theme.

Regulatory change is another key feature of the market, with the FCA rightly ensuring that market participants focus appropriately on the interests of their clients. Whilst client focus has always been at the centre of the Group's core values, over the last year we have taken the opportunity to reinforce this through training and communication and have reviewed our governance policies and processes in a number of key areas, including our product governance and oversight arrangements for fair treatment of customers.

Our trading performance and outlook

Introduction

F&C provides asset management services to two groups of clients, 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 represent a small group of insurance clients for whom we have historically managed assets under longer-term contractual arrangements. As these contractual relationships reach maturity, our focus is on the retention of those clients and assets which we can manage on a profitable basis aligned with our investment processes and priorities for our Consumer and Institutional business. Key factors in maximising Strategic Partner retention include a relevant, competitively priced product offering which delivers appropriate investment performance and strong client service and relationship management. Strategic Partner relationships are generally of much greater size than our average customer relationships, whether measured by AUM or revenues.

Given the nature of the business managed for our Strategic Partners, we anticipate that, as a number of the underlying insurance products provided by Strategic Partners move towards maturity, the assets managed for these clients will decline. Accordingly, in order for the Group to win new AUM and revenues, we are heavily dependent on the Consumer and Institutional channel, and our marketing, sales and product development efforts are therefore biased towards this area of our business.

Strategic Partner business

Our Strategic Partners comprise: Millennium BCP (Portugal), Achmea (The Netherlands), 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. 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. These are long-standing relationships, which originally provided us with exclusivity to manage the assets of these partners for a minimum period of time. However, the maturity of the original contracts has resulted in a number of changes to the AUM, revenues and the nature of the relationships with these key clients. The AUM for Strategic Partners were £42.3 billion at 31 December 2013 (2012: £58.5 billion), or approximately 52 per cent (2012: 61 per cent) of total AUM. However, as a result of the lower fee margin on these mandates, Strategic Partners generated approximately 29 per cent of 2013 revenues (2012: 33 per cent).

The exclusivity period with Millennium BCP ended in 2012. At 31 December 2013, we continued to manage approximately £11.2 billion on behalf of Millennium BCP (2012: £11.4 billion), which principally represents the funds associated with the BCP Ageas insurance joint venture. Net outflows during the year were approximately £1.3 billion, with the majority of these outflows representing the maturity of fixed life, unit-linked insurance policies, although approximately £260 million of outflows arose from the termination of property asset management mandates during Q4 2013, which Millennium BCP determined to manage internally. The annualised revenue associated with these property mandates is approximately £1.5 million.

The Achmea long-term contract expired in October 2013 and at that date Achmea withdrew some £10 billion of "own risk" assets. Principally as a result of that withdrawal, assets managed on behalf of Achmea fell from £22.8 billion at 31 December 2012 to £13.4 billion at 31 December 2013, with the assets managed at 31 December 2013 representing a combination of remaining own risk assets, Retail funds and insured institutional pension schemes. The withdrawal of own risk assets during 2013, together with renegotiated fee rates for the remaining own risk assets, will result in an annualised reduction in all revenues from Achmea of approximately £15.7 million.

Whilst the Friends First long-term contract extended to 2015, we agreed to amend our commercial arrangements with Friends First during Q3 2013. In particular, we allowed Friends First to terminate certain own risk mandates in advance of their contractual maturity, as this permitted us to restructure our Irish operation and consequently reduce the Group's cost base. Friends First AUM declined from £2.4 billion at 31 December 2012 to £1.5 billion at 31 December 2013, principally as a result of the reduction in own risk assets. This withdrawal reduced our annualised revenues from Friends First by approximately £1 million.

Friends Life AUM at 31 December 2013 were approximately £16.2 billion (2012: £21.9 billion). The Friends Life long-term contract is due to expire during 2014. However, on 18 March 2014 F&C was informed by Friends Life that they have selected a new investment manager in respect of £12.2 billion of multi-asset and equity mandates currently managed by F&C and that they intend to transfer a further £2.3 billion of sterling fixed income assets to Friends Life Investments, their in-house asset manager. The Group has received notice of termination or an indication to serve notice in respect of these assets and anticipates that they will be withdrawn by the end of the year.

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, and which comprise open-end Retail funds and Investment Trusts. As set out above, the Consumer and Institutional business is the Group's key driver for growth and it is therefore pleasing to note that Consumer and Institutional AUM have grown from £36.7 billion in 2012 to £39.8 billion in 2013 and that the Consumer and Institutional business generated net inflows of £1.3 billion during 2013.

The Third-Party Institutional business includes a range of solutions-led products, principally aimed at assisting clients to 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 AUM were £26.1 billion at 31 December 2013 (2012: £24.4 billion) representing 32 per cent (2012: 26 per cent) of our total AUM and some 30 per cent of 2013 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, and this resulted in gross institutional inflows of £5.1 billion in 2013 (2012: £2.9 billion). Gross institutional outflows of £4.0 billion were slightly greater than the prior year (2012: £3.7 billion). However, primarily as a result of the growth in inflows, net flows improved from an outflow of £0.7 billion in 2012 to a net inflow of £1.2 billion in 2013. Additionally, at 31 December 2013 the Group had a further pipeline of institutional new business that had been won, but had not yet funded, net of notified withdrawals, of some £0.7 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 see significant opportunities to grow our institutional AUM and revenues, particularly from further growth in our liability-matching products and, in the medium term, multi-asset products.

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. We classify these products and channels as consumer business. 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 differs 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 2013, the total assets managed in fund products and Investment Trusts increased by £1.4 billion to £13.7 billion at 31 December 2013. However, within this net growth, AUM attributable to Thames River Wholesale funds fell by some £0.4 billion whilst AUM attributable to funds managed by F&C teams grew by some £1.8 billion. Net inflows came from products such as Global Convertibles, Emerging Market Debt and Multi-Manager, whilst outflows were biased towards products such as Global Bond and Global Credit.

We anticipate that our Retail sales will be biased towards Multi-Manager products in 2014, whilst we believe that our strong European equities performance positions us well for flows in both the Retail and Wholesale channels.

Our financial performance

Strategic and market backdrop

The Group conducted a thorough review of strategy in 2011 and the resulting objectives are summarised on page 9 of these Financial Statements. The review of strategy acknowledged that, as historical Strategic Partner contracts came to maturity, there was a significant risk of repatriation of assets by those clients. It sought to address this risk through a combination of active management of the Group's cost base, to ensure that the Group remained financially robust should a significant withdrawal of Strategic Partner assets and a related decline in revenues occur, and through targeting accelerated growth in the Consumer and Institutional channel, to provide new sources of revenue. It also sought to improve cashflow generation, to reduce the Group's net indebtedness and, in turn, its net interest expense.

The Group is a manager of assets in equity, fixed income and currency markets and its revenues are affected by movements in key variables within these markets. Equity market levels and fixed income market levels impact our AUM and, consequently, our revenues; at the end of 2013 approximately 50 per cent of our assets were invested in fixed income securities, and a further 34 per cent in equities. In 2013 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 AUM levels.

Equity markets posted strong returns over 2013; the FTSE 100 opened at 5898; it increased significantly to 6840 in May before subsequently falling to 6029 on 24 June 2013 and recovering strongly to close the year at 6749. The average FTSE 100 level over 2013 was 6472. Fixed Income markets posted lower levels of return during 2013 as investors increased their allocations to risk assets. For example, the Barclays Euro Aggregate Index, a broad fixed income index, opened the year at 159.5 and closed the year at 167.2, an increase of some 4.8 per cent.

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 provided certain clients with asset management services inside an insurance product wrapper; however, as MPF was not an area of strategic focus for the Group and AUM within MPF had declined substantially over the last few years, a project was initiated in 2012 to offer clients the opportunity to transfer their funds to either pooled funds managed by F&C, or to an alternative provider. As a result, the financial investments, investment contract liabilities and cash attributable to policyholders of MPF have reduced to de minimis amounts by 31 December 2013 and the remaining balances were redeemed during Q1 2014.

Net revenue

Net revenue for the year was £241.2 million (2012: £243.5 million). This included £11.6 million (2012: £9.5 million) of performance fee income. Performance fee income was earned from a variety of fund and client types, with our property Investment Trusts making the most significant contributions; the TR Property Trust earned a performance fee of £3.1 million, whilst the F&C Commercial Property Trust contributed performance fees of £2.6 million.

Our revenue mix reflects the changing nature of our business, and as Strategic Partner AUM declines, the associated revenue fell by some £10.8 million during the year. By contrast, Consumer and Institutional revenues increased by £8.5 million.

The reduction in Strategic Partner revenues reflects the reduction in AUM. Strategic Partner AUM at the start of 2013 was £58.5 billion, some £5.2 billion, or approximately 8 per cent, lower than at the start of the previous year, with this reduction reflected in opening revenues. In addition, over the course of 2013, Strategic Partner assets declined by a further £16.2 billion, to end the year at £42.3 billion. The reduction during the year included withdrawals of £6.0 billion of fixed income assets by Friends Life in June 2013 and £10 billion of own risk fixed income assets by Achmea in October 2013, together with ongoing withdrawals, partially offset by market growth and foreign exchange gains of £4.1 billion. Our average fee rate earned on Strategic Partner assets in 2013 was 13 basis points, being consistent with the rate earned in 2012. This rate is expected to fall due to the impact of lower fee rates associated with the retained Achmea own risk assets.

The growth in Consumer and Institutional revenues principally reflects greater AUM, together with increased performance fees. Consumer and Institutional AUM opened 2013 at £36.7 billion, broadly in line with prior year opening assets. However, over the course of 2013, net inflows of £1.3 billion, together with market growth and foreign exchange movements of £1.8 billion, resulted in AUM increasing to £39.8 billion by the end of the year. Our average fee rate was 43 basis points in both 2012 and 2013.

Consumer and Institutional fund flows represent a key performance indicator (KPI) used by the Board and management to assess the progress of the business. As noted above, Consumer and Institutional net inflows during 2013 were positive, at £1.3 billion. However, the annualised revenues from these net flows were modest as the inflows carried an average revenue margin of 39 basis points, whilst the average revenue margin on outflows was approximately 45 basis points. In addition, during Q3 2013 a significant property asset management contract expired and, whilst the asset management activities were successfully retained, the related revenues reduced by approximately £2.8 million in 2013 and will reduce by a further £5.7 million in 2014.

Revenue margin

Our revenue margin excluding performance fees, measured as our net management fee income divided by average AUM, increased from 23.9 basis points in 2012, to 24.9 basis points in 2013. The increase principally reflects the significant outflows of Strategic Partner assets, which carry a fee margin of approximately 50 per cent of the Group's average revenue margin.

Operating expenses

The Group's underlying operating expenses, excluding foreign exchange gains and losses, amortisation of intangible assets and exceptional items, were £152.4 million in 2013, a reduction of some £19.8 million, or 11.5 per cent, over prior year levels. Over the last two years, underlying operating expenses have reduced by some £49.7 million, as the Group successfully achieved its goal of reducing its cost base to provide financial flexibility as Strategic Partner AUM and revenues decline. A summary comparison of underlying operating expenses for 2013 and 2012 is given on page 139.

The 2013 reduction comprises two elements. Firstly, core operating expenses fell from £160.6 million in the prior year to £141.3 million in 2013, a reduction of £19.3 million. This reflects the implementation of the cost reductions outlined in the Group's strategic review and we remain on track to generate cumulative cost savings in line with the original target of £48.8 million, although certain of these savings may be used to fund selective investment in key growth areas of the Group's business. Secondly, distributions to the individual members of the Thames River Limited Partnerships fell from £11.6 million in 2012 to £11.1 million in 2013, reflecting reduced management fees from the Thames River Wholesale funds, partially offset by the distributions associated with the increased performance fees generated by the TR Property Trust. The Group's largest cost remains personnel cost and during the year, headcount, on a full-time equivalent basis, fell by some 65 to 658 at 31 December 2013.

During 2012, we incurred exceptional employment, premises and outsourcing expenses of £12.8 million and one of our goals for 2013 was to reduce these costs and the related cashflows significantly. This has been successfully achieved, with comparable 2013 exceptional expenses of £4.3 million of which some £2.6 million was incurred during the first half of the year. These exceptional costs are excluded from our underlying results and are set out in more detail in note 7 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. The majority of these cost savings were realised through headcount reductions and during 2013 exceptional employment-related costs of £2.4 million have been recognised in respect of termination and benefits payments; these represent the one-off cost incurred to generate the annualised savings. We do not anticipate any further exceptional expenses associated with the implementation of the strategic review in 2014 or beyond.

During the first half of 2013, we incurred a further £1.6 million of project management, implementation and consultancy costs completing the transfer of our back and middle office functions to State Street's long-term strategic platform. This represented the final phase of our outsourcing project which commenced in 2011 and accordingly the exceptional expenditure ended at this point.

Operating margin

The Group's underlying operating margin for 2013 was 36.9 per cent compared to 29.2 per cent in 2012.

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.

The successful implementation of the cost-reduction programme has been a key contributor to the improvement in operating margin, with 2013 cost reductions adding approximately 8.2 per cent. Operating margin represents one of management's key performance indicators. However, as a result of the reduction in annualised revenues from Strategic Partners, highlighted in our trading outlook, together with the limited scope for further cost savings before such reductions have potentially adverse consequences on the growth prospects of the business, it is likely that, in the short term, operating margin will reduce from its 2013 levels.

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 gains amounted to £0.4 million (2012: losses of £2.0 million). Such gains and losses are excluded from underlying earnings as they do not reflect the ongoing profitability of the business.

On a constant-currency basis, had 2013 results been recognised at the same average Euro/Sterling exchange rate as 2012, the underlying operating profit would have been some £3.3 million lower than reported. This equates to an underlying earnings per share impact of approximately 0.5p.

Financing revenue and expenses

The Group's finance revenue fell to £2.3 million (2012: £3.9 million), principally as a result of gains on debt repurchases arising in 2012; as there were no debt repurchases during 2013, no such gains were recognised.

Our finance costs fell by £1.0 million to £22.1 million, primarily as a result of reduced interest of £0.9 million on our senior and subordinated loan notes, as a consequence of the aforementioned debt repurchases in 2012.

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.

During 2013, F&C REIT, the Group's property asset management business, renegotiated and renewed the contract with one of its major clients. As previously noted, this resulted in a reduction in revenues of £2.8 million in 2013 and a further £5.7 million in 2014. This was viewed as an indicator of impairment and accordingly a full impairment review of the related intangible asset was conducted, resulting in recognition of an impairment loss of £1.4 million and a reassessment of the remaining life of the unamortised asset. Our total amortisation and impairment cost in respect of investment management contracts for 2013 was £42.7 million (2012: £42.5 million); this cost is excluded from underling earnings.

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 also been classified as exceptional and excluded from the measurement of underlying earnings.

Firstly, at the time of acquisition in 2010, the Group established a Management Retention Plan (MRP) to retain and incentivise certain key individuals within Thames River. Some 21.7 million F&C shares, with a value of £15 million at date of grant, were originally awarded under this plan. The value of these share awards was treated as an expense and charged to the Income Statement over the vesting period. The MRP vested in August 2013 and some 19.2 million F&C shares were issued to meet our commitments under the Plan. The cost of the Plan recognised in the eight months to 1 September 2013 was £1.2 million.

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 April 2014.

Under the second commutation, the Group could, if it wished, acquire profit share from each or any investment team. The maximum amount of profit share which could be acquired through the first and second commutation is typically 20 per cent of the profit share of each investment team. The second commutation was exercisable in September 2013 and the Group did not exercise its rights; it did, however, agree with one investment team to extend the exercise date to April 2014. An accounting cost of £1.7 million has been recognised in the 2013 Financial Statements in respect of the remaining commutation option. On 4 April 2014, F&C exercised its remaining commutation option. Details are given in note 42(d) to the Consolidated Financial Statements.

The aggregate commutation expense of £2.7 million therefore reflects the charge of £1.0 million for those commutation options which have been exercised and a charge of £1.7 million for the remaining option which has been assumed to be exercised.

F&C REIT

Our non-controlling 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 2013, an upward revaluation resulted in a charge of £3.0 million being included in the 2013 Income Statement. This expense 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 11 to the Consolidated Financial Statements and is summarised on page 82. Underlying earnings per share for the year ended 31 December 2013 were 8.8p (2012: 7.0p). The year-on-year growth reflects an increase of £11.9 million in underlying profits attributable to shareholders, partially offset by an increase of 5.0 per

cent in the average number of ordinary shares outstanding during the year, primarily reflecting shares issued to meet our commitments to employees under incentive and retention plans.

Dividends

An interim dividend of 1.0 pence per share was paid during the year and on 28 January 2014 the Board declared a second interim dividend of 2.0 pence per share, in lieu of a final dividend, resulting in a total dividend for the year of 3.0 pence per share for 2013. The second interim dividend will be payable no later than 20 May 2014.

Cash resources

The Group has gross debt of some £258.0 million (2012: £258.0 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. Whilst the Group has a stated intention to reduce gross debt, in light of prevailing prices and market conditions during 2013, no subordinated loan notes or senior loan notes were purchased for cancellation. The Group did, however, meet its objective of improving cash flow and reducing net indebtedness. During 2013, Group cash resources attributable to shareholders increased by £21.3 million, to £182.0 million at 31 December 2013. A significant portion of cash is held in our regulated subsidiaries against their regulatory 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 9.0 per cent interest rate. Our cash deposits earn interest based on bank deposit rates. We use multiple counterparties for our cash deposits, which are approved by the Group's Credit and Counterparty Approval 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 human rights 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

	2012 position	Existing position	2014 target
BITC Corporate Responsibility Index	Platinum status	Platinum status	N/A*
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

* Having reached Platinum status in the previous two years, the Company elected not to participate in the BITC Corporate Responsibility Index for 2014.

F&C identifies its key stakeholders as clients, shareholders, 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 set the goal of achieving at least 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 has assessed that the Group's largest environmental impact is the carbon we emit from energy usage in our offices and through business travel. Details of these CO2 emissions, expressed in tonnes and tonnes by employee are set out below. Further details of the Group's emissions, dating back to 2006, are contained in the Company's Corporate Responsibility Reports published on the Company's website. 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.

Category	Co2 emissions (tonnes)*	CO2 emissions (tonnes per employee)*
Emissions from gas and electricity[1]	323	0.49
Emissions from business travel	949	1.47

* Emissions of CO2 arising from office usage of gas and electricity have been calculated using conversion rates from ClimateCare.

[1] Includes emissions from air conditioning refrigerant gas loss.

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 and human rights

F&C is committed to ensuring good practices in managing its own workplace and human rights 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.

Details of the Group's employees, equal opportunities and gender diversity within the workplace is set out on page 24.

CR key performance indicators

Category	KPI/statistic	2013 performance	2014 targets
Marketplace	Number of resolutions voted on during the year	100%	100%
	Proportion of companies contacted following an abstention or vote against management	100%	100%
Environment	Carbon neutrality	Full	Full
	Reduction in paper consumption	5%	5%
Workplace	Diversity or Compliance training (staff coverage)	100%	100%
Community	Staff participation in Give As You Earn	10%	15%
	Employees participating in charitable events and charitable fundraising	356	475
	Staff volunteering for community projects	31 staff days	365 staff days

Community

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

In 2014 F&C is targeting 365 staff days of community volunteering by employees.

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 our 2013 community or charity events

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

In 2013, 14 members of staff participated in the BiTC's Community Games initiative which formed part of their annual "Give & Gain" event.

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

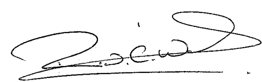
More than 20 members of staff based in the UK volunteered for a variety of events held by the Group's Charity of the Year, Brainwave.

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.

Strategic Report summary

The Strategic Report on pages 6 to 21 of this document has been approved by the Board and signed on its behalf by:



Richard Wilson
9 April 2014

David Logan
9 April 2014

Company Directors

Non-executive Directors

1 Kieran Poynter‡

Chairman

Mr Poynter joined the Board in June 2009 and was appointed Chairman in August 2013. 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.

2 Keith Bedell-Pearce CBE‡*† o

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 Charlie Porter

Mr Porter joined the Board in October 2013. Prior to his appointment, Mr Porter was responsible for the F&C Group's Retail and Wholesale business, including Investment Trusts. Mr Porter founded Thames River Capital in 1998 after leaving Baring Asset Management and successfully developed and managed the company until its acquisition by F&C in September 2010.

4 Keith Jones‡*o

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 Ruth Sack

Independent Director

Ms Sack joined the Board in October 2013. She has been Executive Coach with The Alliance, which she founded, for 10 years. Before that, Ms Sack spent 20 years in financial services, creating successful businesses in New York and London. Her last investment banking role was helping Schroders rebuild their equity business.

6 Derham O'Neill*†

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 was formerly the chairman of Scotty Group plc and Schroder Asian Property Managers Limited (Bermuda) and a non-executive director of Cedar plc, Georgica plc and Schroder Venture Managers Limited (Bermuda).

7 Keith Percy‡†o

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 Chairman of Brunner Investment Trust plc and a Director of Standard Life Equity Income Trust plc, Henderson Smaller Companies Trust plc, JP Morgan Japanese Investment Trust plc and formerly a director of The Childrens Mutual.

Executive Directors

8 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.

9 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.

‡ Member of the Nomination Committee
* Member of the Remuneration Committee
† Member of the Audit & Compliance Committee
o Member of the Risk Committee

Report of the Directors

Results, business review and dividend

The Group's results for the year ended 31 December 2013 are shown in the Consolidated Income Statement on page 57. A Strategic Report for the year ended 31 December 2013 and future developments are covered on pages 6 to 21. This report, 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 £10.2 million.

On 28 January 2014, the Directors announced a second interim dividend for 2013 of 2.0 pence per share, amounting to £11.8 million, resulting in a total of 3.0 pence and £17.6 million for the year.

The second interim dividend will be paid on 20 May 2014 (or earlier if the consideration for the proposed transaction with BMO is dispatched ahead of that date) to ordinary shareholders whose names are on the register on 4 April 2014. No liability for the proposed dividend has been recognised as at 31 December 2013, 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 Chief Executive's Report and the Strategic Report on pages 3 to 21.

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 37 to the Consolidated Financial Statements. There are also three branch offices in the Group outside the UK, in Germany, Luxembourg 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:

Achmea Group

There is one material Investment Management Agreement (the Agreement) in place with a company within the Achmea Group since October 2004 in relation to which, in the event of a change of control whereby a third party acquires a controlling interest in F&C, immediate termination is possible. The discretionary portfolio management of all assets covered by this Agreement is due to transfer back to the Achmea Group at the latest by the end of the second quarter of 2014. The other three material Investment Management Agreements previously in place with the Achmea Group, which incorporated the same provision with regard to change of control as the Agreement, have all been terminated and replaced by agreements that contain no provisions at all with regard to change of control.

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 13 to the Consolidated Financial Statements. At 31 December 2013, there were no significant differences between the net book and market values of property, plant and equipment.

Environmental impact

Details of the Company's carbon emissions from energy usage and business travel are contained on page 20.

Financial instruments

Details of financial instruments are disclosed in notes 15 and 18 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 35 to the Consolidated Financial Statements.

Share capital and Directors' interests (Audited)

As at 31 December 2013 the Company had 581,035,337 ordinary shares in issue with each ordinary share entitled to one vote.

During 2013 the Company issued 6,671,248 ordinary shares in respect of vested awards or options under the Company's long-term incentive schemes. The Company also issued 19,183,301 ordinary shares to satisfy Management Retention Plans.

Details of shares under option at 31 December 2013 are shown on page 150. 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 2013**	31 Dec 2012**
Kieran Poynter	Beneficial	**30,000**	30,000
Keith Bedell-Pearce	Beneficial	**51,285**	51,285
Keith Jones	Beneficial	**Nil**	Nil
David Logan	Beneficial	**324,231**	98,336
	Non-Beneficial*	**64,176**	64,176
Derham O'Neill	Beneficial	**Nil**	Nil
Keith Percy	Beneficial	**Nil**	Nil
Charlie Porter	Beneficial	**100,000**	100,000
Ruth Sack	Beneficial	**Nil**	Nil
Richard Wilson	Beneficial	**588,476**	211,792

* 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 35

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 £113,000 (2012: £133,000). No political donations or contributions were made during the year (2012: £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.

Substantial interests in share capital

The Company has been informed of the following substantial interests, above 3 per cent as at 9 April 2014:

	Ordinary Shares	Percentage
Elliott Capital Advisors, L.P.	120,930,645	20.6
Aviva	70,367,809	12.0
Standard Life	59,193,192	10.1
Jupiter	23,178,282	3.9
Sarasin & Partners LLP	21,159,478	3.6
Dimensional Fund Advisors	19,701,925	3.4

Employees and gender diversity

At 1 March 2014, there were 597 full-time employees and 66 part-time employees within the Group (1 March 2013: 649 full-time employees and 75 part-time employees).

At 1 March 2014 33% of our full time employees were female and 67% were male. 11% of the Company's Directors were female and 89% were male. 8% of the Group Management team were female and 92% were male. 20% of senior managers across the business were female and 80% were male. Further details of employee diversity, dating back to 2006, are contained in the Company's Corporate Responsibility Reports published on the Company's website.

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 workplace.

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 43 or the notes to the Consolidated Financial Statements on pages 107 to 115.

Recommended acquisition of the Group by BMO Global Asset Management

On 28 January 2014, the Company announced that agreement had been reached on the terms of a recommended cash acquisition by which the entire ordinary share capital of F&C will be acquired by BMO Global Asset Management (Europe) Limited. On 25 March 2014 shareholders approved the resolutions necessary to support the acquisition. Completion of the acquisition, however, remains subject to a number of regulatory and other conditions.

Annual General Meeting (AGM)

The Company will hold its AGM in June 2014.

Details of all resolutions being put to shareholders will be set out in the Notice of Annual General Meeting that will be sent to shareholders in early June.

Board changes

On 10 May 2013, Messrs Brindle and Medlock retired from the Board on conclusion of the Annual General Meeting. On 22 August 2013, Edward Bramson resigned from the Board. On 4 October 2013, Ruth Sack joined the Board as an independent Non-executive Director. On 15 October 2013, Charlie Porter joined the Board as a Non-executive Director.

Information relating to the Directors is set out on page 22.

Auditor

Following their intention to gradually wind down the activity in their registered firm, KPMG Audit Plc, KPMG have proposed that an alternative entity, KPMG LLP, become the Company's auditor. KPMG have advised that the change is purely administrative and that there will be no adverse impact on investors' interests as a result.

Accordingly, KPMG have notified the Company that KPMG Audit Plc is not seeking reappointment and have provided a statutory statement of circumstances upon ceasing to hold office pursuant to Section 519 of the Companies Act 2006. In accordance with section 520 of the 2006 Act, a copy of this statement is enclosed with the Report and Accounts. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning its appointment will be put to the forthcoming AGM of the Company. There is no impact on the terms in which the auditor will be retained.

Details of the auditor's remuneration is provided in note 5(c) to the Consolidated Financial Statements and further detail on how the Board ensures the independence of the auditor is detailed on page 32 within the Directors' Report on Corporate Governance.

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

9 April 2014

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 May 2010 (the Code) and updated by the FRC in September 2012 (the New Code) have been applied.

Statement of compliance

The Directors consider that the Company has, throughout the year ended 31 December 2013 and up to the date hereof, applied the principles and met the requirements of the Code and the New Code without exception.

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 Strategic Report on pages 6 to 21. The financial position of the Group, its cash flows and liquidity position are described in the Strategic Report on pages 16 to 19. In addition, note 35 to the Consolidated 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 Chairman, two Executive Directors and six Non-executive Directors, five of whom the Board has identified as Independent Directors. Charlie Porter, a former employee of the Group, does not meet the criteria of independence as set out in the accepted guidance.

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 biographies of the Directors appear on page 22. 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 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).

Details of the gender diversity of the Group's employees is set out on page 24.

(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 Kieran Poynter. The Committee comprises the Chairman of the Company and three independent Non-executive Directors.

Members of the Nomination Committee

Kieran Poynter, Keith Bedell-Pearce, Keith Jones and Keith Percy.

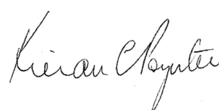
Activities and work of the Committee

During 2013, the Committee, with the assistance of external search consultants, led the process for the selection of an Independent Non-executive Director and on 10 June 2013 the Board approved the appointment of Ruth Sack.

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



Kieran Poynter
Chairman, Nomination Committee

9 April 2014

(B) Statement of the Audit & Compliance Committee

Purpose and Terms of Reference

The Committee scrutinises 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 functions.

Membership

The Committee is chaired by Keith Bedell-Pearce. 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 2014.

Members of the Audit & Compliance Committee

Keith Bedell-Pearce, Derham O'Neill and Keith Percy.

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 per annum. 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 and Compliance departments, 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. A similar process is adopted at the interim reporting stage, and a final meeting takes 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. At each meeting held, the Committee receives a number of written and oral reports from management and a number of other parties, notably from the internal audit, compliance and finance functions and from the Group's external auditor.

Two of the members of this Committee serve on the Risk Committee. The overlap in membership between the committees ensures that a consistent approach is taken to risk assurance across the Group.

In discharging its duties in relation to assessing the overall control environment of the Group, the Committee considers and approves a number of Audit and Assurance Facility (AAF) Reports issued by the Company to clients and consultants. These reports, reported on by KPMG, describe the key controls in place within the business relating to the investment management activities, client servicing, operations and IT infrastructure. All 2013 AAF Reports issued by the Company received an unqualified audit opinion from KPMG.

The Audit & Compliance Committee has reviewed the content of this year's Annual Report & Financial Statements and has advised the Board that, in its view, the document is fair, balanced and understandable and contains the information required for shareholders to assess the Group's performance, business model and strategy.

Significant accounting matters

During the year the Committee focussed in particular on the following key accounting matters and areas of judgement contained within or impacting these Financial Statements:

1. Intangible assets

There are two components of intangible assets; goodwill and investment management contracts.

Goodwill

The carrying value of goodwill in the Consolidated Statement of Financial Position as at 31 December 2013 is £611.9 million. This goodwill has arisen as a result of a number of business acquisitions over previous years. In accordance with IFRS, goodwill is not amortised but is tested for impairment annually or, earlier if an indicator of impairment is identified, using a value in use model. The Committee critically reviews the key assumptions associated with, and inputs to, the value in use model. These include factors such as the discount rate, the initial revenue and costs, subsequent growth in revenue and costs and duration of cashflows. The Committee also, in conjunction with Executive Management, monitors business developments for indicators of potential impairment. At 31 December 2013 no impairment arose as the value in use was in excess of the carrying value of goodwill.

Investment management contracts

Intangible assets in respect of management contracts are carried at a net book value of £43.1m in the 31 December 2013 Consolidated Statement of Financial Position. The value of these contracts initially arose from historical mergers and acquisitions. However, unlike goodwill, they are amortised over their estimated useful lives and are also subject to an impairment review if an indicator of impairment arises. The Committee reviews key business developments to identify whether any changes should be regarded as indicators of impairment. They also assess the remaining lives associated with investment management contracts for reasonableness and the inputs into the value in use model used to determine any impairment loss. One indicator of impairment arose during 2013, being the renegotiation of the contract with one of F&C REIT's major clients and subsequent reduction in associated revenues. Following a full impairment review and a reassessment of the remaining lives of the contracts, an impairment loss of some £1.4 million was recognised on the F&C REIT intangible asset management contracts. In considering the nature of the revised contractual relationship with that client, the Committee also supported management's assessment that the estimated useful life had been extended by approximately two years as a result of the renegotiation.

Details of the impairment reviews undertaken, both in respect of goodwill and management contracts, and the value of intangible assets are included in note 14 of the Consolidated Financial Statements.

2. Share-based payments

The Group's Remuneration arrangements comprise a mixture of cash payments and awards in F&C shares and funds managed by F&C. The awards in shares and funds comprise a mix of deferred and restricted awards which vest over periods of between one and four years from the date of award. The vesting of deferred awards is based only on future service; restricted awards vest based on a combination of future service and achievement of performance targets, such as total shareholder return, growth in earnings per share, investment performance or the value of net new AUM gained by the Group. The Committee examined the vesting percentages adopted for each performance target and considered whether they were appropriate, in light of past experience and management forecasts.

Details of all share awards are set out in note 26 to the Consolidated Financial Statements, including the assumed vesting levels of restricted share awards.

3. F&C REIT put option liability

The non-controlling interest (NCI) partners in F&C REIT have, under certain circumstances, the right to require the Group to acquire their interests in F&C REIT, and a liability is included in the Group's Statement of Financial Position for the related obligation. An external valuation is performed each year to determine the fair value of the F&C REIT business and hence the value of the put option liability. The Committee considers the independence and professional skills of the external valuer each year and reviews and considers their methodology and resultant valuation to ensure it is appropriately reflected in the Financial Statements.

Details of the rights assigned to the NCI partners of F&C REIT are set out in note 28.

4. Revenue recognition – performance fees

The Group's revenue principally comprises management fee income, generally calculated as a percentage of assets under management at periodic billing dates. However, a small proportion of income is generated from performance fees, based on the absolute investment performance of a client's assets, or their relative performance compared to a hurdle or benchmark, over a defined period. Where the performance period is not coterminous with the Group's financial reporting period, the performance fees recognised must be estimated and such estimates are inherently subjective. The Committee has critically reviewed the assumptions adopted in calculating accrued but uncrystallised performance fees at the financial reporting date. Total performance fees recognised in 2013 are £11.6 million (2012: £9.5 million).

5. Recoverability of F&C REIT receivables

As at 31 December 2013, the Group had a significant balance, of £13.3 million outstanding from one client, which was beyond its due date. The Committee reviewed the expected payment schedule for this amount, together with the related agreements with the client. The Committee also considered the value of the collateral held by the Group in respect of this receivable, and subsequently determined that no impairment provision was required at the financial reporting date in respect of this balance.

Details of the collateral held are given on page 125.

Audit tender

The UK Corporate Governance Code has introduced new recommendations setting out that audits should be subject to tender at least once every ten years.

KPMG has been the Group's auditor since 2006. Details of how the Committee assesses the performance, effectiveness and independence of the auditor are set out on page 32. The Committee has agreed to conduct an audit tender process during 2016 to coincide with mandatory rotation of the current lead audit partner.

For the Board

Keith Bedell-Pearce

Chairman, Audit & Compliance Committee

9 April 2014

(C) 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.

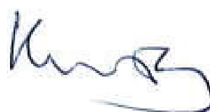
Members of the Risk Committee

Keith Percy, Keith Bedell-Pearce 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

9 April 2014

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2013 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
Number of meetings held						
2013/(2012)	**7**(7)	**2**(2)	**4**(4)	**5**(3)	**4**(5)	**2**(2)
Kieran Poynter*	7	2	3	3	1	2
Edward Bramson[1]	5	2	–	–	–	1
Keith Bedell-Pearce*	7	2	4	1	4	2
Ian Brindle[2]	2	2	–	–	–	–
Keith Jones*	7	2	3	5	4	1
David Logan	7	–	–	–	–	–
Jeff Medlock[2]	2	2	2	1	2	–
Derham O'Neill*	7	2	4	–	3	–
Keith Percy*	7	2	1	5	2	1
Charlie Porter[3]	5	–	–	–	–	–
Ruth Sack[4]	4	–	–	–	–	–
Richard Wilson	7	–	–	–	–	–

* Changes to the membership of the Nomination, Audit & Compliance, Risk and Remuneration Committees took place in August 2013. These changes explain the attendance statistics of Messrs Poynter, Bedell-Pearce, Jones, O'Neill and Percy.

1 Retired from the Board in August 2013.

2 Retired from the Board in May 2013.

3 Appointed to the Board in October 2013, attended Board meetings from May 2013.

4 Appointed to the Board in October 2013, attended Board meetings from June 2013.

Board roles

Chairman

The Chairman of the Company is Kieran Poynter. As Chairman, Kieran 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, Richard 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, Jones, O'Neill, Percy, Porter and Ms Sack 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 has committed to addressing all matters raised.

The Board also set itself objectives early in 2013 and assessed its performance against these objectives throughout the year.

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.

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 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.

At the time of the announcement of the proposed transaction with BMO, the Company's Chairman and Chief Executive 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 and interim results presentations.

Electronic communications

Copies of the 2013 Annual Report and Financial Statements, 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 Financial Conduct Authority Listing Rules, complied with the Code provisions on internal control for the year ended 31 December 2013.

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 9 April 2014, 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 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 Strategic Report on pages 11 and 12.

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 2013. 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 which applied during 2013 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. In conducting this review the Audit & Compliance Committee assess the quality of staff, the strength of lead partners at key locations, the expertise, the resources and the quality of written and oral presentations made by KPMG. 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 2013 are disclosed in note 5(c) on page 76 of the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2013 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 FCA and leading practice.

Statement Regarding Annual Report and Financial Statements

The Directors consider that the Annual Report and Financial Statements, taken as a whole are fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board,

W Marrack Tonkin, FCCA

Secretary
80 George Street
Edinburgh EH2 3BU

9 April 2014

Directors' Remuneration Report

Introduction from the Chairman of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2013.

As shareholders will be aware, F&C is required to comply with the new regulations governing disclosure of Directors' remuneration and this report has been prepared in accordance with these requirements.

The Group continues to take a team-based approach to investment management and to the management of the business as a whole. This is reflected in our Remuneration Policy which is applied consistently to Executive Directors, investment professionals and all employees.

High level summary of events and accomplishments

- 2013 has been another significant year for the Group.
- This has been the first full year with our new CEO leading the Group.
- The new Chairman of the Board was appointed on 22 August 2013.
- The corporate strategy outlined in 2011 and 2012 has continued to be implemented.
- There has been substantial progress in repositioning the business for long-term growth.

Remuneration Committee activity during 2013

- The Remuneration Policy has been reviewed to ensure it continues to be fit for purpose.
- Policy revisions have been approved and implemented taking into account future regulatory changes.
- Following shareholder consultation the Committee has approved and implemented a broader base of long-term performance measures for awards in 2013.
- The Committee has agreed to reintroduce deferrals of cash bonus awards. The policy was last applied in 2009.
- We have taken account of shareholder feedback and implemented a cap on the potential cash bonus payable to Executive Directors.
- The Committee has agreed with management that future dilutive LTRP awards will not exceed 1% of issued share capital per annum.

Our shareholders' views are appreciated and as in previous years, the Committee believes it is important to provide shareholders with the opportunity to comment on all aspects of our Remuneration policy and approach.

We welcome any further comments and hope that you will support the 2013 Report at this year's AGM.

Keith Bedell-Pearce

Chairman of the Remuneration Committee

9 April 2014

Directors' Remuneration Policy

Introduction

The Remuneration Committee determines and recommends to the Board the Group's Policy on the remuneration of the Chairman, Directors and members of senior management including employees designated as Code staff under the FCAs Remuneration Code.

It is an objective of the F&C Group to provide total compensation to its employees that is warranted by corporate, business unit and individual performance.

The Remuneration Policy defines the means by which F&C will achieve this objective. The Policy will facilitate the achievement of business goals and reinforce our corporate values.

Key Principles

The Directors' Remuneration Policy is based on the following key principles:

a) Remuneration is structured to enable the Group to motivate, retain and attract the talent required to achieve its goals;

b) Remuneration policies, procedures and practices are consistent with, and promote, sound and effective risk management and avoid incentivising risk-taking that exceeds the approved risk appetite of F&C;

c) Remuneration components are structured to ensure alignment with the business strategy, objectives, values and long-term interests of F&C;

d) Remuneration is comparable to market competitors, whilst being consistent with and promoting the achievement of fair outcomes for all customers;

e) The Policy is applied consistently to F&C employees across the Group; and

f) Total variable remuneration should, in general, reflect the financial performance of the Group.

Policy and approach

The Committee has designed a Remuneration Policy that balances these factors, taking account of prevailing best practice, investor expectations and the level of remuneration and pay awards made generally to employees of the Group.

The Group takes a total compensation approach in applying its Policy which is consistent for employees at all levels. 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. As such the Committee does not seek to apply fixed ratios between fixed and variable pay. The Committee also does not prescribe a fixed ratio of total compensation between different levels of employees as this may inhibit the Group's ability to recruit talented individuals and to reward strong performance. Total compensation will comprise basic salary, employee benefits, pension provision, discretionary annual bonus and awards under the LTRP share incentive scheme.

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.

The Committee monitors the extent to which the Policy meets its objectives to motivate, engage, retain and attract employees. The CEO reports to the Committee on how the Policy is viewed by employees and whether it continues to meet its objectives.

Compliance with FCA Remuneration Code

The Remuneration Committee reviews its policies at least annually to ensure they meet all of the requirements under the FCA Remuneration Code as applicable to F&C.

The Head of Compliance is involved in the review of policy and practice to ensure there is an appropriate risk and compliance link to the Remuneration Policy.

The Remuneration Policy in detail

This section of the report sets out in detail the Policy for Executive and Non-executive Directors which shareholders are asked to approve at the AGM in 2014. The Committee intends that the Policy will come into effect from the financial year starting 1 January 2015. For the 2014 financial year, the remuneration of the Directors will be consistent with the Policy.

Details of the Policy are set out in the table below.

Total Compensation Policy Table – Executive Directors

Element and Purpose	Operation	Opportunity	Performance metrics
Base salary To recognise the individual's level of responsibility, skills and experience. To provide a competitive base reward.	Base salaries are reviewed annually with reference to salary levels for similar roles and incumbents at relevant sector comparators (e.g. financial services companies and FTSE-listed companies of similar size and complexity) to individual contribution to performance, and to the experience of each Executive.	The Committee reviews base salaries annually and determines whether it is appropriate to recommend any increase. To avoid an overly prescriptive approach to salary management, no maximum salary is set under the Policy. However, it is anticipated that aggregate salary increases will not exceed an equivalent of 5% p.a. over the term of this Policy. The Committee has the discretion in exceptional circumstances to make appropriate upward adjustments to salary levels to ensure they remain competitive. (This may include, but not be limited to, a material change in the scope, size and complexity of the role).	None

Element and Purpose	Operation	Opportunity	Performance metrics
Pension To provide an opportunity for Executive Directors to build up income on retirement.	F&C seeks to ensure that its pension policy is in line with its business strategy, objectives, values and long-term interests. It operates a number of pension plans, of which only Defined Contribution plans are open to new employees. In the UK the Defined Benefit plan was closed to new members in 2002. No Executive Director is a member of a Group Defined Benefit scheme.	Pension payments are based on basic salary. No other cash payments or benefits are pensionable. Executive Directors may supplement the Group's contributions with their own. The level of pension contributions is consistent for employees and Executive Directors. Executive Directors receive contributions equal to 13% of pensionable salary.	None
Benefits To provide non-cash benefits which are competitive in the market in which the Executive Director is employed.	Executive Directors receive benefits including vacation and insured benefits, including death in service, private medical and income protection.	Executive Directors can make a personal choice up to a maximum value and may purchase additional benefits from their salary to reflect personal circumstances and preferences. It is anticipated that the cost of benefits provided to Executive Directors will not exceed 10% of salary per annum over the period of this Policy. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Group's control have changed materially (e.g. increases in insurance premiums).	None
Share Incentive Plan (SIP) An all-employee share scheme to encourage the ownership of shares in F&C.	An HMRC-approved scheme where employees (including Executive Directors) may save up to the monthly limit set by HMRC from time to time.	Savings are capped at the individual monthly limit set by HMRC from time to time.	None

Element and Purpose	Operation	Opportunity	Performance metrics
Discretionary annual bonus Executive Directors are responsible for providing the leadership to ensure that the Group meets its annual goals. The annual bonus is designed to incentivise and reward strong performance against financial and corporate targets, thus delivering value to shareholders, consistent with the implementation of the strategic plan.	Executive Directors participate in an annual discretionary bonus pool, the size and allocation of which is approved by the Committee. The annual bonus pool is determined by the following factors: • the financial performance of the Group; • motivation and retention of key employees; • practice of market competitors; and • appropriate balance between fixed and variable pay. The Executive Directors' allocation from the pool is based on the achievement of corporate targets as assessed at the end of each business year. At least 25% of the cash bonus above £100,000 is deferred into F&C shares and/or F&C funds for 3 years subject to continued employment. Performance Adjustment provisions are outlined on page 37.	The Group has a single incentive pool from which the annual bonuses for all employees including Executive Directors are paid. For Executive Directors, the annual bonus provides for awards of between 0% and 500% of base salary. If the deferred element of the cash bonus is invested in F&C shares a cash award equal to the aggregate value of reinvested dividends declared over the vesting period will be paid to the participant on release.	The assessment of performance is based on achievement of the Group's KPIs for the year. The measures will typically include: • Investment Performance • Profitability • Fund flows • Treating Customers Fairly provisions • New business targets • Risk Management goals • Compliance with Regulatory Standards. The Committee has discretion to adjust the performance measures and weightings to ensure that they continue to be linked to the delivery of the Group's strategy, although typically weightings for each performance category account for up to 40% of the overall bonus. The level of performance required under each measure is calibrated with reference to F&C's internal targets and financial budgets. The achievements of respective executives are based on the value of their contribution and performance during the year as measured by the annual assessment. The Committee will determine the overall outcome based on achievement of the targets and the Committee's assessment of Group and individual performance. Further details of the measures, weightings and targets applicable for a given period are provided in the Annual Report on Remuneration.

Element and Purpose	Operation	Opportunity	Performance metrics
Long-Term Remuneration Plan (LTRP) This Plan is designed to emphasise the requirement for sustained long-term performance that supports the creation of shareholder value. It is intended to provide both an incentive to achieve longer-term performance and retention value. The Plan ensures that Executive Directors have an alignment of long-term interest with shareholders in the future performance of the Group.	The LTRP is a discretionary contingent share award scheme providing for annual awards of restricted shares. LTRP shares vest after 4 years, subject to both continued employment and to the achievement of long-term corporate performance targets. The Remuneration Committee retains the discretion to amend or remove a Performance Target in exceptional circumstances to ensure it remains reasonable. Any revised Performance Target will provide a fairer measure of performance and will not be materially more difficult or easy to satisfy. Performance Adjustment provisions are outlined below this table.	Awards are determined by the Committee with reference to Group performance, market competitiveness (assessed on a total compensation basis using independent market total compensation data), and individual performance. The Committee does not link the value of LTRP awards explicitly to a multiple of base salary, believing that making such linkage provides an incentive to increase base salaries, and therefore fixed costs, which is contrary to shareholders' interests. However, it is anticipated that annual awards under the LTRP to an Executive Director will not exceed 750% of salary except in exceptional circumstances. A cash award equal to the aggregate value of reinvested dividends declared over the vesting period will be paid to the participant on release of LTRP shares.	Vesting of LTRP awards is subject to continued employment and Group performance measured with reference to: • Underlying earnings per share (EPS) growth; • Relative Total Shareholder Return (TSR); • Relative investment performance; and • Net new business targets. It is the Committee's current intention to apply equal weightings to each performance measure. These may vary at the discretion of the Committee cycle-to-cycle in a range of up to 50%, to reflect strategic priorities. Further details are provided in the table below.

Performance Adjustment provisions

Cash bonus and LTRP awards may, at any time prior to payment or vesting, be reduced at the discretion of the F&C Group Remuneration Committee in the following circumstances:

(i) there is misconduct or material error; or

(ii) the F&C Group suffers material decline in financial performance; or

(iii) the F&C Group is the subject of any material failure in risk management or material increase in risk profile.

Performance Conditions - details

The size and allocation of the discretionary cash bonus pool and the long-term pool are recommended by the Committee to the Board for approval.

The calculation of these bonus pools is linked to the financial performance of the Group. The performance measures which are used to determine the allocation of these pools are also linked to the Group's strategic objectives and priorities.

The performance measures applied to LTRP awards (as shown below) are reviewed annually to ensure they remain aligned with shareholder interests. The Remuneration Committee believes these performance measures to be appropriate and stretching. However, the Committee reserves the discretion to change the measures if warranted by specific circumstances which are not currently anticipated. The Committee will ensure that any revised measures will be no easier or difficult to achieve.

Awards made under the LTRP have a performance period of four years aligned with the respective financial years, and a minimum vesting period of four years.

Performance Measures Applied to LTRP Awards

Proportion of Award	Performance Condition	Details	
25%	Underlying earnings per Share (EPS)	EPS-based awards 100% Vesting, % 25% RPI +3% p.a. RPI +11% or more p.a. EPS outcome	
		Below RPI +3% p.a.	0% vesting
		RPI +3% p.a.	25% vesting
		RPI + 11% or more p.a.	100% vesting
			Straight-line vesting applies between 25% and 100%.
25%	Relative Total Shareholder Return (TSR)	TSR-based awards 100% Vesting, % 25% Median 75th percentile F&C's 4-year TSR rank	
		Below median	0% vesting
		Median	25% vesting
		Upper quartile or more	100% vesting
			Straight-line vesting applies between 25% and 100%.
			The Committee reviews the comparator group against which TSR performance is measured from time to time to ensure it remains appropriate.

Proportion of Award	Performance Condition	Details	
25%	**Relative investment performance** (The investment performance condition is based on the revenue-weighted outperformance of assets compared against the respective benchmarks.)	Less than 42% of outperformance	0% vesting
		For 42% of outperformance	0% vesting
		At 75% of outperformance	100% vesting
			Straight-line vesting applies between 42% and 75%.

Proportion of Award	Performance Condition	Details	
25%	**Net new business**	25% of target	0% vesting
		125% of target or more	100% vesting
			Straight-line vesting applies between 25% and 125%.

Notes to the policy table

Payments from previous awards

The Group will honour any commitment entered into, and Executive Directors will be eligible to receive payment from any award made, prior to the approval and implementation of the Remuneration Policy detailed in this report.

Performance conditions for LTRP awards granted in 2012 differ to those in the Policy table above, being based solely on EPS performance in 2015. For further details see page 110 of the Annual Report.

In 2011 Richard Wilson received an LTRP award when he was a member of the Executive Committee but was not an Executive Director. At that time the F&C policy was to award a combination of deferred and restricted LTRP awards to Executive Committee members other than Executive Directors. The deferred LTRP award was subject to continued employment only. The restricted LTRP award was subject to the achievement of performance conditions and continued employment. The restricted LTRP award made in 2011 will vest in May 2014. The deferred LTRP award vested in March 2014.

Richard Wilson is entitled to receive further LTRP awards, all of which are subject to the achievement of pre-determined performance conditions.

Performance measure selection and approach to target setting

The performance measures used to determine the annual bonus plan are selected annually to reflect the Group's main KPIs for the year which capture both financial and non-financial priorities.

For LTRP awards granted in 2012, the performance condition was linked solely to EPS for the year ended 31 December 2015 to reinforce the required turn-around in the Group's long-term profitability following the restructuring of the business initiated in 2011. The Committee reviewed the LTRP performance measures during 2013 to ensure that they are fully aligned with Group strategy and with shareholders' interests. As a result of this review the Committee has determined that for awards made in 2013 the LTRP vesting will be based on four equally-weighted performance measures (EPS, TSR, Net New Business and Investment Performance) over 4 years. These measures were selected as they are considered by the Committee to be the most relevant in capturing the critical elements of performance which reinforce value creation for shareholders.

Performance targets applicable to the annual cash bonus are reviewed annually as are long-term targets applicable to LTRP awards. Targets are determined to ensure the Group continues to meet its strategic objectives. Performance targets are set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

Remuneration Policy for other employees

F&C's approach to annual salaries is consistent across the Group and includes reference to appropriate market comparators and taking into account the level of experience, responsibility and scope of the role.

All employees are eligible to be considered for a discretionary annual bonus award. Any award is based on the same principles which apply to Executive Directors. Opportunities and specific performance conditions vary by business function and level of responsibility.

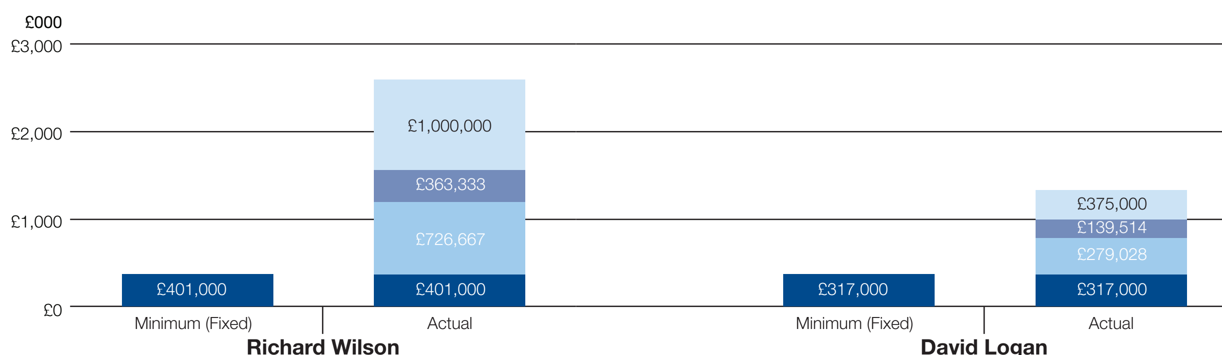
Executive Directors and other key employees are eligible to participate in the LTRP. Performance conditions are consistent for all participants, while award sizes will vary in order to ensure competitive total compensation and to reflect relative contribution and responsibility.

All UK employees are eligible to participate in the Group's SIP scheme on the same terms.

Pay-for-performance: scenario analysis

The Group operates a Total Compensation Policy. A significant proportion of total compensation is awarded to Executive Directors in the form of performance related variable pay. Actual awards to the Executive Directors are determined by reference to the performance of the Group relative to targets.

The scenario chart below shows both the minimum (fixed) remuneration and provides an indication of the total remuneration for a year of strong performance based on the year ending 31 December 2013. The Committee has not determined an appropriate long-term award to be confirmed in 2014. For the purposes of the scenario analysis below the long-term award is based on the accounting value of the award made in 2013.



Notes:

Minimum (Fixed) = salary + taxable benefits + pension

Actual **fixed pay** **+ cash bonus** **+deferred cash award** **+ LTRP restricted award**

Approach to recruitment remuneration

When hiring or appointing a new Executive Director, the Committee may make use of all the existing components of remuneration, as follows:

<table>
<tr><th>Component</th><th>Approach</th><th>Maximum annual grant value</th></tr>
<tr><td>Base salary</td><td>The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to their development in the role.</td><td rowspan="4">Appropriate market comparators</td></tr>
<tr><td>Pension</td><td>New appointees will receive pension contributions or an equivalent cash supplement in line with existing executives.</td></tr>
<tr><td>Benefits</td><td rowspan="2">New appointees will be eligible to receive benefits which may include (but are not limited to) vacation, death in service, private medical and income protection. New appointees will also be eligible to participate in all-employee share schemes.</td></tr>
<tr><td>SIP</td></tr>
<tr><td>Performance-related annual bonus</td><td>The annual bonus described in the Policy table will apply to new appointees and pro-rated to reflect the proportion of employment over the year. Targets for the individual element will be tailored to reflect the expected level of contribution.</td><td>500% of salary</td></tr>
<tr><td>LTRP</td><td>New appointees will be granted awards under the LTRP on the same terms as other executives, as described in the Policy table.</td><td>As stated in the Remuneration Policy table, LTRP awards have no formal cap. However it is the expectation that the annual grant value would not exceed 750% of salary for a new hire.</td></tr>
</table>

In determining appropriate remuneration, the Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both F&C and its shareholders. The Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards and the likelihood of those conditions being met. The Committee may also use the flexibility afforded to it under Listing Rule 9.4.2 R if appropriate to make a share-based award under a structure not captured in the Policy table.

Internal promotion

In cases of appointing a new Executive Director by way of internal promotion, the Committee will be consistent with the Policy for external appointees detailed above. Where an individual has contractual commitments made prior to his promotion to Executive Director level, the Group will continue to honour these arrangements.

Non-executive Directors

In the case of hiring or appointing a new Non-executive Director, the Committee will utilise the Policy as set out in the table on page 43. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director or as Chairman of any of the Board's Committees.

Service contracts and exit payment policy

Executive	Date of service contract	Provisions for compensation on early termination based on the payments due (salary and benefits) in lieu of notice
Richard Wilson	4 December 2012	£395,000
David Logan	31 July 2006	£310,000

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. In accordance with general market practice, each of the Executive Directors has a service contract with the Group for a rolling period of 12 months. Such contracts contain no specific provision for compensation for loss of office. Executive Director service contracts are available to view at the Group's registered office.

The Group's Policy on termination payments is to consider the circumstances on an individual basis, taking into account the relevant contractual terms of the individual, the circumstances of the termination and any applicable duty to mitigate. The table below summarises how the awards under the annual bonus and LTRP are typically treated in specific circumstances. Note that the LTRP Plan Rules prescribe the treatment of awards in the event that the Director should leave the Group.

The Remuneration Committee reserves the discretion to take into account exceptional circumstances in determining the appropriate application of this policy. If the Committee does make any variation, the rationale will be fully explained to shareholders.

Reason for leaving	Timing of vesting	Calculation of vesting / payment
Annual bonus		
Bad leaver (e.g. resignation)	No entitlement	Not applicable
Good leaver (e.g. retirement, redundancy, ill-health)	On cessation of employment	Entitlement to a cash bonus will be based on an assessment of performance relative to targets as set at the beginning of the plan year. Any such bonus will be determined by reference to the individual contribution and to the period of time served during the year.
Change in Control	Dependent on circumstances	Entitlement to annual bonus payments will be a function of the timing of the change in control and will be a matter for agreement between the parties. This will take into account an assessment of performance relative to targets.
LTRP		
Bad leaver (e.g. resignation)	Awards lapse	Not applicable
Good leaver (e.g. retirement, redundancy, ill-health)	Original vesting date	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved and the proportion of the vesting period worked. The determination of vesting will be made as soon as reasonably practical following the end of the performance period.
Change in Control	Original vesting date	The performance period is measured up to the date of Change in Control. This determines the proportion of the award to vest. The awards will vest on the original vesting date.

Non-executive Directors

All Non-executive Directors have a letter of appointment. 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 Group's pension schemes. No pension contributions are made on their behalf and no Non-executive Director receives a salary from the Group. The remuneration of the Non-executive Directors is determined by the Board as a whole within the limits stipulated in the Group's Articles of Association. All fees are reviewed annually.

Non-executive Directors have a 1-month notice period.

The Board approves 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.

Non-executive Director	Date of Appointment
K Bedell-Pearce	10 May 2013
C Porter	15 October 2013
K Jones	10 May 2013
R Sack	4 October 2013
D O'Neill	10 May 2013
K Percy	10 May 2013
K Poynter	10 May 2013

Details of the Policy on fees paid to Non-executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance metrics
To attract and retain Non-executive Directors of the highest calibre with broad commercial and other experience relevant to the Group.	Fee levels are reviewed annually with any adjustments taking effect from 1 January each year. The Board approves 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. Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (Audit, Remuneration and Nomination). Fee levels are benchmarked against sector comparators and FTSE-listed companies of similar size and complexity. Time commitment and responsibility are taken into account when reviewing fee levels.	Non-executive Director fee increases are applied in line with the outcome of the annual fee review. Fees for the year ended 31 December 2013 are set out in the Annual Report on Remuneration on pages 46 and 47. To avoid setting expectations, no maximum fee is set under the Policy. Non-executive fee increases are applied taking into account the outcome of the review. The maximum aggregate annual fee for all Directors provided in the Group's Articles of Association is £600,000.	None

External appointments

With the approval of the Board in each case, and subject to the overriding requirements of the Group, Executive Directors may accept external appointments as Non-executive Directors of other companies and retain any fees received. Currently no Executive Director holds any external appointments.

Consideration of conditions elsewhere in the Group

As a matter of sound employee relations practice, the management team closely monitors the views and concerns of all employees. This includes feedback about the Remuneration Policy and its application. This information is provided to the Committee on a periodic basis during the year. As such, the Committee does not consult formally with employees over the effectiveness and appropriateness of the Executive Director Remuneration Policy and framework.

The Group seeks to promote and maintain good relationships with employee representative bodies – including trade unions and works councils – as part of its employee engagement strategy, and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Group operates.

Consideration of shareholder views

The Committee takes into account shareholder views received in relation to the Annual General Meeting each year and guidance from shareholder representative bodies more broadly. The Committee considers shareholder feedback an important input when formulating Remuneration Policy and regularly reviews F&C's Remuneration Policy against the guidelines of key institutional shareholders and their representative bodies.

Following feedback from shareholders, the Committee has introduced a cap on annual bonuses and re-introduced an element of mandatory bonus deferral. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate, and will consult with shareholders before any significant changes are made to the Policy or the measures used to assess performance.

Annual Report on Remuneration

Remuneration Committee membership in 2013

The Committee has been established by the Board to:

- Recommend to the Board the Group's policy on Directors' remuneration;
- 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;
- 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
- Ensure that full consideration has been given to Section D and Schedule A of the UK Corporate Governance Code's best practice provisions as annexed to the Listing Rules.

The Committee's terms of reference are set out on the Company's website. As of 31 December 2013, the Committee comprised three independent Non-executive Directors:

- Keith Bedell-Pearce (Committee Chairman)
- Derham O'Neill
- Keith Jones

Jeff Medlock retired from the Board and the Committee in May 2013. Kieran Poynter served as a member of the Committee until August 2013 when he was appointed as Chairman of the Board. In addition, certain executives, including the Chief Executive Officer, Chief Financial Officer and Group Head of Human Resources, are, from time to time, invited to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration. The Committee met four times during the year and details of members' attendance at meetings are provided in the Corporate Governance section on page 30.

Advisers

The Committee received advice from Kepler Associates during the year on general remuneration strategy, senior executive pay benchmarking and on the Company's bonus and LTRP structures. Kepler Associates was appointed by the Committee in 2007 as its independent adviser and provided no other services to the Company during the year. The Committee are satsfied that Kepler remains independent of the Company and that the advice provided is impartial and objective. Kepler is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. Total fees for the provision of remuneration services in 2013 were £48,475 on the basis of time and expenses.

During the year the Committee also received independent remuneration research undertaken by McLagan & Partners (£20,000 fees paid in 2013), Deloitte (£5,000) and Pricewaterhouse Coopers (£18,000), leading firms of executive remuneration consultants, to assess comparability of the Group's remuneration policies to market practice.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory vote on the 2012 Remuneration Report at the 2013 AGM:

	Total number of votes	% of votes cast
For (including discretionary)	338,320,731	93%
Against	26,138,003	7%
Total votes cast (excluding withheld votes)	364,458,734	
Votes withheld	87,175,077	
Total votes cast (including withheld votes)	451,633,811	

F&C's 15 largest shareholders together with the ABI and ISS were consulted on proposed changes to LTRP performance conditions and dilution limits for 2013. The proposed changes were for LTRP performance measures to revert from the single Earnings per Share (EPS) measure applied to 2012 awards to the four measures (EPS, Total Shareholder Return (TSR), Net New Business and Investment Performance) used for 2010 and 2011. The Board re-affirmed the performance period as 4 years having been increased from 3 years in the previous year. The Committee also proposed a temporary increase in the dilution limit for LTRP awards from 10 per cent to 15 per cent of the Company's share capital.

Shareholders were generally supportive on the basis that, while the proposal was to raise the aggregate dilution limit, the Company has undertaken that any new dilutive awards will be no greater than 1 per cent of share capital per year so that the dilutive capacity will progressively reduce to less than 10 per cent over future years.

Single total figure of remuneration (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2013 and the prior year:

	Richard Wilson[1]		David Logan	
	2013	2012	**2013**	2012
	£	£	**£**	£
Salary	**350,000**	25,000	**275,000**	275,000
Taxable benefits[2]	**2,132**	167	**853**	801
Pension benefits[3]	**48,750**	3,125	**41,250**	41,250
Annual Cash Bonus[4]	**726,667**	67,000	**279,028**	325,000
Deferred Bonus[4,5]	**363,333**	N/A	**139,514**	N/A
Long-term incentives	**160,337**[6]	N/A[7]	**447,189**[6]	484,884[7]
Total	**1,651,219**	95,292	**1,182,834**	1,126,935

1 Richard Wilson was appointed Chief Executive on 3 December 2012.

2 Taxable benefits consist of private medical insurance (it excludes the cost of vacation entitlement).

3 During the year Richard Wilson and David Logan each participated in a Money Purchase Pension Scheme. The Company contributed £48,750 and £41,250 respectively in 2013 (2012: £3,125 and £41,250 respectively).

4 These awards are based on actual performance relative to the measures shown in the Annual Bonus Performance Measures table.

5 In April 2014, the Deferred Bonus will be deferred into F&C funds for 3 years. The entitlement to receive the deferred award on vesting is subject to continued employment.

6 The value of the 2011 LTRP award is based on performance for the period from 2011 to 2013 inclusive (see page 47 for details) including the value of accrued dividends. The TSR element of the 2011 LTRP award will be measured on the vesting date (May 2014). However as the TSR measure has been substantially completed by the end of 2013 it has therefore been included in the valuation of the single figure for 2013. The TSR component is calculated as the number of shares vesting multiplied by the average three month share price to 31 December 2013. This average is £0.94. The actual value will be based on the share price as at the vesting date (May 2014) and will be included in the 2014 Remuneration Report. Richard Wilson's 2011 awards were for the period before he was an Executive Director.

7 The value of the 2010 LTRP award is based on performance to the end of the 2012 financial year and includes the value of accrued dividends. The 2010 LTRP award was based on four equally weighted measures of performance: EPS growth, relative TSR, net new business targets and relative investment performance.

Annual Bonus Performance Measures

The measures below are the basis for determining the 2013 annual bonus.

Area	Performance Measure	Performance achieved *	Comments
Corporate Performance	Investment performance and asset growth in core investment capabilities	✔✔✔	90% of fixed income assets were above benchmark over three years. 70% of equity assets were above benchmark over three years. 77% of property portfolios were above benchmark over three years. 100 new institutional clients added during the year.
	Create greater flexibility in our cost base	✔✔✔	Core operating costs reduced by a further £19.3 million. Operating margin increased to 36.9%.
	Focus on revenue growth and new business	✔✔	Revenue growth achieved from specialist areas for new business. Net Consumer and Institutional new business + £1.3 billion. Performance fees earned £11.6 million (2012 £9.5 million).

Annual Bonus Performance Measures continued

Area	Performance Measure	Performance achieved *	Comments
	Profitability	✔✔✔	Underlying EPS increased by 25.7% to 8.8p (2012 7.0p) Group underlying profit before tax increased by 33%.
Strategic Objectives	Achievement of targets as determined by the Board	✔✔	Net debt reduced to £76.0 million (2012 £97.3 million). The Group focused on its financial objectives of delivering the planned cost savings associated with the strategic review and improving cash flow generation. The Group has worked to retain Strategic Partner assets, execute Consumer and Institutional short-term sales and growth plans and develop product and marketing plans for the medium term.

Summary

2013 was a positive year for the Group which made important progress in line with the strategic objectives.

- Our investment performance was strong.
- We launched a number of new products in areas of growing client demand.
- Our cost base reduced in line with the targets we previously set out.
- Importantly net fund flows in our Consumer and Institutional business improved substantially.

* Key:

✔✔✔ Above target
✔✔ Around target
✔ Between threshold and target
↓ Below threshold

Single total figure of remuneration for Non-executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-executive Director for the year ended 31 December 2013 and the prior year:

	Base fee		Committee fees		SID fee		Thames River Advisory Councils		Total	
	2013 £	2012 £	**2013 £**	2012 £	**2013 £**	2012 £	**2013 £**	2012 £	**2013 £**	2012 £
E Bramson*	**96,370**	150,000	**–**	–	**–**	–	**–**	–	**96,370**	150,000
K Bedell-Pearce	**60,000**	60,000	**17,000**	13,000	**15,000**	15,000	**20,000**	20,000	**112,000**	108,000
I Brindle	**21,612**	60,000	**–**	–	**–**	–	**–**	–	**21,612**	60,000
K Jones	**60,000**	60,000	**–**	–	**–**	–	**–**	–	**60,000**	60,000
J Medlock	**21,612**	60,000	**–**	–	**–**	–	**–**	–	**21,612**	60,000
D O'Neill	**60,000**	60,000	**–**	–	**–**	–	**–**	–	**60,000**	60,000
K Percy	**60,000**	60,000	**12,500**	10,000	**–**	–	**–**	–	**72,500**	70,000
K Poynter	**82,500**	60,000	**10,712**	12,500	**–**	–	**20,000**	20,000	**113,212**	92,500
C Porter	**38,548**	–	**–**	–	**–**	–	**–**	–	**38,548**	–
R Sack	**34,000**	–	**–**	–	**–**	–	**–**	–	**34,000**	–
Total	**534,642**	570,000	**40,212**	35,500	**15,000**	15,000	**40,000**	40,000	**629,854**	660,500

* The figures shown for Mr Bramson in 2012 and 2013 reflect the remuneration paid to him in his capacity as Chairman of the Company. Mr Bramson did not receive any additional remuneration in either 2012 or 2013 for serving as an Executive Director of the Company.

With effect from 1 January 2013, the Chairman of the Board, who chairs the Nomination Committee, receives an annual all-inclusive fee of £150,000 per annum and the basic fee payable to each Non-Executive is £60,000 per annum. An additional fee of £12,500 per annum is paid to the Chairman of each of the Board Committees. The fee paid for being Senior Independent Director (SID) is £15,000 per annum. A fee of £20,000 was paid to members of the Thames River Advisory Councils.

Incentive outcomes for the year ended 31 December 2013

Performance-related annual bonus in respect of 2013 performance

The 2013 annual bonus recognises the contribution of the Executive Directors in achieving the Company's results. The assessment of their contribution is determined by applying the Annual Bonus Performance Measures set out in the table on pages 45 and 46 as well as personal performance. The weighting for each factor is determined as appropriate for the business each year and in respect of the role and responsibilities of the individual.

In summary, outcomes against the performance measures have improved over the previous year and are in line with 2013 expectations for value delivered to clients and shareholders. 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. This high standard of risk and compliance has been maintained throughout the year. Details of performance measures are shown under the Single Total Figure of Remuneration.

The bonus policy provides for awards of between 0 per cent and 500 per cent of salary. The size and allocation of the annual discretionary bonus pool is recommended by the Remuneration Committee to the Board for approval.

Overall bonus outcomes

On the basis of the performance delivered by the Executive Directors in 2013 as above, the bonus awards were as follows:

Director	Cash £000	Deferred* £000	Total £000
Richard Wilson	727	363	1,090
David Logan	279	140	419

* Deferred bonus awards vest, subject to good/bad leaver provisions, in May 2017.

2011 LTRP award vesting in 2014

Awards were granted under the LTRP in May 2011. Vesting of the awards was dependent on four equally-weighted measures over a three-year performance period; EPS, TSR ranking versus FTSE 250 financial services companies, net new business and investment performance. Further details, including vesting schedules and performance against each of the metrics is provided in the table below:

Measure	Performance period ends	Weighting	Targets	Vest %
EPS[1]	31 December 2013	25%	• 0% vesting below RPI+3% p.a. • 25% vesting for RPI+3% p.a. • 100% vesting for RPI+11% p.a. or more Straight-line vesting between these points	Fully met Vesting = 100%
TSR versus FTSE 250 financial services companies[2]	4 May 2014	25%	• 0% vesting below median • 25% vesting for median • 100% vesting for upper quartile or more Straight-line vesting between these points	Not Met (as at 31.12.13) Vesting = 0%
Net new business[1]	31 December 2013	25%	• 0% vesting for 25% of target • 100% vesting for 125% of target or more Straight-line vesting between these points	Not met Vesting = 0%
Relative investment performance[1]	31 December 2013	25%	• 0% vesting for less than 42% of funds outperforming benchmark • 0% vesting for 42% of funds outperforming benchmark • 100% vesting at 75% of funds outperforming benchmark or more Straight-line vesting between these points	Estimated Vesting = 100%
			Indicative % vesting	**50%[2]**

[1] **Elements with performance period ending during the 2013 financial year**
The performance period for the EPS, Net New Business and Relative Investment Performance elements of the 2011 LTRP award ends on 31 December 2013, with vesting on the third anniversary of the date of grant (May 2014).

[2] **Elements with performance period ending during the 2014 financial year**
The performance period for the TSR element of the 2011 LTRP award ends in May 2014, with vesting on the third anniversary of the date of grant (May 2014). For information only this element has been measured up to 31 December 2013.

The actual value at vesting of this element will be disclosed in the 2014 Annual Report on Remuneration. Indicative vesting is as follows:

Executive Director	Interests held	Vesting %	Interests vesting	Date vesting	Assumed market price	Estimated value*
Richard Wilson	300,105	50%	150,052	4 May 2014	94.4p	£141,649
David Logan	837,001	50%	418,500	4 May 2014	94.4p	£395,064

* Excluding cumulative re-invested dividends.

In line with regulations, the value disclosed above and in the single total figure of remuneration table on page 45 captures the full number of interests vesting. As the market price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market value over the last quarter of 2013 of £0.94. The actual value at vesting will be disclosed in the 2014 Annual Report on Remuneration.

LTRP awarded in 2013 vesting in 2017 (audited)

In May 2013, Executive Directors were granted awards under the LTRP as detailed in the table below. The four-year performance period over which performance will be measured began on 1 January 2013 and will end on 31 December 2016 for all measures (i.e. the TSR performance period is now aligned with the financial year). Each Executive Director's award is eligible to vest on the fourth anniversary of the date of grant (i.e. 13 May 2017).

Executive Director	Date of grant	Shares over which awards granted	Market price at date of award	Face value
Richard Wilson	13 May 2013	2,105,263	95.0p	£2,000,000
David Logan	13 May 2013	789,473	95.0p	£750,000

Vesting of the 2013 LTRP award is dependent on four equally-weighted measures; EPS, TSR ranking versus FTSE All-Share financial services companies, net new business and investment performance. Investment performance is revenue weighted to reflect the strategic objective to secure higher-fee assets and vests 25 per cent in relation to trailing 1-year performance (over 2016) and 75 per cent to trailing 3-year performance (i.e. 2014-2016). Details of the vesting schedules are provided below:

Measure	Weighting	Targets
EPS	25%	• 0% vesting below 8.2p • 25% vesting for 8.2p • 100% vesting for 13.7p or more Straight-line vesting between these points
TSR versus FTSE All-Share financial services companies	25%	• 0% vesting below median • 25% vesting for median • 100% vesting for upper quartile or more Straight-line vesting between these points
Net new business	25%	• 0% vesting for 25% of target. • 100% vesting for 125% of target or more Straight-line vesting between these points
Relative investment performance	25%	• 0% vesting for less than 42% of funds outperforming benchmark • 0% vesting for 42% of funds outperforming benchmark • 100% vesting at 75% of funds outperforming benchmark or more Straight-line vesting between these points

Exit payments made in the year (audited)

No exit payments were made to any person who has served as a Director during the year, or in any previous year.

Payments to past directors (audited)

Alain Grisay – Restricted LTRP award vested May 2013

Alain Grisay retired from the Group in September 2013 and received the following LTRP award in accordance with the Rules of the Plan:

No of shares vesting	1,013,805
Vesting share price	96.85p
Value of shares on vesting	£981,870
Value of dividends	£118,252
Total – shares & dividends	£1,100,122

Implementation of Remuneration Policy for 2014

Base salary

The level of base salary is determined on an individual basis. The Committee takes account of:

- advice received from the Committee's independent advisors on salary levels for similar roles in selected comparable organisations;
- individual performance and experience; and
- salary movements for employees across the Group.

The Committee approved the following base salaries with effect from 1 July 2014:

Executive Director	Base salary 2013 - 2014	Base salary 2014 - 2015	Percentage increase
Richard Wilson	£350,000	£350,000	0%
David Logan	£275,000	£275,000	0%

Salary increases averaging 4 per cent across the Group were awarded as part of the annual compensation review. New salaries will be with effect from 1 July 2014.

Pension

Executive Directors will continue to receive a pension contribution under the Money Purchase Pension Scheme equal to 13 per cent of salary.

Performance-related annual bonus

The Committee has approved that the annual bonus opportunity in 2014 for Executive Directors, will be capped at 500 per cent of salary.

Performance bonuses will be based on similar criteria to those in 2013 and which are of primary importance to shareholders. The Executive Directors will each receive a material proportion of their annual bonus by way of a deferred award.

Performance measures are summarised below. The proposed target levels of achievement have been set to be challenging.

Area	Performance Measure
Corporate Performance	• Profitability measured as: – relative to 2013 – relative to targets set by the Board – in the context of expectations and market conditions • Fund Flows (gross and net) measured as: – relative to 2013 – relative to targets set by the Board • Consultant buy ratings • Group control environment. • Client retention – Fully implement measures for 'Treating Customers Fairly' • New business fee margins
Investment Performance	• Investment Performance measured as: – percentage of assets above index benchmark or peer group on an asset-weighted basis *This is for fixed income, equity and property assets*
Strategic Objectives	Growth objectives as determined by the Board
Personal Performance	Individual objectives appropriately weighted in respect of the above criteria

LTRP

No LTRP awards are expected to be granted in 2014.

Chairman and Non-executive Director Fees

Chairman and Non-executive Director fee levels for 2014 will be reviewed prior to the 2014 AGM. Any changes will take effect from 1 January 2014.

Percentage change in CEO remuneration: 2012 to 2013

During 2012, Alain Grisay retired as CEO and Richard Wilson was appointed to the role.

Alain Grisay remained as CEO until May 2012. Edward Bramson had executive responsibility as the Executive Chairman of the Group between May 2012 and December 2012. Richard Wilson was appointed as CEO in December 2012.

The data in the table below is based on CEO remuneration costs in 2012 for Alain Grisay on a full year basis. Edward Bramson did not receive any additional remuneration during 2012 for his Executive role.

% Change in:	Chief Executive	Average for all employees
Base salary	No change	+ 4%
Benefits	No change	No change
Cash bonus (excluding 2013 deferred cash element)	-9%	-8%

Relative importance of spend on pay

The following table shows the year-on-year movement in the total remuneration of employees and members of limited liability partnerships (excluding exceptional costs) compared with the ordinary dividends paid or payable for each year.

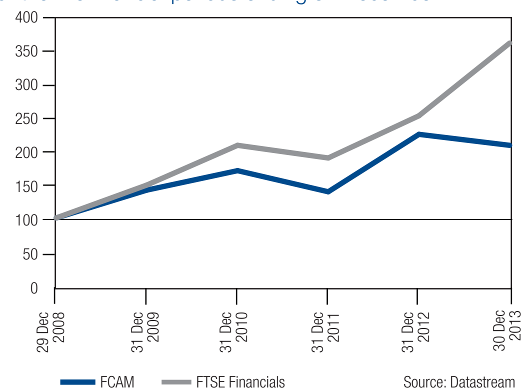
	2013 £m	2012 £m	% Change
Employee and member benefits expense	**92.4**	110.5	-16.4
Dividends paid or payable on Ordinary Shares	**17.6**	16.3	+8.0
Profit/(loss) after tax attributable to Ordinary Shareholders	**8.5**	(0.3)	N/A

Comparison of Company performance

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 TSR for each period (assuming all dividends are reinvested) over the five year period from 1 January 2009 to 31 December 2013. 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. The table below details the Chief Executive's "single figure" remuneration over the same period.

TSR performance compared to FTSE 250 Financial Companies Index

For the five financial periods ending 31 December



The following table shows the total remuneration of the CEO for the financial years shown in the TSR graph above. As there has been no cap on the annual bonus or long-term incentive awards historically (with the exception of the annual bonus in 2013 for which an individual cap was introduced), a per cent of maximum is not shown for those years.

	2009	**2010**	**2011**	**2012**	**2013**
CEO single figure of remuneration (£000)	2,419	1,168	1,183	2,015	**1,651**
Short-term incentive award rates against maximum opportunity	N/A	N/A	N/A	N/A	**62%**[1]
Long-term incentive award rates against maximum opportunity	N/A	N/A	N/A	N/A	**N/A**[2]

Note:

[1] The short-term incentive award includes the annual cash bonus and the deferred cash bonus paid in 2014 in respect of 2013.

[2] The long-term incentive award was made to Richard Wilson prior to his appointment as an Executive Director.

Directors' interests (audited)

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2013 is set out on page 24. Details of unvested awards over ordinary shares are set out below.

	Unvested and not subject to performance conditions as at 31 Dec 2013	Unvested and subject to performance conditions as at 31 Dec 2013
D Logan	–	3,119,011
R Wilson	384,697	5,390,442
K Bedell-Pearce	–	–
K Jones	–	–
D O'Neill	–	–
K Percy	–	–
K Poynter	–	–
C Porter	–	–
R Sack	–	–

By order of the Board,

W Marrack Tonkin, FCCA

Secretary
80 George Street
Edinburgh EH2 3BU

9 April 2014

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.

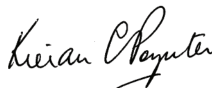
Under applicable law and regulations, the Directors are also responsible for preparing the Strategic Report, the Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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 Chairman's Statement, Chief Executive's Report and Strategic Report 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.
- the Annual Report and the Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.



Kieran Poynter

Chairman

9 April 2014

Independent Auditor’s Report

to the members of F&C Asset Management plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the Financial Statements of F&C Asset Management plc for the year ended 31 December 2013 set out on pages 57 to 136 and 141 to 153. 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 2013 and of the Group’s profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company Financial Statements have been properly prepared in accordance with UK Accounting Standards; and
- 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Financial Statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Goodwill (£611.9m) per note 14

Refer to page 28 (Audit and Compliance Committee Report), pages 65 and 66 (accounting policy) and pages 84 to 87 (financial disclosures)

- *The Risk* – There is a risk that the carrying value of goodwill is impaired. An impairment assessment of goodwill is carried out annually, or where there is an indication of impairment, using a value in use model in each of the three cash-generating units (CGUs). Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key areas of judgment of the audit.
- *Our Response* – In this area our audit procedures included, among others, testing the Group’s controls around the preparation of the budget, upon which the discounted cashflow model is based, to assess the adequacy of controls around the process and the reasonableness of assumptions. We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the inputs into the discounted cashflow model. We compared the Group’s assumptions to externally derived data such as industry growth rates and risk-adjusted discount rates applied in the market. We also compared these to our own assessments in relation to key inputs such as projected economic growth, cost inflation and discount rates, and applied various sensitivities, including those described in note 14, as well as performing a break even analysis on key assumptions. We compared the sum of the value in use calculations to the market capitalisation of the Group to assess whether the projected cash flows are supported by market prices. The Other Financial Liabilities section below considers the consistency of the calculation of value in use for testing the carrying value of goodwill in the F&C REIT CGU with that of its fair value for the liability valuation. During this process we considered the impact of the consolidated value in use against the parent Company investment in subsidiary value. We also assessed whether the Group’s disclosures regarding the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

Management Contract Intangible Assets (£43.1m) per note 14

Refer to page 28 (Audit and Compliance Committee Report), page 66 (accounting policy) and pages 84 to 87 (financial disclosures)

- *The Risk* – There is a risk that the value attached to management contracts is materially misstated due to the inherent uncertainty involved in forecasting assets under management and implied fee rates.
- *Our Response* – In this area, our audit procedures included, among others, identifying business activities and any relevant events in the year against the Group’s assessment for indicators of impairment of the management contract assets. We assessed the impairment indicators calculated through a comparison of annualised revenue on assets under management outflows against the annual amortisation charge. We also tested the application of the Group’s amortisation policy, including comparing the historical accuracy of the current useful lives of existing finite life intangible assets. Where an indicator of impairment was identified, we critically assessed the Group’s assumptions around projected cash flows and the other assumptions as appropriate. We assessed whether the Group’s disclosures around finite life assets, changes in amortisation and impairment were adequate.

Valuation of Other Financial Liabilities (£36.8m) per note 28

Refer to page 28 (Audit and Compliance Committee Report), page 67 (accounting policy) and page 116 (financial disclosures)

- *The Risk* – As detailed in the summary of significant accounting policies, 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 non-controlling interest partners in this business. The value of the liability as at 31 December 2013 was £36.8m (see note 28). The potential value of this non-controlling interest is held in Other Financial Liabilities in the Consolidated Statement of Financial Position and revalued on a fair value basis annually. Changes in the value of the non-controlling interest are recognised in the Consolidated Income Statement. There is a risk that the underlying assumptions used to calculate

the fair value of the subsidiary are not appropriate and could materially misstate the value of the liability. Due to inherent uncertainties in the subsidiary's future performance, projected cash flows and applicable discount rate, this is a key focus area of the audit.

- *Our Response* – In this area, our audit procedures included, among others, an assessment of the key inputs and assumptions used in the third party valuation and the method of calculation. We compared the Group's assumptions to externally derived data such as industry growth rates, risk-adjusted discount rates applied in the market as well as our own assessments in relation to key inputs. We used our own valuation specialist to help challenge the key assumptions and method of valuation used by the third party. We identified and evaluated the difference between the fair value of F&C REIT produced by the third-party valuer and the value in use calculation produced for the purpose of assessing whether the value of goodwill relating to the F&C REIT CGU was impaired considering the consistency of the assumptions made for the two different valuation bases. We assessed the disclosure around the other financial liability, agreeing any assumptions disclosed to the underlying fair value model.

Performance Fees (including transaction fees) (£11.6m)

Refer to page 28 (Audit and Compliance Committee Report, page 64 (accounting policy) and page 75 (financial disclosures)

- *The Risk* – There is a risk that management applies inaccurate assumptions when determining revenue to be recognised in relation to performance fees, resulting in a material misstatement.
- *Our Response* – Our audit procedures included, among others, identifying performance fees that have been accrued and do not crystallise until a future date, and assessing management's analysis of potential future performance. This included assessing the reasonableness of each of the assumptions and external market benchmarks, as well as the historical accuracy of similar judgments. For amounts that crystallised during the period we assessed the calculation and compared it to the underlying agreement, as well as agreeing amounts to bank statements.

Risk of recoverability relating to trade receivables balance (£13.3m)

Refer to page 28 (Audit and Compliance Committee Report, page 67 (accounting policy) and page 125 (financial disclosures)

- *The Risk* – There is a significant specific risk around recovery of £13.3m currently recognised in the Group's Consolidated Statement of Financial Position. The £13.3m from a client in the property segment, is past its due date and has not been impaired. Collateral is held in the form of UK and overseas properties to the value of £52.5m. The realisation of certain of these properties is expected to be the source of repayment of the debtor.
- *Our Response* – Our audit procedures included, among others, considering the appropriateness of the absence of a provision recorded against the trade receivable balance, inspecting the underlying documentation covering enforceability, legal title, the valuation and the potential timing of realisation of assets held in overseas jurisdictions as collateral. The signed payment schedule agreed by management was also inspected. Finally, we considered the adequacy of the Group's disclosures in relation to the recoverability of trade receivables and credit risk.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group Financial Statements as a whole was set at £4.9m. This has been calculated with reference to a benchmark of Group revenue (of which it represents 2%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit and Compliance Committee to report all corrected and uncorrected misstatements identified through our audit work with a value in excess of £245,000 that have an impact on profit, in addition to other audit misstatements that we believe warrant reporting on qualitative grounds. Audits for Group reporting purposes were performed by component auditors. The key reporting components were: The Netherlands and Portugal and by the Group audit team in the United Kingdom. These Group procedures covered 98.6% of total Group revenue and 99.4% of total Group assets. The segment disclosures in note 2 set out the individual significance of a specific country.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.4m to £3.6m.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: the UK, The Netherlands and Portugal. Telephone meetings were also held with the auditors at these locations.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

- The information given in the Corporate Governance Statement set out on pages 26 to 32 with respect to internal control and risk management systems in relation to financial reporting processes and share capital structures is consistent with the Group Financial Statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Statement of the Audit and Compliance Committee does not appropriately address matters communicated by us to the Audit and Compliance Committee.

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; or
- a Corporate Governance Statement has not been prepared by the Company.

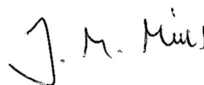
Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 26, in relation to going concern; and
- the part of the Corporate Governance Statement on page 26 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 52, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. 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/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
EH1 2EG
Edinburgh

9 April 2014

Consolidated Financial Statements

for the year ended 31 December 2013

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 141 to 153 have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

Consolidated Income Statement

for the year ended 31 December 2013

	Notes	**2013 £m**	2012 (as restated*) £m
Revenue			
Investment management fees	3	**252.5**	252.6
Other income	3	**5.0**	4.8
Total revenue	3	**257.5**	257.4
Fee and commission expenses	3	**(16.3)**	(13.9)
Net revenue	3	**241.2**	243.5
Net gains and investment income on unit-linked assets	4	**6.5**	40.6
Movement in fair value of unit-linked liabilities		**(6.3)**	(40.8)
Operating expenses			
Operating expenses	5(b)	**(140.9)**	(162.6)
Distributions to members of LLPs	6	**(11.1)**	(11.6)
Amortisation and impairment of intangible assets – management contracts	14	**(42.7)**	(42.5)
Other exceptional operating expenses	7(a)	**(8.2)**	(21.9)
Total operating expenses	5(a)	**(202.9)**	(238.6)
Operating profit		**38.5**	4.7
Finance revenue	8	**2.3**	3.9
Finance costs	9	**(22.1)**	(23.1)
F&C REIT put option fair value (loss)/gain	7(b)	**(3.0)**	11.5
Profit/(loss) before tax		**15.7**	(3.0)
Tax – Shareholders		**(5.5)**	5.4
Tax – Policyholders		**–**	0.2
Tax (expense)/income	10	**(5.5)**	5.6
Profit for the year		**10.2**	2.6
Attributable to:			
Equity holders of the parent		**8.5**	(0.3)
Non-controlling interests		**1.7**	2.9
Profit for the year		**10.2**	2.6
Basic earnings/(loss) per Ordinary Share	11	**1.52p**	(0.06p)
Diluted earnings/(loss) per Ordinary Share	11	**1.43p**	(0.06p)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

		£m	£m
Memo – dividends paid	12	**16.7**	15.8
Memo – second interim dividend declared but not paid	12	**11.8**	–
Memo – dividends proposed	12	**–**	10.9

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 £m	2012 (as restated*) £m
Profit for the year		**10.2**	2.6
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses) on defined benefit pension arrangements	25(d)	**3.6**	(8.5)
Tax (expense)/income on net actuarial gains/(losses) on defined benefit pension arrangements		**(0.8)**	1.7
Corporation Tax rate change		**(0.2)**	(0.3)
Items which may be reclassified subsequently to profit or loss:			
Foreign exchange movements on translation of foreign operations		**2.3**	(2.6)
Gains on revaluation of available for sale financial investments	15	**0.4**	0.7
Realised gains on available for sale financial investments recycled to the Income Statement	15	**(1.4)**	(1.1)
Tax income on available for sale financial investments	10(a)	**0.2**	0.1
Other comprehensive income/(expense) for the year		**4.1**	(10.0)
Total comprehensive income/(expense) for the year		**14.3**	(7.4)
Attributable to:			
Equity holders of the parent		**12.6**	(10.3)
Non-controlling interests		**1.7**	2.9
		14.3	(7.4)

* As restated for the adoption of IAS 1 Presentation of Items in Other Comprehensive Income (amendments) and for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

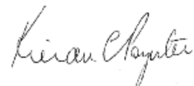
The accompanying notes to the Consolidated Financial Statements form an integral part of these Financial Statements.

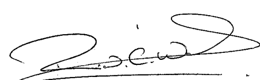
Consolidated Statement of Financial Position

as at 31 December 2013

	Notes	**31 December 2013 £m**	31 December 2012 £m
Assets			
Non-current assets			
Property, plant and equipment	13	**5.5**	7.1
Intangible assets:			
– Goodwill	14	**611.9**	611.9
– Management contracts	14	**43.1**	84.5
– Software and licences	14	**8.7**	7.8
	14	**663.7**	704.2
Financial investments	15	**0.3**	1.3
Deferred acquisition costs	16	**2.0**	3.3
Deferred tax assets	17(a)	**18.2**	28.6
Trade and other receivables	20	**10.7**	0.4
Total non-current assets		**700.4**	744.9
Current assets			
Financial investments	18(a)(i)	**3.0**	138.2
Stock of units and shares	18(a)(ii)	**1.3**	0.3
Deferred acquisition costs	16	**1.5**	2.0
Trade and other receivables	20	**99.6**	87.2
Current tax receivable		**0.2**	1.0
Cash and cash equivalents:			
– Shareholders	21	**182.0**	160.7
– Policyholders	21	**0.9**	4.5
	21	**182.9**	165.2
Total current assets		**288.5**	393.9
Total assets		**988.9**	1,138.8
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	22	**257.5**	257.4
Other payables	23	**5.0**	3.3
Provisions	24	**3.7**	5.1
Pension deficit	25	**17.5**	24.1
Employee benefits		**4.4**	5.0
Deferred income	27	**4.3**	5.6
Other financial liabilities	28	**33.0**	30.0
Deferred tax liabilities	17(a)	**8.9**	19.7
Total non-current liabilities		**334.3**	350.2
Current liabilities			
Investment contract liabilities	29	**0.1**	136.9
Trade and other payables	23	**68.5**	53.2
Provisions	24	**5.2**	8.3
Employee benefits		**18.5**	24.7
Liabilities to members of LLPs		**2.2**	4.0
Deferred income	27	**2.2**	2.7
Other financial liabilities	28	**3.8**	3.8
Current tax payable		**10.5**	8.8
Total current liabilities		**111.0**	242.4
Total liabilities		**445.3**	592.6
Equity			
Ordinary Share capital	30	**0.6**	0.6
Share premium account	31	**58.9**	58.9
Capital redemption reserve	31	**0.8**	0.8
Merger reserve	31	**315.8**	336.8
Other reserves	31	**(24.2)**	(25.7)
Retained earnings	31	**182.9**	162.7
Total equity attributable to equity holders of the parent		**534.8**	534.1
Non-controlling interests	31	**8.8**	12.1
Total equity		**543.6**	546.2
Total liabilities and equity		**988.9**	1,138.8

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 9 April 2014. They were signed on its behalf by:





Kieran Poynter
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 2013

	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
Balance at 1 January 2012	0.5	51.8	0.8	359.7	42.1	1.1	(66.0)	154.3	12.5	556.8
(Loss)/profit for the year (as restated*)	–	–	–	–	–	–	–	(0.3)	2.9	2.6
Other comprehensive expense (as restated*)	–	–	–	–	(2.6)	(0.3)	–	(7.1)	–	(10.0)
Total comprehensive (expense)/income	–	–	–	–	(2.6)	(0.3)	–	(7.4)	2.9	(7.4)
Transactions with owners:										
Share capital allotted in respect of TRC Commutation arrangements	0.1	7.1	–	–	–	–	–	(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)
Balance at 31 December 2012	**0.6**	**58.9**	**0.8**	**336.8**	**39.5**	**0.8**	**(66.0)**	**162.7**	**12.1**	**546.2**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8.5**	**1.7**	**10.2**
Other comprehensive income/(expense)	**–**	**–**	**–**	**–**	**2.3**	**(0.8)**	**–**	**2.6**	**–**	**4.1**
Total comprehensive income/(expense)	**–**	**–**	**–**	**–**	**2.3**	**(0.8)**	**–**	**11.1**	**1.7**	**14.3**
Transactions with owners:										
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**–**	**(1.6)**
Realised element of merger reserve to offset amortisation of intangible assets	**–**	**–**	**–**	**(21.0)**	**–**	**–**	**–**	**21.0**	**–**	**–**
Share-based payment charges credited to equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6.9**	**–**	**6.9**
Tax charge in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Final 2012 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10.9)**	**–**	**(10.9)**
Interim 2013 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5.8)**	**–**	**(5.8)**
Distributions to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5.0)**	**(5.0)**
Balance at 31 December 2013	**0.6**	**58.9**	**0.8**	**315.8**	**41.8**	**–**	**(66.0)**	**182.9**	**8.8**	**543.6**

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

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 £24.2m at 31 December 2013 (31 December 2012: £25.7m debit).

Cumulative defined benefit pension scheme actuarial losses (as disclosed in note 25(d)) recognised as at 31 December 2013 are £35.9m and are included in retained earnings (31 December 2012: £39.5m – as restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1).

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Notes	2013 £m	2012 (as restated*) £m
Cash flows from operating activities			
Operating profit		**38.5**	4.7
Adjustments for non-cash items	32(a)	**54.0**	61.4
Changes in working capital and provisions	32(a)	**(27.5)**	(54.5)
Cash inflows from operating activities#		**65.0**	11.6
Income tax paid		**(5.2)**	(6.5)
Net cash inflow from operating activities		**59.8**	5.1
Cash flows from investing activities			
Purchase of property, plant and equipment		**(0.9)**	(3.6)
Proceeds from disposal of property, plant and equipment		**0.1**	0.1
Purchase of software and licences		**(2.6)**	(5.8)
Payments to acquire investments		**(0.1)**	(0.1)
Proceeds from disposal of investments		**1.3**	3.3
Investment income – interest and dividends		**2.0**	2.0
Consideration payment for the acquisition of F&C GH†		**–**	(0.7)
Net cash outflow from investing activities		**(0.2)**	(4.8)
Cash flows from financing activities			
Interest paid on Loan Notes		**(20.6)**	(21.6)
Other interest paid		**(0.3)**	(0.3)
Equity dividends paid	12	**(16.7)**	(15.8)
Distributions to non-controlling interests		**(5.0)**	(3.3)
Purchase of own shares		**(1.6)**	(0.1)
Repayment of Guaranteed Loan Notes 2016		**–**	(8.0)
Repayment of Subordinated Loan Notes 2016/2026		**–**	(7.6)
Payments in respect of debt arrangements		**–**	(0.2)
Net cash outflow from financing activities		**(44.2)**	(56.9)
Net increase/(decrease) in cash and cash equivalents		**15.4**	(56.6)
Effect of exchange rate fluctuations on cash held		**2.3**	(3.2)
Cash and cash equivalents at 1 January		**165.2**	225.0
Cash and cash equivalents at 31 December	21	**182.9**	165.2
Cash and cash equivalents			
Shareholders	21	**182.0**	160.7
Policyholders	21	**0.9**	4.5
	21	**182.9**	165.2

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

\# 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 2013, a total of 25,854,549 (2012: 12,377,307) Ordinary Shares were issued, at par value, in respect of settlement of share-based payment awards.

During 2012, a total of 10,684,692 Ordinary Shares were issued in respect of TRC Initial and Deferred Commutation consideration. The fair value of these shares was £7.2m.

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 2012 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 2012 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 Strategic Report on pages 6 to 21. The financial position of the Group, its cash flows and liquidity position are also described in the Strategic Report. 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; and details of its financial instruments and its exposure to credit risk, liquidity risk and market risks.

The Group has considerable financial resources and benefits from a broad client base 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 following IFRS standards, amendments and revisions, which are relevant to F&C's reporting have been adopted in the current reporting period. The details, and their impact, are considered below.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The Group has adopted this amendment which has resulted in a prior period adjustment changing the grouping of items presented in Other Comprehensive Income (OCI). Items which may be reclassified (or recycled) to profit or loss in the future are now presented separately from items that could not be reclassified. The amendments do not change the nature of items that are recognised in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value under IFRS. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value under IFRS when fair value is required or permitted, while also requiring additional disclosures. The Group has reassessed its policies for measuring fair value and the valuation inputs, and the application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures on fair value measurements are disclosed in note 19. The fair value hierarchy is also disclosed in note 19.

IAS 19 Employee Benefits (revised)

The Group has applied IAS 19 Employee Benefits (revised) retrospectively in the current period. There were no adjustments required to the earliest comparative Statement of Financial Position (1 January 2012), but a prior period adjustment has been made to the Income Statement in the year ended 31 December 2012. Details of the impact of the prior period adjustment are disclosed in note 1.

The main changes of IAS 19 Employee Benefits (revised) which impact the Group are:

- The interest cost and expected return on plan assets (previously disclosed within finance costs and finance revenue respectively) used in the previous version of IAS 19 have been replaced with a single net-interest amount (disclosed within finance costs) under IAS 19 Employee Benefits (revised), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each accounting period. The change affects the difference between actual and expected returns on plan assets, which is recognised in full within OCI as part of re-measurement;
- The classification of plan administration costs and income taxes associated with the plans are measured in either the Income Statement or OCI depending on their nature;
- The requirement for more extensive pension disclosures, as shown in note 25; and
- Termination benefits are recognised only when the offer cannot be withdrawn, or when the related restructuring costs are recognised as a provision.

The revisions to the standards below, which were effective during the year ended 31 December 2013, did not have any impact on the accounting policies, financial position or performance of the Group:

(a) Amendments to IFRS:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities.

(b) Improvements to IFRS (2009 – 2011 cycle):

IAS 16 Improvement – Property, Plant and Equipment.

IAS 32 Improvement – Financial Instruments: Presentation.

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 141 to 153.

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 14.

(b) Pension assumptions

The mortality assumptions, discount rates, rates of salary increases and inflation increases, as disclosed in note 25.

(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 24.

(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 19.

(e) Share-based payments

The share-based payment expense in respect of the LTRP (restricted share awards) is based on expected vesting percentages, as disclosed in note 26(a)(ii). The share-based payment expense in respect of the TRC Commutation arrangements, as detailed in notes 7(a)(i) and 26(f), is dependent upon whether the remaining call option is exercised and, if exercised, the expense will vary according to a number of factors, including the level of earnings of the respective Investment Teams.

(f) Deferred tax assets

The quantum of deferred tax assets recognised, as detailed in note 17, is based upon assumptions as to the future profitability of the underlying companies to which they relate.

(g) F&C REIT receivable

The recoverability of a significant debtor in respect of property asset management fees, as detailed in note 36(a)(ii), has been assessed by the Board, together with the fair value of the collateral which has been obtained over the debtor.

(h) Performance fee recognition

Income generated from performance fees is based on the absolute investment performance of a client's assets, or their relative performance compared to a hurdle or benchmark, over a defined period. Where the performance period is not coterminous with the Group's financial reporting period, the performance fees recognised must be estimated and such estimates are inherently subjective.

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 2013 and 31 December 2012.

(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.

Non-controlling interests (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 translation

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, regardless of when the payment is due.

Revenue is measured at the fair value of the consideration received or receivable, taking into account the contractually defined terms of payment and excluding any taxes.

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.

Performance fees include property related transaction fees which can crystalise on the acquisition or disposal of properties managed on behalf of clients.

(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.

The Group has a review process for accepting new contracts which identifies whether any arrangements contain a lease obligation.

(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 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, net interest on defined benefit pension obligations, 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 tax

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 the Statement of Comprehensive Income or 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, with the exception of motor vehicles, over their estimated useful lives, as follows:

Leasehold improvements	– over 10 years (or lease term if shorter)
Computer equipment	– over 3 years
Office furniture & equipment	– over 3-5 years
Motor vehicles	– 25% reducing balance

Depreciation on property, plant and equipment 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

Investment management contracts acquired separately are measured on initial recognition at cost.

The measurement of investment management contracts 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. Details of estimated useful lives are shown in note 14.

(iii) Software and licences

This comprises both internally generated software and acquired licences. Separately purchased software and licences 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 – 3-7 years

Licences – 3 years

Subsequent expenditure on capitalised software and licences 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 assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables or available for sale financial assets.

Financial assets 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. All financial assets where the Group has a passive interest are classified as available for sale. 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 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.

Financial assets and liabilities

Derecognition of 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.

Derecognition of financial liabilities

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

Renegotiation of the terms of financial assets

Where financial assets past due have been renegotiated, the Group classifies these assets in accordance with the revised terms and conditions.

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) Fair value measurement

The Group measures financial instruments and non-financial assets at fair value at each balance sheet date. The fair values of financial instruments measured at amortised cost are disclosed in note 15.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value

measurement is based on the presumption that the transaction to sell the asset or transfer the liability is conducted in either:

- The principal market for the asset or liability; or
- In the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use capacity or by selling it to another market participant that would use the asset in its highest and best use capacity.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described below, and based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

External valuers are involved in the valuation of the F&C REIT put option and the carried interest elements in certain private equity funds.

Carried interest investments are valued in accordance with the underlying property or private equity valuations and the underlying Partnership Agreements.

(o) 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.

(p) Investment contracts

The Group used to sell unit-linked pension investment contracts through its insurance entity, F&C Managed Pension Funds Limited (MPF). These unit-linked contracts involved 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.

(q) Employee and member benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services.

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

Profit share and bonus entitlements 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 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 corporate bond yield at the reporting date which has a maturity date similar to the terms of the Group's obligations. A qualified actuary performs the calculation annually using the projected unit credit method.

The defined benefit pension costs 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. These are recognised in the Income Statement;

- 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; and
- the net interest on the net defined benefit liability/(asset). This represents the change during the period in the net defined benefit liability/(asset) that arises from the passage of time. This net interest expense is 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. Termination benefits are recognised only when the offer cannot be withdrawn, or when the related restructuring costs are recognised as a provision.

(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 continued employment and/or defined performance criteria such as underlying EPS targets, net new business, investment performance or share price return targets.

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 conditions 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. They are not subsequently re-measured, except where calculated at intrinsic value.

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 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 future settlements of share-based awards and other employee benefits. 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 at fair value 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 or have an effective date after the date of these Financial Statements:

International Accounting Standards (IAS/IFRS)		**Effective for accounting periods beginning on or after**
Endorsed by the European Union and available for early adoption:		
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
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities	1 January 2014
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
Not yet endorsed by the European Union:		
IFRIC Interpretation 21	Levies	1 January 2014
IAS 19 Amendment	Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to IFRSs	2010 – 2012 Cycle (Issued 12 December 2013)	1 July 2014
Annual Improvements to IFRSs	2011 – 2013 Cycle (Issued 12 December 2013)	1 July 2014
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date and Transition Disclosure	1 January 2015
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 9	Financial Instruments and subsequent amendments	1 January 2018

Impact of new accounting standards

The list of new and revised standards , which are effective for periods beginning on or after 1 January 2014, which could affect the Group, are as follows:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of Interests in Other Entities
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates

IFRS 10 defines the principle of control and establishes control as the basis for consolidation. A company is required to consolidate an investee when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. IFRS10 does not impact how to consolidate, but rather when to consolidate, an entity.

IFRS 11 defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

A joint arrangement is classified as either a joint operation or a joint venture. A joint operation is where the parties have rights to the assets and obligations for the liabilities of the arrangement. A joint venture, which can only apply where there is a separate vehicle, applies where the parties have rights to the net assets of the arrangement.

IFRS 12 requires an entity to disclose information about:

(a) the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest; and

(b) its interests in:

- (i) subsidiaries;
- (ii) joint arrangements and associates; and
- (iii) structured entities that are not controlled by the entities.

IAS 27 (revised) and IAS 28 (revised) are largely changes as a consequence of the new IFRS 10, 11 and 12 standards.

The assessment of these standards is ongoing. It is anticipated that IFRS 12 will result in significant disclosures around unconsolidated structured entities.

Other standards effective beyond 2014, which will impact the Group include:

IFRS 9 Financial Instruments and subsequent amendments

The Group is assessing the impact of the other new and revised standards to be implemented in 2014 and beyond. The Group intends to adopt the standards in the reporting period in which they become effective.

Notes to the Consolidated Financial Statements

1. Prior period restatement

With effect from 1 January 2013, the Group has adopted IAS 19 Employee Benefits (revised) in respect of accounting for defined benefit pension obligations. This has resulted in a prior period adjustment for the year ended 31 December 2012. There was no adjustment to the opening Statement of Financial Position at 31 December 2011.

The main change is that 'expected returns on plan assets' are no longer recognised in profit or loss. Expected returns are replaced by recording interest income or expense in profit or loss, which is calculated using the discount rate used to measure the pension obligation.

The impact of the prior period adjustment on the 2012 Income Statement, and the impact on the 2013 Income Statement from the adoption of IAS 19 Employee Benefits (revised), is shown below:

	2013 £m	2012* £m
Operating expenses	**(0.1)**	(0.1)
Finance revenue	**(12.1)**	(10.7)
Finance costs	**11.0**	10.3
Tax income	**0.3**	0.1
Decrease in profit for the year, after adopting IAS 19 Employee Benefits (revised)	**(0.9)**	(0.4)

* Compared with the originally reported profit.

There is a movement through Other Comprehensive Income (OCI) which is equal and opposite to the movement in the Income Statement. Hence there is no overall change in the net assets of the Group from the adoption of IAS 19 Employee Benefits (revised) and, therefore, there is no adjustment to the Statement of Financial Position at 31 December 2012.

The Group has also adopted IAS 1 Presentation of Items in Other Comprehensive Income – Amendments to IAS 1 for the year beginning 1 January 2013. This amendment has changed the grouping of how items are presented in OCI. 'Items which may be subsequently reclassified (or recycled) to profit or loss' in the future are now presented separately from 'items that will never be subsequently reclassified'. The amendments do not change the nature of items that are recognised in OCI, nor do they impact the determination of whether items in OCI are subsequently reclassified through profit or loss in future periods.

The impact of the prior period adjustment on earnings per share is disclosed in note 11.

2. 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 operating across 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 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.

2. Operating segments continued

(a) Operating segments' financial information

	F&C		F&C REIT		TRC		Total	
	2013 £m	2012 (as restated*) £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 (as restated*) £m
Revenue								
External clients	**193.5**	187.0	**36.6**	38.4	**27.4**	32.0	**257.5**	257.4
Inter-segment revenue	**0.6**	0.7	**–**	–	**1.5**	1.5	**2.1**	2.2
Segment revenue	**194.1**	187.7	**36.6**	38.4	**28.9**	33.5	**259.6**	259.6
Fee and commission expenses	**(11.6)**	(11.1)	**(2.5)**	(2.2)	**(2.2)**	(0.6)	**(16.3)**	(13.9)
Net gains and investment income on unit-linked assets	**6.5**	40.6	**–**	–	**–**	–	**6.5**	40.6
Movement in fair value of unit-linked liabilities	**(6.3)**	(40.8)	**–**	–	**–**	–	**(6.3)**	(40.8)
Operating expenses								
Operating expenses	**(110.9)**	(128.7)	**(17.5)**	(16.5)	**(21.3)**	(27.6)	**(149.7)**	(172.8)
Amortisation, depreciation and impairment	**(28.5)**	(28.4)	**(12.4)**	(11.0)	**(6.2)**	(6.7)	**(47.1)**	(46.1)
Other exceptional operating expenses	**(5.3)**	(11.6)	**–**	–	**(2.9)**	(10.3)	**(8.2)**	(21.9)
Total operating expenses	**(144.7)**	(168.7)	**(29.9)**	(27.5)	**(30.4)**	(44.6)	**(205.0)**	(240.8)
Operating profit/(loss)	**38.0**	7.7	**4.2**	8.7	**(3.7)**	(11.7)	**38.5**	4.7
Finance revenue	**13.1**	9.6	**0.2**	0.1	**0.1**	0.2	**13.4**	9.9
Finance costs	**(22.0)**	(23.0)	**–**	–	**(0.1)**	(1.0)	**(22.1)**	(24.0)
F&C REIT put option fair value (loss)/gain	**(3.0)**	11.5	**–**	–	**–**	–	**(3.0)**	11.5
Tax (expense)/income	**(5.3)**	4.4	**(0.3)**	(0.8)	**0.1**	2.0	**(5.5)**	5.6
Profit/(loss) for the year	**20.8**	10.2	**4.1**	8.0	**(3.6)**	(10.5)	**21.3**	7.7
Segment assets	**775.5**	898.9	**186.3**	197.2	**45.0**	55.5	**1,006.8**	1,151.6
Segment liabilities	**(418.4)**	(544.1)	**(16.8)**	(19.2)	**(10.5)**	(18.0)	**(445.7)**	(581.3)
Other information								
Expenditure on non-current assets	**3.5**	8.8	**0.3**	0.5	**–**	0.3	**3.8**	9.6
Non-cash expenses/(income) other than amortisation, depreciation and impairment	**8.0**	(4.8)	**1.0**	0.2	**4.4**	7.0	**13.4**	2.4

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

Revenues from two external clients each represented 10% or more of the Group's total revenues in the prior year.

In the year ended 31 December 2013 the Group had no single client contributing as much as 10% of total revenues for the year, but the revenues for the largest clients which did so in the comparative period have been disclosed for information purposes.

Client	**2013 £m**	2012 £m	**Segments**
Largest*	**25.7**	26.8	F&C; F&C REIT
Second largest*	**23.3**	26.9	F&C; F&C REIT

* In 2013.

2. Operating segments continued

(b) Reconciliations to Group Financial Statements

	2013 £m	2012 (as restated*) £m
Total revenue		
Total revenue for reportable segments	**259.6**	259.6
Elimination of inter-segment revenue	**(2.1)**	(2.2)
Group revenue	**257.5**	257.4
Operating expenses		
Total operating expenses for reportable segments	**(205.0)**	(240.8)
Elimination of inter-segment expenses	**2.1**	2.2
Group operating expenses	**(202.9)**	(238.6)
Finance revenue		
Total finance revenue for reportable segments	**13.4**	9.9
Adjustment for inter-segment finance revenue	**(11.1)**	(6.0)
Group finance revenue	**2.3**	3.9
Finance costs		
Total finance costs for reportable segments	**(22.1)**	(24.0)
Elimination of inter-segment finance costs	**–**	0.9
Group finance costs	**(22.1)**	(23.1)
Profit for the year		
Total profit for reportable segments	**21.3**	7.7
Adjustment for inter-segment profit distributions	**(11.1)**	(5.1)
Group profit for the year	**10.2**	2.6
Assets		
Total assets for reportable segments	**1,006.8**	1,151.6
Elimination of inter-segment assets	**(17.9)**	(12.8)
Group assets	**988.9**	1,138.8
Liabilities		
Total liabilities for reportable segments	**(445.7)**	(581.3)
Elimination of inter-segment liabilities	**17.9**	12.8
Unallocated defined benefit pension liabilities	**(17.5)**	(24.1)
Group liabilities	**(445.3)**	(592.6)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

The reportable segments' totals for all other line items reported in the table at note 2(a) are the same as those for the Group, with no reconciling differences.

2. Operating segments continued

(c) Geographical information

Revenue by location of clients	2013 £m	2012 £m
United Kingdom	**111.1**	105.4
Continental Europe*	**133.2**	132.3
Rest of the World	**13.2**	19.7
Group total	**257.5**	257.4

Non-current assets by domicile†	2013 £m	2012 £m
United Kingdom	**38.4**	60.2
Continental Europe*	**14.2**	28.6
Rest of the World	**4.7**	10.6
	57.3	99.4
Unallocated	**611.9**	611.9
Group total	**669.2**	711.3

* Continental Europe is defined as the European Economic Area.

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

3. Net revenue

	2013 £m	2012 £m
Base management fees	**240.9**	243.1
Performance-related management fees	**11.6**	9.5
Total investment management fees	**252.5**	252.6
Other income	**5.0**	4.8
Total revenue	**257.5**	257.4
Renewal commission on open-ended investment products	**(10.9)**	(8.0)
Other selling expenses	**(5.4)**	(5.9)
Fee and commission expenses	**(16.3)**	(13.9)
Net revenue	**241.2**	243.5

Other income in 2013 includes £1.1m (2012: £2.0m) of compensation in respect of the withdrawal of Strategic Partner assets.

4. Net gains and investment income on unit-linked assets

	Notes	2013 £m	2012 £m
Interest income on financial instruments attributable to policyholders	8	**0.1**	6.3
Dividend income		**–**	6.8
Movement in fair values of unit-linked assets		**6.4**	27.5
Net gains and investment income on unit-linked assets	29	**6.5**	40.6

Note 18(a)(i)(1) gives further background to the unit-linked assets held by the Group.

5. Expenses

(a) Total operating expenses

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

	2013 £m	2012 (as restated*) £m
Employee and member benefits and related expenses†	**104.1**	131.7
Premises expenses	**9.5**	10.7
Communication and information technology expenses	**13.6**	15.1
Third-party administration expenses	**11.7**	11.0
Promotional and client servicing expenses	**4.0**	5.1
Depreciation, amortisation and impairment expenses	**47.1**	46.1
Other expenses	**12.9**	18.9
Total operating expenses	**202.9**	238.6

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

† This includes £5.4m (2012: £5.4m) of employment-related expenses, which are not employee benefit expenses and are therefore excluded from the table in note 6.

5. Expenses continued

(b) Operating expenses

Operating expenses include the following:

	Notes	2013 £m	2012 £m
Depreciation of owned tangible property, plant and equipment	13	**2.7**	3.0
Amortisation of software and licences	14	**1.7**	0.6
Auditor's remuneration	5(c)	**1.2**	1.2
Operating lease rentals – land and buildings (head leases)		**9.7**	10.3
Operating lease rentals – vehicles		**0.3**	0.4
Operating lease rentals – other*		**3.8**	2.7
Rentals receivable – operating leases (sub-leases)		**(2.9)**	(3.6)
Loss on disposal of intangible assets (software and licences)		**0.1**	–
(Gain)/loss on disposal of property, plant and equipment		**(0.1)**	0.9
Foreign exchange (gains)/losses		**(0.4)**	2.0

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

Sub-lease rentals of £2.9m (2012: £3.6m) were received during the year, of which £2.9m (2012: £3.3m) relates to guaranteed payments and £nil (2012: £0.3m) relates to contingent payments.

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

(c) Auditor's remuneration

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

Group auditor – KPMG	2013 £m	2012 £m
Annual audit fees	**0.2**	0.2
Fees payable to the Group's auditor for the audit of the Group and Company's annual Financial Statements	**0.2**	0.2
Audit of financial statements of subsidiaries pursuant to legislation	**0.6**	0.6
Total audit fees of the Group	**0.8**	0.8
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.2**	0.2
Other non-audit services	**0.1**	0.1
Total auditor's remuneration	**1.2**	1.2

The Group's policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance on page 32.

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:

	2013 £m	2012 £m
Deloitte	**0.3**	0.1
PricewaterhouseCoopers	**0.1**	0.4
	0.4	0.5

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:

	2013 £m	2012 £m
KPMG	**0.6**	0.5
PricewaterhouseCoopers	**0.5**	0.4

6. Employee and member benefit expenses

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

	Notes	**2013** **£m**	2012 (as restated*) £m
Short-term employee and member benefits:			
Salaries and related benefits		**48.6**	54.9
Bonus		**13.1**	15.5
Wages and salaries		**61.7**	70.4
Distributions to members of LLPs†		**11.1**	12.2
Social Security costs		**7.9**	11.4
		80.7	94.0
Post-employment benefits:			
Defined contribution pension expense	25(h)	**3.6**	4.1
Defined benefit pension expense	25(d)	**2.1**	2.7
		5.7	6.8
Total of wages and salaries, Social Security costs and post-employment benefits		**86.4**	100.8
Other long-term employee benefits		**0.4**	0.1
Termination benefits		**2.5**	3.9
Share-based payment expense	26	**9.4**	21.5
Total employee and member benefits expenses		**98.7**	126.3

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

† Includes £nil (31 December 2012: £0.6m) of exceptional employment expenses as included in note 7(a)(ii).

The above table includes £6.3m (2012: £15.8m) of exceptional expenses.

The monthly average number of employees and members (including Executive Directors) of the Group during 2013 was 725 (2012: 852). F&C Asset Management plc had no employees during either year.

7. Exceptional income and expenditure

(a) Other exceptional operating expenses

The Group has classified the following operating expenses as exceptional:

	Notes	**2013** **£m**	2012 £m
TRC Commutation expenses	(i)	**2.7**	1.6
Exceptional employment expenses	(ii)	**2.4**	8.2
Exceptional outsourcing expenses	(iii)	**1.6**	3.3
TRC Management Retention Plan expense	(iv)	**1.2**	6.2
Exceptional premises expenses	(v)	**0.3**	1.3
F&C Partners litigation expense	(vi)	**–**	1.3
		8.2	21.9

(i) 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, would 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 expense of £2.7m recognised in 2013 comprises a £1.0m charge for the Investment Teams where options have been exercised and a further charge of £1.7m for the remaining call option which was expected to be exercised by F&C in April 2014.

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.

7. Exceptional income and expenditure continued

(ii) Exceptional employment expenses

During the year ended 31 December 2013 a further £2.4m (2012: £8.2m) of non-recurring redundancy and related staff costs were incurred in order to achieve the staff cost savings identified as part of the strategic review.

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

(iii) Exceptional outsourcing expenses

During 2013, a further £1.2m of advisory and consultancy costs were incurred in completing the project to outsource certain of the Group's back and middle office investment operations to State Street. In addition, £0.4m of non-recurring costs were incurred as part of implementing strategic changes.

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 Management Retention Plan expense

As a condition of the acquisition of TRC, the Group established a Management Retention Plan (MRP) to retain and incentivise certain TRC personnel. The MRP expense (including NIC) recognised in the Income Statement for the year ended 31 December 2013 is £1.2m (2012: £6.2m). Details of this share-based payment arrangement are given in note 26(d).

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

(v) Exceptional premises expenses

As part of the Group's cost-saving initiatives, several actions have been taken in respect of a number of premises to reduce the recurring level of property costs. A net cost of £0.3m has been incurred during 2013 (2012: a net cost of £1.3m), comprising restructuring costs of £0.7m offset by a £0.4m release of excess onerous property provisions recognised in previous periods, following the successful reassignment and termination of lease arrangements.

(vi) F&C Partners litigation expense

The F&C Partners litigation was settled in 2012, resulting in a net expense of £1.3m being recognised in the Income Statement for that year. Details of the movement in the associated provision during 2012 are given in note 24.

Given the nature of this expense and the quantum of costs previously incurred, the Directors considered it appropriate to treat this expense as exceptional in nature and excluded it from the measurement of underlying earnings for 2012.

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

	2013 £m	2012 £m
F&C REIT put option fair value loss/(gain)	**3.0**	(11.5)

The fair value of the F&C REIT put option liability, as disclosed in note 28, 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 £3.0m increase in the fair value of the option liability during 2013 has been recognised as a loss in the Income Statement (2012: gain of £11.5m).

The Directors consider the put option liability movements to be of a capital nature, and have therefore excluded the associated loss or gain from the measurement of underlying earnings for each financial year.

8. Finance revenue

	2013 £m	2012 (as restated*) £m
Loans and receivables:		
Bank interest receivable	**0.4**	0.8
Other interest receivable	**0.2**	0.2
Designated as fair value through profit or loss:		
Gain on fair value of investments	**0.3**	0.7
Gain on redemption of bonds	**–**	1.1
Designated as available for sale:		
Investment income receivable	**1.4**	1.1
Total finance revenue	**2.3**	3.9

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

	Note	2013 £m	2012 £m
Summary of total interest income:			
Bank interest receivable		**0.4**	0.8
Other interest receivable		**0.2**	0.2
Interest income on financial instruments attributable to policyholders	4	**0.1**	6.3
Total interest income		**0.7**	7.3

9. Finance costs

	Note	2013 £m	2012 (as restated*) £m
Interest expense on financial liabilities recognised at cost using the effective interest rate method:			
Fixed/Floating Rate Subordinated Notes 2016/2026		**7.8**	8.4
Guaranteed Fixed Rate Loan Notes 2016		**12.8**	13.1
Bank charges and other interest payable		**0.3**	0.3
Total interest expense		**20.9**	21.8
Other finance costs:			
Amortisation of loan note issue costs and facility fees		**0.3**	0.3
Unwinding of discount on onerous provisions		**–**	0.3
Net interest cost on pension obligations	25(d)	**0.9**	0.7
Total finance costs		**22.1**	23.1

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

10. Income tax

(a) Analysis of tax expense/(income) in the year

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

	2013 £m	2012 (as restated*) £m
Current income tax:		
UK	**0.9**	0.7
Foreign	**5.7**	5.3
Adjustments in respect of previous years	**0.8**	(1.9)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(1.6)**	(10.9)
Adjustments in respect of previous years	**(1.4)**	1.3
Adjustments in respect of Corporation Tax rate change	**1.1**	(0.1)
Tax expense/(income) reported in the Income Statement	**5.5**	(5.6)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

10. Income tax continued

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

Deferred and current income tax related to items charged or credited directly to equity:	**2013 £m**	2012 (as restated*) £m
Fair value movements on available for sale financial investments	**(0.2)**	(0.1)
Net actuarial movements on defined benefit pension arrangements	**0.8**	(2.0)
Other pension plan movements	**–**	0.3
Adjustments in respect of Corporation Tax rate change	**0.2**	0.3
Tax expense/(income) recognised directly in the Statement of Comprehensive Income	**0.8**	(1.5)
Tax associated with purchase of NCI in F&C Partners LLP	**–**	0.8
Share-based payments	**0.5**	(0.6)
Tax expense/(income) recognised directly in the Statement of Changes in Equity	**1.3**	(1.3)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

Deferred tax assets and liabilities are shown in note 17.

(b) Factors affecting the tax expense/(income) for the year

A reconciliation between the actual tax expense/(income) and the accounting profit/(loss) multiplied by the Group's domestic tax rate for the years ended 31 December 2013 and 2012 is as follows:

	2013 £m	2012 (as restated*) £m
Profit/(loss) before tax	**15.7**	(3.0)
At the Group's statutory income tax rate of 23.25% (2012: 24.5%)	**3.6**	(0.7)
Adjustments in respect of previous years	**(0.6)**	(0.6)
Disallowed expenses	**1.4**	0.8
Non-taxable income	**(0.8)**	(3.6)
Foreign tax at different rates	**0.6**	0.3
Movement in unrecognised loss position	**0.2**	(0.1)
Disallowed distributions to LLP members	**2.6**	3.0
Non-taxable income attributable to LLP members	**(2.6)**	(3.0)
Share-based payments	**–**	(1.6)
Corporation Tax rate change	**1.1**	(0.1)
Tax expense/(income) reported in the Income Statement	**5.5**	(5.6)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

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

The current Corporation Tax rate of 23% became effective from 1 April 2013, leading to a statutory UK Corporation Tax rate of 23.25% for 2013 for the Group.

A 3% reduction in the UK Corporation Tax rate was substantively enacted during the year to take effect in 2014 and 2015. The effect of these tax rate changes enacted has been to decrease the net deferred tax assets of the Group by £1.3m, comprising a £1.1m charge through the Income Statement and a £0.2m charge to equity reflecting the deferred tax that is expected to reverse through equity.

The 3% reduction in the UK Corporation Tax rate will lead to a Group statutory Corporation Tax rate of 21.50% for 2014 and 20.25% for 2015.

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

11. 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 reflect the underlying earnings performance of the Group.

The impact of the prior period adjustment for the adoption of IAS 19 Employee Benefits (revised), as explained in note 1, on the 2012 profit/(loss) attributable to ordinary equity holders of the parent and on the basic and diluted earnings/(loss) per share is as follows:

	2012				
	Profit/(loss) attributable to equity holders of the parent				
	Gross £m	Tax £m	Net £m	Basic EPS p	Diluted EPS p
As originally reported	(5.1)	5.2	0.1	0.01	0.01
Prior period adjustment	(0.5)	0.1	(0.4)	(0.07)	(0.07)
As restated	(5.6)	5.3	(0.3)	(0.06)	(0.06)

Reconciliation of earnings/(loss) per Ordinary Share	**2013 p**	2012 (as restated*) p
Basic earnings/(loss) per Ordinary Share	**1.52**	(0.06)
Amortisation and impairment of intangibles	**5.25**	5.25
TRC Commutation expenses	**0.48**	0.30
Exceptional employment expenses	**0.32**	1.13
Exceptional outsourcing expenses	**0.22**	0.47
TRC Management Retention Plan expense	**0.11**	1.02
Exceptional premises expenses	**0.06**	0.21
F&C Partners litigation expense	**–**	0.19
F&C REIT put option fair value loss/(gain)	**0.54**	(2.16)
Deferred Tax – Corporation Tax rate change	**0.34**	0.36
Underlying earnings per Ordinary Share	**8.84**	6.71
Foreign exchange (gains)/losses included within underlying earnings per share	**(0.06)**	0.28
Underlying earnings per Ordinary Share excluding foreign exchange gains and losses	**8.78**	6.99

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

	2013 p	2012 (as restated*) p
Diluted earnings/(loss) per Ordinary Share†	**1.43**	(0.06)
Diluted underlying earnings per Ordinary Share	**8.27**	6.03
Diluted underlying earnings per Ordinary Share excluding foreign exchange gains and losses	**8.22**	6.28

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

† 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 2012.

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

11. Earnings per share continued

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

		2013			2012 (as restated*)	
Reconciliation of earnings/(loss)	**Gross £m**	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Earnings/(loss) attributable to ordinary equity holders of the parent for basic earnings/(loss) per share	**14.3**	**(5.8)**	**8.5**	(5.6)	5.3	(0.3)
Amortisation and impairment of intangibles[(1)]	**39.1**	**(9.8)**	**29.3**	39.3	(11.4)	27.9
TRC Commutation expenses	**2.7**	**–**	**2.7**	1.6	–	1.6
Exceptional employment expenses	**2.4**	**(0.6)**	**1.8**	8.2	(2.2)	6.0
Exceptional outsourcing expenses	**1.6**	**(0.4)**	**1.2**	3.3	(0.8)	2.5
TRC Management Retention Plan expense	**1.2**	**(0.6)**	**0.6**	6.2	(0.8)	5.4
Exceptional premises expenses	**0.3**	**–**	**0.3**	1.3	(0.2)	1.1
F&C Partners litigation expense	**–**	**–**	**–**	1.3	(0.3)	1.0
F&C REIT put option fair value loss/(gain)	**3.0**	**–**	**3.0**	(11.5)	–	(11.5)
Deferred Tax – Corporation Tax rate change[(2)]	**–**	**1.9**	**1.9**	–	1.9	1.9
Underlying earnings attributable to ordinary equity holders of the parent	**64.6**	**(15.3)**	**49.3**	44.1	(8.5)	35.6
Foreign exchange (gains)/losses included within underlying earnings	**(0.4)**	**0.1**	**(0.3)**	2.0	(0.5)	1.5
Underlying earnings attributable to ordinary equity holders of the parent excluding foreign exchange gains and losses	**64.2**	**(15.2)**	**49.0**	46.1	(9.0)	37.1

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

(1) Excludes £2.6m (2012: £2.2m) of amortisation and impairment 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.

(2) Excludes £0.8m credit associated with intangible assets.

Share capital	**2013 No.**	2012 No.
Weighted average number of Ordinary Shares[(3)]	**557,459,389**	530,962,557
Weighted average dilutive potential Ordinary Shares exercisable:		
The Long-Term Remuneration Plan awards	**18,028,114**	31,802,958
TRC Management Retention Plan awards	**12,366,873**	19,045,652
TRC Commutation arrangements	**7,892,493**	6,606,750
Purchased Equity Plan awards	**121,761**	543,416
The Executive Director Remuneration Plan awards	**–**	1,126,146
Deferred Share Awards	**–**	188,288
Dilutive potential weighted average number of Ordinary Shares	**595,868,630**	590,275,767

(3) Excludes own shares held by Nominees/Employee Benefit Trusts.

In the period between the reporting date and the approval of the Consolidated Financial Statements, 9,922,333 share awards (2012: 155,356) vested which were satisfied by the utilisation of 2,171,826 (2012: 155,356) own shares held by an Employee Benefit Trust and by the issue of 7,750,507 Ordinary Shares. No shares (2012: 201,369) have been distributed from holdings in a nominee capacity in respect of TRC Commutations since the reporting date.

11. Earnings per share continued

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)

  Details of the estimated vesting percentages used for accounting purposes are disclosed in note 26(a)(ii).

- 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 2013, 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. Details of this arrangement are disclosed in note 26(b).

- TRC Management Incentive Plan

  Details of this plan are disclosed in note 26(e).

- 2002 Executive Share Option Scheme

  At 31 December 2013 all options outstanding have vested. These options have an exercise price of 240.83p and are anti-dilutive as the option prices are above the average share price for the year. Details of this Scheme are disclosed in note 26(i).

12. Ordinary dividends

Declared and paid during the year	**2013 £m**	2012 £m
Final dividend for 2012: 2.0p (2011: 2.0p)	**10.9**	10.4
Interim dividend for 2013: 1.0p (2012: 1.0p)	**5.8**	5.4
	16.7	15.8
Second interim dividend for 2013: 2.0p (2012: nil)	**11.8**	n/a
Proposed for approval at the Annual General Meeting		
Final dividend for 2013: nil (2012: 2.0p)	**n/a**	10.9

On 28 January 2014, the Board declared a second interim dividend of 2.0p per share for the year ended 31 December 2013, payable on 20 May 2014 (or earlier if the cash consideration pursuant to the proposed transaction with BMO is dispatched ahead of that date) to shareholders on the register at 4 April 2014. This brings full-year dividends for 2013 to 3.0p per share, which is the same as that paid in respect of 2012.

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**
2013 Dividends		
2012 Final	**11,092,217**	**0.2**
2013 Interim	**2,255,659**	**–**
2012 Dividends		
2011 Final	10,079,379	0.2
2012 Interim	8,990,080	0.1

13. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Cost:					
At 1 January 2012	13.3	10.0	2.9	1.0	27.2
Additions	1.1	2.1	0.1	0.4	3.7
Disposals	(7.1)	(1.9)	(1.1)	(0.3)	(10.4)
At 31 December 2012	**7.3**	**10.2**	**1.9**	**1.1**	**20.5**
Additions	**0.3**	**0.6**	**0.1**	**0.1**	**1.1**
Disposals	**(0.2)**	**(1.5)**	**(0.1)**	**(0.1)**	**(1.9)**
At 31 December 2013	**7.4**	**9.3**	**1.9**	**1.1**	**19.7**
Depreciation and impairment:					
At 1 January 2012	9.3	8.0	2.1	0.4	19.8
Depreciation charge for the year	1.3	1.3	0.2	0.2	3.0
Disposals	(6.2)	(1.9)	(1.1)	(0.2)	(9.4)
At 31 December 2012	**4.4**	**7.4**	**1.2**	**0.4**	**13.4**
Depreciation charge for the year	**0.8**	**1.5**	**0.2**	**0.2**	**2.7**
Disposals	**(0.2)**	**(1.5)**	**(0.1)**	**(0.1)**	**(1.9)**
At 31 December 2013	**5.0**	**7.4**	**1.3**	**0.5**	**14.2**
Net book values:					
At 31 December 2011	4.0	2.0	0.8	0.6	7.4
At 31 December 2012	2.9	2.8	0.7	0.7	7.1
At 31 December 2013	**2.4**	**1.9**	**0.6**	**0.6**	**5.5**

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 2013 is £9.3m (31 December 2012: £5.9m).

14. Goodwill and other intangible assets

	Goodwill £m	Investment management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 January 2012	611.9	703.5	7.9	1,323.3
Additions	–	–	5.9	5.9
Disposals	–	–	(1.2)	(1.2)
Foreign exchange losses	–	(1.6)	–	(1.6)
At 31 December 2012	**611.9**	**701.9**	**12.6**	**1,326.4**
Additions	**–**	**–**	**2.7**	**2.7**
Disposals	**–**	**–**	**(0.3)**	**(0.3)**
Foreign exchange gains	**–**	**1.3**	**–**	**1.3**
At 31 December 2013	**611.9**	**703.2**	**15.0**	**1,330.1**
Amortisation and impairment:				
At 1 January 2012	–	574.9	5.4	580.3
Amortisation charge for the year	–	42.5	0.6	43.1
Disposals	–	–	(1.2)	(1.2)
At 31 December 2012	**–**	**617.4**	**4.8**	**622.2**
Amortisation charge for the year	**–**	**41.3**	**1.7**	**43.0**
Impairment charge	**–**	**1.4**	**–**	**1.4**
Disposals	**–**	**–**	**(0.2)**	**(0.2)**
At 31 December 2013	**–**	**660.1**	**6.3**	**666.4**
Net book values:				
At 31 December 2011	611.9	128.6	2.5	743.0
At 31 December 2012	611.9	84.5	7.8	704.2
At 31 December 2013	**611.9**	**43.1**	**8.7**	**663.7**

Software and licences additions consists of £2.2m (2012: £5.7m) of internally generated software and £0.5m (2012: £0.2m) of acquired licences.

The cost of software and licences where amortisation has not yet commenced at 31 December 2013 is £0.7m (31 December 2012: £5.9m).

14. 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 2, is represented by three cash-generating units (CGUs), as follows:

	31 December 2013 £m	31 December 2012 £m
F&C	**467.2**	467.2
F&C REIT	**127.9**	127.9
Thames River Capital	**16.8**	16.8
	611.9	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 2013, 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. Such an indicator was identified in 2013 in the REIT property contracts and, as a result of the impairment review undertaken, an impairment charge of £1.4m has been recognised in the year, and a change made to the relevant asset's estimated useful life, which is reflected in the table below. Further details are disclosed later in this note.

The foreign exchange gains recognised in the year arise from the relative strengthening of the Euro over the course of 2013, increasing 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 2013			31 December 2012		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
F&C OEICs/RSAI* retail contracts	**0.8**	**0 – 0.78**	**10**	1.9	0 – 1.78	10
F&C insurance contracts	**11.6**	**0.78**	**10**	25.8	1.78	10
F&C institutional contracts	**1.3**	**0.78**	**10**	3.0	1.78	10
F&C investment trust contracts	**5.4**	**2.5**	**10**	7.5	3.5	10
F&C advisory and sub-advisory contracts	**3.9**	**0.78**	**10**	8.8	1.78	10
Private equity fund of funds	**0.7**	**11**	**20**	0.8	12	20
REIT property contracts	**15.6**	**3.5**	**8.83**	27.1	2.67	7
Thames River Capital contracts	**3.8**	**0.67**	**4**	9.6	1.67	4
	43.1			84.5		

* Royal Sun Alliance Insurance (RSAI).

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 2012 and 2013. 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 €1.17/£1, which was assumed for the purposes of the 2014 budget (2013 budget: €1.23/£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 2013			31 December 2012		
	F&C	F&C REIT	TRC	F&C	F&C REIT	TRC
Discount rate	**7.95%**	**7.95%**	**9.95%**	9.15%	9.15%	11.15%
Long-term market growth rate	**5.45%**	**4.30%**	**6.05%**	5.35%	4.45%	5.65%
Inflation rate*	**4.20%**	**4.20%**	**4.20%**	3.80%	3.80%	3.80%

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

14. 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 9.40% and 11.75% for F&C/F&C REIT and TRC respectively (2012: 11.10% and 13.40% 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 2014 budget and management's forecasts up to 2018 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.

Projected operating costs for the first year are driven by the budgeted profit margins for each operating segment for 2014. 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.

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 (2012: £nil).

The key assumptions noted in the above table are those to which the calculated values in use are most sensitive.

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 2013			31 December 2012		
	F&C	**F&C REIT**	**TRC**	F&C	F&C REIT	TRC
Discount rate	**20.01%**	**11.49%**	**39.10%**	18.28%	11.37%	28.81%
Long-term market growth rate	**0.81%**	**1.33%**	**(8.91%)**	1.01%	2.16%	(2.37%)
Inflation rate	**7.92%**	**6.93%**	**12.75%**	7.75%	6.21%	9.74%
Per cent achievement of new business targets	**0.00%**	**24.90%**	**<0.00%**	<0.00%	30.93%	<0.00%

Impairment testing of intangible assets with finite lives

During 2013, the Umbrella Agreement with Trafalgar Overseas Limited (Trafalgar) was renegotiated and renewed. This agreement, signed on the acquisition of REIT in 2008, entitled F&C REIT to a fixed annual fee of £8.5m per annum for five years from September 2008, which will no longer be payable. The loss of this revenue was considered to be an indicator of potential impairment of the REIT management contracts intangible asset. In accordance with IAS 36 Impairment of Assets, a full impairment review of this asset was undertaken as at 31 December 2013. The review has resulted in the following impairment loss being recognised in the year:

	31 December 2013			31 December 2012		
	F&C £m	**F&C REIT £m**	**TRC £m**	F&C £m	F&C REIT £m	TRC £m
REIT property contracts	**–**	**1.4**	**–**	–	–	–

No indicators of potential impairment existed in 2012 and therefore no impairment reviews of management contracts were undertaken in respect of that year.

The recoverable amount of the asset has been determined based on a value in use calculation using cash flow projections based on the latest annual financial budget, and management's forecasts for the period of the revised estimated useful life.

14. Goodwill and other intangible assets continued

The original estimate of the useful life of the intangible asset was seven years from the date of acquisition on 1 September 2008. The useful life of the related management contracts has been reassessed. Following consideration of the developments with Trafalgar in 2013, which included the negotiation of a renewed Umbrella Agreement, the contractual arrangements and typical lifespans of relevant underlying portfolios, and other relevant factors, management assessed the estimated useful life of the asset to be 3½ years from 31 December 2013.

The revised useful life represents a change in accounting estimate and reduces the annual rate of amortisation from 1 January 2014 over the remaining life of the asset. The annual amortisation charge will decrease by £4.9m compared to the charge had the impaired asset continued to be amortised over its original estimated useful life.

Accumulated impairment losses on management contracts at the year end are as follows:

CGU	**31 December 2013 £m**	31 December 2012 £m
F&C	**218.3**	218.3
F&C REIT	**1.4**	–
Thames River Capital	**–**	–
	219.7	218.3

15. Financial investments

The following assets are designated as available for sale:

Unquoted investments	**2013 £m**	2012 £m
At 1 January	**1.3**	1.7
Fair value gains in the year	**0.4**	0.7
Realised fair value gains transferred to the Income Statement	**(1.4)**	(1.1)
At 31 December	**0.3**	1.3

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. Details of the fair value measurement are disclosed in note 19.

16. Deferred acquisition costs

	2013 £m	2012 £m
At 1 January	**5.3**	7.1
Costs deferred in the year	**0.2**	0.6
Amortisation in the year	**(2.0)**	(2.4)
At 31 December	**3.5**	5.3

	31 December 2013 £m	31 December 2012 £m
Split as follows:		
Non-current assets	**2.0**	3.3
Current assets	**1.5**	2.0
	3.5	5.3

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 27.

17. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2013			31 December 2012		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Employee benefits*	**4.8**	**–**	**4.8**	6.8	–	6.8
Share-based payments	**7.2**	**–**	**7.2**	12.2	–	12.2
Unused tax losses	**2.8**	**–**	**2.8**	6.6	–	6.6
Property, plant and equipment	**2.4**	**–**	**2.4**	1.7	–	1.7
Receivables, payables and provisions	**1.0**	**–**	**1.0**	1.3	–	1.3
Intangible assets – management contracts	**–**	**(8.9)**	**(8.9)**	–	(19.4)	(19.4)
Unrealised fair value gains on available for sale assets	**–**	**–**	**–**	–	(0.3)	(0.3)
Net deferred tax assets/(liabilities)	**18.2**	**(8.9)**	**9.3**	28.6	(19.7)	8.9

* Includes £4.0m (31 December 2012: £5.7m) 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 2013 £m	**Recognised in income £m**	**Recognised in equity £m**	**Revaluation in year £m**	**31 December 2013 £m**
Employee benefits	**6.8**	**(1.0)**	**(1.0)**	**–**	**4.8**
Share-based payments	**12.2**	**(4.5)**	**(0.5)**	**–**	**7.2**
Unused tax losses	**6.6**	**(3.8)**	**–**	**–**	**2.8**
Property, plant and equipment	**1.7**	**0.7**	**–**	**–**	**2.4**
Receivables, payables and provisions	**1.3**	**(0.3)**	**–**	**–**	**1.0**
Intangible assets – management contracts	**(19.4)**	**10.8**	**–**	**(0.3)**	**(8.9)**
Unrealised fair value gains on available for sale assets	**(0.3)**	**–**	**0.2**	**0.1**	**–**
	8.9	**1.9**	**(1.3)**	**(0.2)**	**9.3**

	1 January 2012 £m	Recognised in income (as restated*) £m	Recognised in equity (as restated*) £m	Revaluation in year £m	31 December 2012 £m
Employee benefits	6.9	(1.3)	1.3	(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)
	(4.1)	9.7	3.1	0.2	8.9

* As restated for the adoption of IAS 19 Employee Benefits (revised), as dislosed in note 1.

(c) Unrecognised deferred tax assets and liabilities

At 31 December 2013 the Group has unrecognised tax losses of £0.7m (31 December 2012: £0.3m) that are available 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.

18. 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.

18. Financial instruments continued

(i) Designated as fair value through profit or loss

	Notes	31 December 2013 £m	31 December 2012 £m
Financial investments in respect of unit-linked contracts	18(a)(i)(1)	–	134.2
Other financial investments	18(a)(i)(2)	3.0	4.0
		3.0	138.2

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

	31 December 2013 £m	31 December 2012 £m
Equity securities:		
OEICs and unit trusts	–	104.9
Listed	–	21.9
Total equity securities	–	126.8
Debt and fixed income securities:		
Participation in pooled investments	–	7.4
Total debt and fixed income securities	–	7.4
Total unit-linked financial investments designated as fair value through profit or loss	–	134.2

Financial instruments relating to unit-linked contracts

The Group's insurance subsidiary, F&C Managed Pension Funds Limited, provided unit-linked pension wrappers. From F&C's perspective, the risks and rewards of managing these assets were the same as other assets under management, as the financial risks and rewards attributable to the assets invested fell to be borne by, or to the benefit of, the Group's clients. Hence, while a number of financial instruments were recognised in the Statement of Financial Position in respect of this subsidiary, the key risk to the Group was the impact on the level of management fees which were earned from this entity and which were directly affected by the underlying value of policyholder assets.

Following a decision in 2012 to close the managed pension fund product, almost all client assets had been withdrawn by 31 December 2013, with the majority of these being reinvested within other F&C products. As a result, there are no investments in respect of unit-linked contracts and limited unit-linked assets and policyholder cash as at 31 December 2013.

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 2013 £m	31 December 2012 £m
Fair value through profit or loss:		
Financial investments	–	134.2
Loans and receivables:		
Deferred acquisition costs	–	0.1
Trade and other receivables	0.1	0.3
Cash and cash equivalents*	–	2.3
Total unit-linked assets less liabilities	0.1	136.9

* Excludes £0.9m of non-linked policyholders' cash (31 December 2012: £2.2m).

These unit-linked assets are matched by the associated investment contract liabilities disclosed in note 29.

18. Financial instruments continued

(2) Other financial investments

	31 December 2013 £m	31 December 2012 £m
NIC hedge	**2.6**	2.5
Mutual funds	**0.2**	0.3
Corporate bonds	**0.1**	–
Carried Interest investments	**0.1**	–
TRC Employee Benefit Trust assets	**–**	1.2
	3.0	4.0

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.

'Mutual funds' represents investments in mainly fixed interest funds.

'Corporate bonds' represents an investment in Portugese corporate bonds.

'Carried Interest investments' represents investments in property and private equity funds which entitle FCAM to a share of future profits upon exceeding a performance hurdle.

'TRC Employee Benefit Trust assets' represented investments held by an Employee Benefit Trust in TRC funds for the purpose of settlement of TRC bonus awards. The associated employee benefit liability has now been settled.

(ii) Designated as held for trading

	31 December 2013 £m	31 December 2012 £m
Stock of units and shares	**1.3**	0.3

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 prices in active markets. The Group is therefore exposed to market value movements in the value of these assets.

(iii) Designated as loans and receivables

	31 December 2013 £m	31 December 2012 £m
Cash and cash equivalents	**182.9**	165.2
Trade and other receivables:		
Trade debtors	**33.7**	32.0
Accrued income	**34.2**	30.6
OEIC and unit trust debtors	**32.3**	10.6
Other debtors	**2.9**	5.2
Amounts owed by TRC related party entities	**0.9**	0.7
Amounts owed by F&C REIT related party entities	**–**	0.1
	286.9	244.4

19. Fair value measurement

(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.

Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. There have been no transfers between the Level 1, 2 and 3 hierarchy during 2012 or 2013.

Quantitative disclosures of fair value measurement hierarchy as at 31 December 2013:

	Fair value measurement using			
Assets measured at fair value	**Quoted prices in active markets (Level 1) £m**	**Significant observable inputs (Level 2) £m**	**Significant unobservable inputs (Level 3) £m**	**31 December 2013 Total £m**
Financial assets at fair value through profit or loss:				
Other financial investments	**0.1**	**2.8**	**0.1**	**3.0**
Classified as held for trading:				
Stock of units and shares	**1.3**	**–**	**–**	**1.3**
Available for sale financial assets:				
Unquoted investments	**–**	**0.1**	**0.1**	**0.2**
	1.4	**2.9**	**0.2**	**4.5**
Assets not measured at fair value				
Available for sale financial assets:				
Unquoted investments	**–**	**–**	**0.1**	**0.1**
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss:				
F&C REIT put options	**–**	**–**	**(36.8)**	**(36.8)**
Investment contract liabilities	**–**	**(0.1)**	**–**	**(0.1)**
	–	**(0.1)**	**(36.8)**	**(36.9)**
Financial liabilities not measured at fair value				
Interest-bearing loans and borrowings	**–**	**(257.5)**	**–**	**(257.5)**

Included within the unquoted financial investments at 31 December 2013 are £0.1m (31 December 2012: £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 2013, the Group received £0.2m (2012: £0.4m) in respect of the investments held at cost.

19. Fair value measurement continued

Quantitative disclosures of fair value measurement hierarchy as at 31 December 2012:

	Fair value measurement using			
Assets measured at fair value	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	31 December 2012 Total £m
Financial assets at fair value through profit or loss:				
Financial investments in respect of unit-linked contracts	125.7	8.5	–	134.2
Other financial investments	0.9	3.1	–	4.0
Classified as held for trading:				
Stock of units and shares	0.3	–	–	0.3
Available for sale financial assets:				
Unquoted investments	–	0.1	1.1	1.2
	126.9	11.7	1.1	139.7
Assets not measured at fair value				
Available for sale financial investments:				
Unquoted investments	–	–	0.1	0.1
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss:				
F&C REIT put options	–	–	(33.8)	(33.8)
Investment contract liabilities	–	(136.9)	–	(136.9)
	–	(136.9)	(33.8)	(170.7)
Financial liabilities not measured at fair value				
Interest-bearing loans and borrowings	–	(257.4)	–	(257.4)

Fair values of assets and liabilities

The above tables disclose the financial instruments which are measured at fair value and those which are not.

The Level 1 assets are quoted prices in active markets. These are listed funds or equities and assets with daily quoted prices.

The Level 2 assets are generally funds which are either pooled liquidity funds, offshore mutual funds or funds not quoted on a daily basis. The investment contract liabilities are derived from the valuation of unit-linked assets. The interest-bearing loans and borrowings are measured at amortised cost.

The Level 3 assets are valuations of direct and carried interest holdings in private equity and property funds. The F&C REIT put option liabilities (as detailed in note 28) are externally valued at each reporting date by a valuation of the F&C REIT business using the techniques detailed below.

In the Directors' opinion, there is no discernable difference between the carrying amount and fair values of cash and short-term deposits, trade receivables and payables, and other current liabilities, due to the short-term maturities of these instruments.

Valuation techniques and inputs used to measure fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Listed securities and stock of units and shares

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 the stock of units and shares is based on the daily market prices at the reporting date.

Unquoted investments

The fair value of the unquoted investments has been estimated using International Private Equity and Venture Capital Valuation Guidelines or property valuation techniques and in accordance with the underlying limited partnership agreements.

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.

19. Fair value measurement continued

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.

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.

Put options

The fair value is based on an external valuation of the F&C REIT business, as detailed in note 28.

Valuation techniques, inputs and assumptions used in measuring fair values

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
F&C REIT put options	The F&C REIT business is valued using an average of three valuation methodologies (equally weighted), 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: Modelled individually for each year 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	The estimated fair value of the put option would increase/(decrease) if the: • Annual revenue growth/decline were higher or lower; • EBITDA margin were higher or lower; • Risk-adjusted discount rate were lower or higher. Generally, a change in the revenue growth/decline would result in a similar change in EBITDA.

19. Fair value measurement continued

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Other financial investments measured at fair value through profit or loss	• Offshore OEIC/SICAV funds and pooled liquidity funds: net asset value of the fund divided by the number of units, with the frequency of calculation determined on a fund by fund basis in accordance with the fund rules. • Property and private equity carried interest investments: valued in accordance with property valuation techniques and International Private Equity and Venture Capital Valuation Guidelines.	• Offshore OEICs/SICAVs and pooled liquidity funds where some are not on quoted markets and some prices are calculated infrequently. • Carried interest investments are valued in accordance with property and private equity valuation techniques.	• Offshore OEICs/SICAVs and pooled liquidity funds should have little impact on the fair value measurement. • The valuation of the underlying property and private equity funds will determine the valuation of the carried interest investments.

Level 3 assets/(liabilities) measured at fair value

	Financial assets at FVTPL		Available for sale financial assets	Financial liabilities at FVTPL	
Fair value movements	Financial investments in respect of unit-linked contracts £m	Other financial investments £m	Unquoted investments £m	F&C REIT put options £m	Total £m
At 1 January 2012	0.4	0.2	1.7	(45.3)	(43.0)
Total gains or losses:					
In profit or loss	–	0.2	(1.1)	11.5	10.6
In other comprehensive income	–	–	0.6	–	0.6
Purchases	0.2	–	–	–	0.2
Settlements	(0.6)	(0.4)	–	–	(1.0)
At 31 December 2012	**–**	**–**	**1.2**	**(33.8)**	**(32.6)**
Total gains or losses:					
In profit or loss	**–**	**–**	**(1.4)**	**(3.0)**	**(4.4)**
In other comprehensive income	**–**	**–**	**0.4**	**–**	**0.4**
Purchases	**–**	**0.1**	**–**	**–**	**0.1**
At 31 December 2013	**–**	**0.1**	**0.2**	**(36.8)**	**(36.5)**

There were no transfers into or out of level 3 during 2013 or 2012.

19. Fair value measurement continued

Total gains or losses included in the Income Statement for the year:

	Financial assets at FVTPL		Available for sale financial assets	Financial liabilities at FVTPL	
2013	Financial investments in respect of unit-linked contracts £m	Other financial investments £m	Unquoted investments £m	F&C REIT put options £m	Total £m
Finance revenue	**–**	**–**	**1.4**	**–**	**1.4**
F&C REIT put option fair value loss	**–**	**–**	**–**	**(3.0)**	**(3.0)**
	–	**–**	**1.4**	**(3.0)**	**(1.6)**
2012					
Finance revenue	–	0.2	1.1	–	1.3
F&C REIT put option fair value gain	–	–	–	11.5	11.5
	–	0.2	1.1	11.5	12.8

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 liabilities of the F&C REIT put options, changing one or more of the significant unobservable inputs to reasonably possible alternative assumptions, holding the other inputs constant, would have the following effects:

	Profit or loss	
	Increase £m	**Decrease £m**
Risk adjusted recurring discount rate (1% movement to discount rate)	5.3	(4.3)
Recurring fixed EBITDA multiple (1.0 x movement to multiple)	3.3	(3.3)
Market EBITDA (10% movement to weighting)	2.1	(2.1)

(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	
Financial assets	**31 December 2013 £m**	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Financial investments: available for sale	**0.3**	1.3	**0.3**	1.3
Financial investments: fair value through profit or loss	**3.0**	138.2	**3.0**	138.2
Held for trading: stock of units and shares	**1.3**	0.3	**1.3**	0.3
Financial liabilities				
Interest-bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes 2016/2026	**(115.7)**	(115.6)	**(106.1)**	(96.0)
Guaranteed Fixed Rate Loan Notes 2016	**(141.8)**	(141.8)	**(157.7)**	(152.9)
Other financial liabilities:				
F&C REIT put options	**(36.8)**	(33.8)	**(36.8)**	(33.8)
Investment contract liabilities	**(0.1)**	(136.9)	**(0.1)**	(136.9)

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 values.

20. Trade and other receivables

	31 December 2013 £m	31 December 2012 £m
Non-current:		
Trade debtors*	**10.2**	–
Accrued income	**0.3**	–
Other debtors	**0.1**	0.3
Prepayments	**0.1**	0.1
	10.7	0.4
Current:		
Trade debtors*	**23.5**	32.0
Accrued income	**33.9**	30.6
OEIC and unit trust debtors	**32.3**	10.6
Other debtors	**2.8**	4.9
Prepayments	**6.2**	8.3
Amounts owed by TRC related party entities	**0.9**	0.7
Amounts owed by F&C REIT related party entities	**–**	0.1
	99.6	87.2

* Trade debtors are generally receivable within 30 days and are non-interest bearing, with one exception which is explained in note 36(a)(ii).

21. Cash and cash equivalents

	31 December 2013 £m	31 December 2012 £m
Shareholders:		
Cash at bank and in hand	**37.6**	31.4
Short-term deposits	**144.4**	129.3
	182.0	160.7
Policyholders:		
Cash at bank and in hand	**0.9**	4.5
	0.9	4.5
Total cash and cash equivalents	**182.9**	165.2

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.

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 2013 is £182.9m (31 December 2012: £165.2m).

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, although, as highlighted in note 18(a)(i)(1), there are limited assets remaining in this business as at 31 December 2013.

22. Interest-bearing loans and borrowings

The contractual terms of the Group's interest-bearing loans and borrowings are as follows:

	31 December 2013 £m	31 December 2012 £m
Fixed/Floating Rate Subordinated Notes 2016/2026 being 115,973,000 notes with a nominal value of £1 (31 December 2012: 115,973,000) 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.	**115.7**	115.6
Guaranteed Fixed Rate Loan Notes 2016 being 142,035,000 notes with a nominal value of £1 (31 December 2012: 142,035,000) Interest rate of 9.0% per annum until 19 December 2016, payable annually in arrears.	**141.8**	141.8
	257.5	257.4

	Subordinated Notes 2016/2026 £m	**Guaranteed Loan Notes 2016 £m**	**Loans total £m**
At 1 January 2012	124.4	149.4	273.8
Debt buy-backs	(9.0)	(7.7)	(16.7)
Issue costs amortisation	0.2	0.1	0.3
At 31 December 2012	**115.6**	**141.8**	**257.4**
Issue costs amortisation	**0.1**	**–**	**0.1**
At 31 December 2013	**115.7**	**141.8**	**257.5**

Repayment periods	**31 December 2013 £m**	31 December 2012 £m
Amounts repayable:		
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*	**257.5**	257.4
In more than five years	**–**	–
	257.5	257.4

* 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 undrawn committed borrowing facilities available at the year end are as follows:

	31 December 2013 £m	31 December 2012 £m
Expiring in one year or less:		
Revolving credit facility	**–**	20.0
Bank overdraft facilities	**–**	2.0
	–	22.0

The Group had a £20.0m revolving credit facility which was available for general corporate and working capital purposes. This credit facility expired on 31 August 2013.

23. Trade and other payables

	31 December 2013 £m	31 December 2012 £m
Non-current:		
Accruals	**0.8**	0.7
Other creditors	**4.2**	2.6
	5.0	3.3
Current:		
Trade creditors*	**3.3**	4.8
Accruals	**17.6**	18.3
OEIC and unit trust creditors	**38.6**	16.8
Other creditors	**7.2**	12.8
VAT payable	**1.8**	–
Amounts owed to F&C REIT related party entities	**–**	0.5
	68.5	53.2

* Trade creditors are non-interest bearing and are settled in accordance with the individual contractual arrangements.

During 2012, the final consideration payment of £0.7m for the acquisition of F&C Group (Holdings) Limited was made to Achmea B.V..

24. 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 2012	6.1	6.1	1.0	0.4	0.2	2.0	15.8
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)
At 31 December 2012	**5.3**	**7.0**	**0.9**	**–**	**0.2**	**–**	**13.4**
Provided during the year	**0.7**	**1.2**	**0.2**	**–**	**–**	**–**	**2.1**
Utilised during the year	**(2.6)**	**(3.3)**	**(0.1)**	**–**	**–**	**–**	**(6.0)**
Released during the year	**(0.2)**	**(0.4)**	**–**	**–**	**–**	**–**	**(0.6)**
At 31 December 2013	**3.2**	**4.5**	**1.0**	**–**	**0.2**	**–**	**8.9**
At 31 December 2013							
Non-current liabilities	**2.0**	**0.6**	**0.9**	**–**	**0.2**	**–**	**3.7**
Current liabilities	**1.2**	**3.9**	**0.1**	**–**	**–**	**–**	**5.2**
At 31 December 2012							
Non-current liabilities	2.6	1.6	0.7	–	0.2	–	5.1
Current liabilities	2.7	5.4	0.2	–	–	–	8.3

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 seven years.

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 2013, £2.6m (31 December 2012: £2.5m) 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 18(a)(i)(2).

24. 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 became long-term absentees 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 ended 31 December 2012.

Further details of this litigation were disclosed in the Annual Report and Financial Statements for previous reporting periods.

25. Pension benefits

The Group operates defined benefit plans in the United Kingdom, The Netherlands, the Republic of Ireland and participates in one in Portugal. The plans provide benefits calculated on a final salary basis. 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 2013 was £134,000. The Group has not earmarked any assets to date with respect to this liability.

The Group's defined benefit pension plans are based on final salary payments and benefits are adjusted in line with the plans' rules (e.g. in line with price inflation in the UK) once in payment during retirement. The level of benefits provided depends on the member's length of service and salary at retirement date. The defined benefit pension plans require contributions to be made to separately administered funds.

These defined benefit pension plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk. Further details are set out under (g) below.

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 2013 by qualified independent actuaries.

25. Pension benefits continued

The pension deficits of the Group are summarised in aggregate and by plan as follows:

Aggregate	Note	31 December 2013 £m	31 December 2012 £m
Fair value of plan assets	25(d)	**257.5**	232.7
Benefit obligations	25(d)	**(275.0)**	(256.8)
Total pension deficit	25(d)	**(17.5)**	(24.1)

By scheme	31 December 2013 £m	31 December 2012 £m
F&C Asset Management Pension Plan (FCAM Plan)	**(3.6)**	(10.8)
F&C Netherlands pension plan	**(10.1)**	(9.4)
F&C Ireland pension plan	**(0.4)**	(0.5)
F&C Portugal pension plan	**0.1**	–
R W Jenkins pension obligation	**(3.5)**	(3.4)
Total pension deficit	**(17.5)**	(24.1)

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

	31 December 2013		31 December 2012	
Plan assets	**£m**	**%**	£m	%
Equity-linked bond funds	**81.9**	**32**	66.1	28
Equity instruments	**64.4**	**25**	66.7	29
LDI pools	**58.8**	**23**	50.1	22
Diversified growth funds	**16.2**	**6**	15.9	7
Insurance contracts	**16.1**	**6**	14.3	6
Property (including secured leases)	**15.9**	**6**	14.0	6
Cash and cash equivalents	**3.4**	**2**	4.8	2
Debt instruments	**0.8**	**–**	0.8	–
Total fair value of plan assets	**257.5**	**100**	232.7	100

Included in the table above are the following plan assets that have a quoted market price in an active market:

Plan assets	31 December 2013 £m	31 December 2012 £m
Equity-linked bond funds	**81.9**	66.1
Equity instruments	**52.4**	56.0
Diversified growth funds	**16.2**	15.9
Property (including secured leases)	**9.2**	7.7
Debt instruments	**0.8**	0.8
Total fair value of plan assets with a quoted market price in an active market	**160.5**	146.5

Plan assets include £nil (31 December 2012: £2.5m) 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.

25. Pension benefits continued

(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 2013	31 December 2012
Mortality table for males retiring in the future	**S1NMA L–1 CMI 2012 1.50%**	S1NMA L–1 CMI 2011 1.25%
Mortality table for females retiring in the future	**S1NFA L–1 CMI 2012 1.50%**	S1NFA L–1 CMI 2011 1.25%
Mortality table for current male pensioners	**S1NMA L–1 CMI 2012 1.50%**	S1NMA L–1 CMI 2011 1.25%
Mortality table for current female pensioners	**S1NFA L–1 CMI 2012 1.50%**	S1NFA L–1 CMI 2011 1.25%

The mortality assumptions for the non-UK schemes are:

	31 December 2013	31 December 2012
F&C Netherlands	**Prognosetafel 2012 – 2062 generational table**	Prognosetafel 2012 – 2062 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)

(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:

	31 December 2013 Years	31 December 2012 Years
Expected age at death for a male retiring in the future at age 60, currently aged 40	**92**	92
Expected age at death for a female retiring in the future at age 60, currently aged 40	**94**	93
Expected age at death for a current male pensioner aged 60	**90**	90
Expected age at death for a current female pensioner aged 60	**92**	91

(iii) Discount and growth assumptions

The range of assumptions used to determine benefit obligations are as follows:

	31 December 2013	31 December 2012
Discount rate	**3.70% – 4.70%**	3.90% – 4.50%
Rate of salary increase	**2.00% – 3.00%**	2.00% – 3.00%
Rate of pension increases (excluding fixed increases)	**1.00% – 3.99%**	1.00% – 3.87%
Rate of price inflation (CPI)	**2.00% – 2.75%**	2.00% – 2.45%
Rate of inflation increase (RPI) – UK only	**3.55%**	3.15%

The range of assumptions used to determine the net pension charge for the year, are as follows:

	2013	2012
Discount rate	**3.90% – 4.50%**	4.70% – 5.20%
Rate of salary increase	**2.00% – 3.00%**	2.00% – 4.00%
Rate of pension increases (excluding fixed increases)	**1.00% – 3.87%**	2.00% – 3.91%
Rate of price inflation (CPI)	**2.00% – 2.45%**	2.00% – 2.60%
Rate of inflation increase (RPI) – UK only	**3.15%**	3.30%

25. Pension benefits continued

(iv) Sensitivities

An estimate of the sensitivities regarding the principal assumptions used to measure the schemes' liabilities are set out below:

Assumption	Change in assumption	Estimated impact on scheme liabilities
Inflation	Increase/decrease by 0.1%	Increase/decrease by 1.7%
Salary increases	Increase/decrease by 0.1%	Increase/decrease by 0.0%*
Pension increases	Increase/decrease by 0.1%	Increase/decrease by 1.4%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.2%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2.3%

* The salary increase sensitivity is shown as nil as the UK Pension Plan has a limit on pensionable salary increases of 2.0% per annum. Given the current level of assumed future inflation, there is no effect from a 0.1% change in future salary increases. Plans in other jurisdictions are affected by changes in their respective salary increase assumptions but the consolidated effect rounds to nil.

The sensitivity analysis has been prepared using a similar method to the benefit obligation with one assumption varied in isolation. There have been no changes to the methods used to prepare the sensitivity analysis since the previous reporting period. The assumptions used have changed in line with those used to calculate the benefit obligation.

(c) Profile of schemes' membership

The profile of the current membership of defined benefit arrangements in the Group is as follows:

	31 December 2013		31 December 2012	
	% of total membership	**Average age**	% of total membership	Average age
Active members	**11%**	**46**	15%	44
Deferred members	**72%**	**46**	71%	44
Pensioners	**17%**	**67**	14%	66
	100%		100%	

The profile of the liabilities of defined benefit arrangements throughout the Group is as follows:

	31 December 2013 £m	31 December 2012 £m
Active members	**49.2**	61.1
Deferred members	**132.1**	117.8
Pensioners	**93.7**	77.9
Benefit obligations	**275.0**	256.8

The weighted average duration of benefit obligations is 22 years (2012: 23 years). This is based on the longevity assumptions for the relevant obligations.

The expected future benefit payments from the defined benefit arrangements are as follows:

Expected future benefit payments	**£m**
2014	5.7
2015	6.1
2016	6.5
2017	7.1
2018	7.8
2019-2023	49.4

25. Pension benefits continued

(d) Aggregate disclosures

Change in benefit obligations:		2013 £m		2012 (as restated*) £m
Benefit obligations at 1 January		**256.8**		236.4
Foreign exchange movements		**0.7**		(0.7)
Current service cost		**2.2**		1.9
Past service (income)/costs†		**(0.6)**		0.5
Administrative expenses and taxes		**(0.1)**		–
Settlement gains		**–**		(1.2)
Interest cost on pension obligations		**11.3**		10.9
Actuarial losses		**11.1**		15.7
Arising from changes in financial assumptions	**4.6**		9.8	
Arising from changes in demographic assumptions	**3.0**		4.4	
Arising from experience	**3.5**		1.5	
Members' contributions		**0.2**		0.2
Net transfers out		**(0.3)**		(0.1)
Benefits paid		**(6.3)**		(6.8)
Benefit obligations at 31 December		**275.0**		256.8

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

† The past service income in 2013 relates to the cessation of employment with F&C by the majority of the plan members in Ireland and changes to the plan rules in The Netherlands offset by the augmentation of pension entitlements for certain employees in the UK. The past service costs in 2012 related to the augmentation of pension entitlements for certain employees.

Analysis of defined benefit obligations:	31 December 2013 £m	31 December 2012 £m
Plans that are wholly or partly funded	**271.5**	253.4
Obligation that is wholly unfunded	**3.5**	3.4
Benefit obligations at 31 December	**275.0**	256.8

Change in plan assets:	2013 £m	2012 (as restated*) £m
Fair value of plan assets at 1 January	**232.7**	215.9
Foreign exchange movements	**0.5**	(0.5)
Interest income on plan assets	**10.4**	10.2
Administrative expenses and taxes	**(0.6)**	(0.4)
Settlement losses	**–**	(1.1)
Actuarial gains	**14.7**	7.2
Employer contributions	**6.2**	8.1
Members' contributions	**0.2**	0.2
Net transfers out	**(0.3)**	(0.1)
Benefits paid	**(6.3)**	(6.8)
Fair value of plan assets at 31 December	**257.5**	232.7

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

	31 December 2013 £m	31 December 2012 £m
Net pension deficit recognised	**(17.5)**	(24.1)

Components of defined benefit pension expense:	2013 £m	2012 (as restated*) £m
Operating expenses:		
Current service cost	**2.2**	1.9
Past service (income)/cost	**(0.6)**	0.5
Settlement gains	**–**	(0.1)
Administrative expenses and taxes	**0.5**	0.4
Finance costs:		
Net interest cost on pension obligations	**0.9**	0.7
Total defined benefit pension expense recognised in the Income Statement	**3.0**	3.4

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

25. Pension benefits continued

Classification of defined benefit pension expense in the Income Statement:	Notes	2013 £m	2012 (as restated*) £m
Operating expenses	6	**2.1**	2.7
Finance costs	9	**0.9**	0.7
Total defined benefit pension expense recognised in the Income Statement		**3.0**	3.4

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

	2013 £m	2012 (as restated*) £m
Net actuarial gains/(losses) immediately recognised in the Statement of Comprehensive Income	**3.6**	(8.5)
The cumulative actuarial losses recognised in the Statement of Comprehensive Income	**(35.9)**	(39.5)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

	2013 £m	2012 (as restated*) £m
Actual return on plan assets	**25.1**	17.4

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 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 triennial actuarial valuation at 31 March 2013 is currently in progress.

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.

The Plan is subject to the UK Statutory Funding Objective regime, overseen by the Pensions Regulator, which is a form of minimum funding requirement for the purposes of IAS 19 Employee benefits (revised).

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.

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 manages 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.

25. Pension benefits continued

F&C Ireland

The Group operates a defined benefit pension scheme in Ireland. There are currently two Trustees of this plan, both of whom are former 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 2014 is £5.2m (2013: £5.3m).

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.

RW Jenkins obligation

The benefits in respect of Mr Jenkins are paid directly by the Company. The expected amount in 2014 is £135,000.

Non-UK schemes

The figures in the table below assume that future contributions will continue to be paid to the non-UK schemes at the level paid in 2013, 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
2012	8.1
2013	**6.2**

Expected future contributions	£m
2014	7.5
2015	5.2
2016	5.1
2017	5.0
2018	2.7

(g) Risk management

(i) FCAM Plan

Market (investment) risk

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.

If the assets of the Plan do not perform as expected, the Company may have to make additional contributions to make up the shortfall.

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.

25. Pension benefits continued

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 a further private equity fund. The Liability Driven Investment (LDI) holdings were updated to include exposure to F&C's dynamic LDI funds.

Interest rate and inflation risk

The liabilities of the Plan are calculated with respect to the yields available on interest rate swaps. In addition, a large part of the benefits under the Plan is linked to price inflation. Hence, if interest rates fall, or inflation expectations rise without a corresponding increase in the value of the Plan assets, a shortfall will arise and the Company may have to make additional contributions in order to rectify this.

The Trustees have implemented a LDI strategy in order to hedge the interest and inflation risk. The LDI pools are intended to help provide a degree of matching to the liabilities of the FCAM Plan. 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 through the use of equity futures.

Longevity risk

If members live longer than anticipated, the value of the FCAM Plan's liabilities will increase. The current assumptions include an allowance for life expectancy to increase over time; however, it is possible that rates of improvement could be faster than assumed. The corresponding increase in liabilities could lead to an increase in the contributions required to fund the FCAM Plan.

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, and 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 2013, 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	**2013 £m**	2012 £m
Group personal pension plans		**3.2**	3.3
Other defined contribution schemes		**0.4**	0.8
Defined contribution pension expense	6	**3.6**	4.1

The Group had no pension contributions outstanding as at 31 December 2013 (31 December 2012: £nil).

26. 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:

By Scheme:	Notes	2013 £m	2012 £m
The Long-Term Remuneration Plan (deferred awards)	26(a)(i)	**3.6**	9.0
The Long-Term Remuneration Plan (restricted awards)	26(a)(ii)	**0.6**	2.9
F&C REIT Long-Term Remuneration Plan	26(c)	**1.4**	1.6
TRC Management Retention Plan	26(d)	**1.1**	5.6
TRC Commutation arrangements	26(f)	**2.7**	1.6
Deferred Share Awards	26(g)	**–**	0.2
Executive Director Remuneration Plan (deferred awards)		**–**	0.3
Purchased Equity Plan (F&C investment funds)		**–**	0.2
Purchased Equity Plan (FCAM plc shares)	26(h)	**–**	0.1
Total share-based payment expense recognised in the Income Statement	6	**9.4**	21.5

The total expense recognised during the year in respect of share-based payment schemes is split as follows:

	Note	2013 £m	2012 £m
Equity-settled	32	**6.9**	13.4
Cash-settled		**2.5**	8.1
Total share-based payment expense recognised in the Income Statement		**9.4**	21.5

	31 December 2013 £m	31 December 2012 £m
Total carrying amount of cash-settled liabilities	**4.9**	8.4

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 2013. 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.

26. Share-based payments continued

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 2013 was £0.99 (2012: £0.82).

The weighted average share price at exercise date during 2013 was £0.96 (2012: £0.80).

The following tables summarise the inputs to the valuations used for awards granted and the fair values assigned, during the year ended 31 December 2013.

Long-Term Remuneration Plan (LTRP) Awards

	LTRP Restricted Share Awards		
Award:	**TSR**	**EPS, Investment Performance and New Business**	**LTRP Deferred Share Awards**
Award date	13 May 2013	13 May 2013	13 May 2013
Number of awards granted	2,094,944	6,284,831	132,789
Share price at grant date	95.0p	95.0p	95.0p
Exercise price	0.0p	0.0p	0.0p
Vesting period	4 years	4 years	3 years
Full term of award	4 years	4 years	3 years
Expected dividend yield (%)	3.77%	3.77%	3.77%
Expected volatility (%)*	31.9%	n/a	n/a
Risk-free interest rate (%) p.a.	0.66%	n/a	n/a
Expected forfeiture rate (%)	0.0%	0.0%	0.0%
Fair value at measurement date (per award)			
– Equity	43.0p	82.0p	85.0p
– Cash	7.0p	13.0p	10.0p
Valuation basis	Monte Carlo simulation model	market price	market price
Estimated vesting percentage at award date	50.0%	50.0%	n/a

* Expected volatility is based on observed historical volatility.

F&C REIT Long-Term Remuneration Plan

Award:	**2013 award**
Award date	1 April 2013
Number of units in F&C REIT LLP granted	10,886.52
Value of unit at award date	£70.50
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 and, where appropriate, allow for the settlement of awards in cash rather than shares.

(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:

	2013 No.	2012 No.
Outstanding at 1 January	**24,957,487**	36,957,268
Granted during the year	**132,789**	1,382,076
Exercised during the year	**(13,284,489)**	(12,315,444)
Forfeited during the year	**(411,536)**	(850,501)
Expired during the year	**–**	(215,912)
Outstanding at 31 December	**11,394,251**	24,957,487
Exercisable at 31 December	**25,998**	1,773,667

The awards exercisable at 31 December 2013 and 31 December 2012 relate to good leavers.

26. Share-based payments continued

At 31 December 2013 the following Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
10 March 2011	9,954,012	10 March 2014	0.0p
3 April 2012	1,307,450	3 April 2015	0.0p
13 May 2013	132,789	13 May 2016	0.0p

The awards outstanding at 31 December 2013 have a weighted average outstanding term of 0.3 years (31 December 2012: 0.8 years).

(ii) Restricted Share Awards

2010, 2011 and 2013 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 or four-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

2013 award

The 2013 share awards under the LTRP are subject to specific underlying EPS conditions and conditions of continued service being met.

EPS for the year ended 31 December 2016	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%

2010 and 2011 awards

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%

26. 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 annually in each financial year during the vesting 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%

2012 Awards

The 2012 Share Awards under the LTRP are subject to specific underlying 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%

The number of Restricted Share Awards is as follows:

	2013 No.	2012 No.
Outstanding at 1 January	**25,802,439**	7,085,543
Granted during the year	**8,379,775**	19,701,464
Exercised during the year	**(1,460,645)**	–
Forfeited during the year	**(368,420)**	(298,507)
Expired during the year	**(2,149,594)**	(686,061)
Outstanding at 31 December	**30,203,555**	25,802,439

No awards were exercisable at 31 December 2013 or 31 December 2012.

At 31 December 2013 the following Restricted Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
4 May 2011	3,299,057	4 May 2014	0.0p
3 April 2012	18,893,143	3 April 2016	0.0p
13 May 2013	8,011,355	13 May 2017	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2013 have a weighted average outstanding term of 2.3 years (31 December 2012: 2.7 years).

26. Share-based payments continued

The following expected vesting percentages have been applied to LTRP 'Restricted Shares Awards' for accounting purposes.

	At 31 December 2013		
LTRP Performance Condition	**2013 Award**	**2012 Award**	**2011 Award**
EPS	**50.0%**	**29.5%**	**100.0%**
Investment performance	**50.0%**	**n/a**	**100.0%**
Net New Business	**50.0%**	**n/a**	**0.0%**
TSR*	**50.0%**	**n/a**	**0.0%**

	At 31 December 2012		
LTRP Performance Condition	2012 Award	2011 Award	2010 Award
EPS	50.0%	100.0%	100.0%
Investment performance	n/a	100.0%	100.0%
Net New Business	n/a	33.0%	0.0%
TSR*	n/a	100.0%	100.0%

* As the TSR award is a market-related performance award, the charge in respect of the equity-settled element of this award is not trued-up or down for the actual number of shares vesting.

(b) F&C REIT variable non-controlling interests SBP

In accordance with the F&C REIT Partnership Agreement, the F&C REIT non-controlling 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 non-controlling 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 criterion could be achieved in any year of the six calendar years ending 31 December 2014. At 31 December 2013 the Directors continued to assess that the performance target is unlikely to be achieved in the final performance measurement year.

(c) 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 Awards 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 before 31 December 2013.

The number of F&C REIT LTRP Deferred Awards is as follows:

	2013 Units	2012 Units
Outstanding at 1 January	**46,812.74**	43,608.24
Granted during the year	**10,886.52**	19,569.54
Exercised during the year	**(12,119.23)**	(15,890.98)
Forfeited during the year	**–**	(474.06)
Outstanding at 31 December	**45,580.03**	46,812.74

No awards were exercisable at 31 December 2013 or 31 December 2012.

26. Share-based payments continued

At 31 December 2013 the following F&C REIT LTRP Deferred Awards were outstanding:

Grant date	No. of units outstanding	Earliest exercise date	Exercise price
1 May 2011	15,388.89	1 May 2014	0.0p
1 April 2012	19,304.62	1 April 2015	0.0p
1 April 2013	10,886.52	1 April 2016	0.0p

The awards outstanding at 31 December 2013 have a weighted average outstanding term of 1.2 years (31 December 2012: 1.5 years).

The intrinsic value of a unit at 31 December 2013 ranged from £78.10 to £87.80 (31 December 2012: range between £67.40 and £89.70) depending on the vesting date of the award.

(d) 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 vested 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 were not subject to any performance criteria. The TRC MRP included good and bad leaver provisions.

The number of TRC MRP awards is as follows:

	2013 No.	2012 No.
Outstanding at 1 January	**19,183,301**	21,312,209
Exercised during the year	**(19,183,301)**	–
Expired during the year	**–**	(2,128,908)
Outstanding at 31 December	**–**	19,183,301
Exercisable at 31 December	**–**	11,423,917

The awards vested on 1 September 2013. The awards exercisable at 31 December 2012 related to good leavers.

(e) 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 associated 25% of awards expired.

Vesting of the remaining 75% of awards 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 will not be achieved.

26. Share-based payments continued

The number of TRC MIP awards is as follows:

	2013 No.	2012 No.
Outstanding at 1 January	**7,989,558**	14,208,140
Forfeited during the year	**(1,544,048)**	–
Expired during the year	**(169,144)**	(6,218,582)
Outstanding at 31 December	**6,276,366**	7,989,558

No awards were exercisable at 31 December 2013 or 31 December 2012.

At 31 December 2013 the following TRC MIP awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
1 September 2010	3,150,265	1 September 2015	0.0p
1 September 2010	3,126,101	1 September 2016	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2013 have a weighted average outstanding term of 2.2 years (31 December 2012: 3.2 years).

(f) 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 were exercisable:

- 18 months after Completion:

  At the option of the Investment Teams, TRC UK would purchase an additional 10% of the management fee profits of each Investment Team. The option for Investment Teams to exercise this put option was 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.

26. 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.

	31 December 2013 £m	31 December 2012 £m
Cumulative TRC Commutation expense, recognised in equity	**14.8**	12.1
Total intrinsic value of unexercised Commutation options	**4.8**	3.8

	No.	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)	**4,928,363**	3,761,922

No Commutation options were exercisable at either 31 December 2013 or 31 December 2012. However, at 31 December 2013, 4.9 million (31 December 2012: 3.8 million) shares relate to the options potentially exercisable by the Group.

One F&C option exercise date in respect of Commutation arrangements was deferred until April 2014, on agreement of both parties, from the original exercise date of 1 September 2013. There was no incremental fair value resulting from the modification, as the awards are measured at intrinsic value. The other Commutation options expired on 1 September 2013 as the Company chose not to exercise its options. The remaining shares could vest at dates up to 1 September 2016.

(g) 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:

	2013 No.	2012 No.
Outstanding at 1 January	**22,200**	1,148,840
Exercised during the year	**–**	(1,126,640)
Outstanding at 31 December	**22,200**	22,200

No awards were exercisable at either 31 December 2013 or 31 December 2012.

At 31 December 2013 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 2013 have a weighted average outstanding term of 0.2 years (31 December 2012: 1.2 years). The remaining award vested on 1 April 2014.

(h) Purchased Equity Plan (PEP)

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 FCAM plc 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) for three years.

This 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:

	2013 No.	2012 No.
Outstanding at 1 January	**493,810**	691,198
Exercised during the year	**(493,810)**	(197,388)
Outstanding at 31 December	**–**	493,810
Exercisable at 31 December	**–**	493,810

The awards vested on 31 March 2013.

26. Share-based payments continued

(i) 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:

	2013		2012	
	No.	**WAEP £**	No.	WAEP £
Outstanding at 1 January	**702,413**	**2.00**	909,900	1.96
Forfeited during the year	**(58,555)**	**2.41**	(207,487)	1.82
Expired during the year	**(280,278)**	**1.39**	–	–
Outstanding at 31 December	**363,580**	**2.41**	702,413	2.00
Exercisable at 31 December	**363,580**	**2.41**	702,413	2.00

At 31 December 2013 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**
9 March 2004	363,580	1 January 2013	9 March 2014	240.83p

The options outstanding at 31 December 2013 have a weighted average outstanding term of 0.2 years (31 December 2012: 0.8 years). All options subsequently expired on 9 March 2014 without being exercised.

27. Deferred income

	2013 £m	2012 £m
At 1 January	**8.3**	10.3
Income deferred in the year	**1.0**	1.4
Amortisation in the year	**(2.8)**	(3.4)
At 31 December	**6.5**	8.3

	31 December 2013 £m	31 December 2012 £m
Split as follows:		
Non-current liabilities	**4.3**	5.6
Current liabilities	**2.2**	2.7
	6.5	8.3

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 (2013: four to seven years; 2012: four to seven years) for which the investment is expected to be held.

28. Other financial liabilities

	31 December 2013 £m	31 December 2012 £m
Non-current:		
F&C REIT put option liabilities	**33.0**	30.0
Current:		
F&C REIT put option liabilities	**3.8**	3.8
Total other financial liabilities	**36.8**	33.8

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 NCI partners in this business. The NCI partners 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 was capable of being exercised on 1 September 2011 and Leo Noé's option becomes exercisable on 1 September 2015, being the seventh anniversary of the REIT acquisition. 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 increase in the fair value of the F&C REIT put option liabilities of £3.0m during 2013 (2012: £11.5m reduction) has been recognised in the Income Statement as detailed in note 7(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.

Details of the valuation of the F&C REIT put option are disclosed in note 19 on page 93.

29. 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	2013 £m	2012 £m
Liability as at 1 January		**136.9**	472.8
Contributions received		**40.9**	52.1
Net gains and investment income on unit-linked assets	4	**6.5**	40.6
Charges levied		**(0.1)**	(1.5)
Repayments		**(176.7)**	(424.2)
Movement in reinsurance ceded		**(7.4)**	(2.9)
Liability as at 31 December		**0.1**	136.9

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. During March 2014 the remaining investment contract liabilities were settled, in accordance with the planned closure of the underlying investment product.

30. Share capital

	31 December 2013		31 December 2012	
Ordinary Share capital of 0.1p	**No. of shares**	**£m**	No. of shares	£m
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p*	**581,035,337**	**0.6**	555,180,788	0.6

* Includes those categorised as own shares.

	2013 No. of shares	2012 No. of shares
Issued at 1 January	**555,180,788**	532,118,789
Issue of shares at par to settle share-based payment awards†	**25,854,549**	12,377,307
Issue of shares in respect of TRC Commutation arrangements	**–**	10,684,692
Issued at 31 December	**581,035,337**	555,180,788

† During 2013 and 2012 Ordinary Shares were allotted at par value into either an Employee Benefit Trust (EBT) or Nominee account to settle share-based payment 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.

30. Share capital continued

The Group held the following Ordinary Shares in EBTs or similar arrangements. These are categorised as own shares and are deducted from shareholders' funds:

	31 December 2013 No. of shares	31 December 2012 No. of shares
Held by RBC cees in a nominee capacity[#]	**3,955,932**	4,072,180
F&C Management Limited Employee Benefit Trust	**2,524,501**	8,864,824
The Ivory & Sime Employee Benefit Trust	**64,176**	64,176
	6,544,609	13,001,180

[#] 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 2013 was £6,545 (31 December 2012: £13,001). The market value of these shares at 31 December 2013 was £6.0m (31 December 2012: £13.3m).

During the year, the Group purchased 1,528,931 of its own 0.1p Ordinary Shares (2012: 64,105) 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 £1.6m (2012: £0.1m).

Details of Ordinary Shares issued between the reporting date and approval of the Consolidated Financial Statements are disclosed in note 11 to the Consolidated Financial Statements.

31. Reserves

The analysis of movements in reserves is disclosed within the Consolidated Statement of Changes in Equity on page 60.

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 intangible assets is considered to be realised in line with the associated amortisation and impairment charges to the Income Statement.

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.

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.

31. Reserves continued

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

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	2013 £m	2012 (as restated*) £m
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	13	**2.7**	3.0
Amortisation and impairment of intangible assets	14	**44.4**	43.1
Equity-settled share-based payment expense	26	**6.9**	13.4
Loss on disposal of intangible assets (software and licences)		**0.1**	–
(Gain)/loss on disposal of property, plant and equipment		**(0.1)**	0.9
Non-cash movement in respect of adjustment to consideration for NCI in F&C Partners LLP		**–**	1.0
		54.0	61.4
Changes in working capital and provisions:			
Increase in trade and other receivables		**(22.9)**	(2.5)
Increase/(decrease) in trade and other payables		**16.1**	(16.5)
Decrease in employee benefit liabilities		**(6.8)**	(5.0)
(Increase)/decrease in stock of units and shares	18(a)(ii)	**(1.0)**	0.6
Decrease in liabilities to members of LLPs		**(1.8)**	(0.7)
Decrease in investment contract liabilities	29	**(136.8)**	(335.9)
Decrease in reinsurance assets		**–**	2.0
Decrease in insurance contract liabilities		**–**	(2.0)
Decrease in deferred acquisition costs	16	**1.8**	1.8
Decrease in deferred income	27	**(1.8)**	(2.0)
Pension charge to operating profit less defined benefit pension contributions paid	25(d)	**(4.1)**	(5.4)
Decrease in provisions		**(4.4)**	(2.5)
Decrease in unit-linked financial investments	18(a)(i)(1)	**134.2**	313.6
		(27.5)	(54.5)

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

(b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £1.1m (2012: £3.7m). Cash payments of £0.9m (2012: £3.6m) were made to purchase property, plant and equipment during the year, as detailed in note 13.

(c) Cash and cash equivalents

Note 21 provides details of cash and cash equivalent balances, a description of cash and cash equivalents and restrictions on use of cash.

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 2013 £m	31 December 2012 £m	**31 December 2013 £m**	31 December 2012 £m
Not later than one year	**8.4**	8.8	**0.5**	0.4
Later than one year and not later than five years	**29.9**	31.7	**0.5**	0.2
Later than five years	**28.4**	34.9	**–**	–
	66.7	75.4	**1.0**	0.6

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 2013 £m	31 December 2012 £m
Not later than one year	**3.0**	3.0
Later than one year and not later than five years	**10.7**	10.6
Later than five years	**3.4**	5.8
	17.1	19.4

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 2013 £m	31 December 2012 £m
Not later than one year	**4.0**	4.0
Later than one year and not later than five years	**8.1**	11.4
Later than five years	**–**	0.7
	12.1	16.1

Capital commitments

The amount of capital expenditure contracted for, but not provided for in the Financial Statements at 31 December 2013, was £nil. (31 December 2012: £0.3m).

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 principal risks and uncertainties facing the Group, together with actions taken to mitigate these risks are outlined on pages 11 and 12 of the Strategic Report.

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; and
- 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 these risks 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 risk exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Statement of Financial Position:

- **Credit risk** – 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** – 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. 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 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

The financial risk management disclosures specifically exclude policyholders' unit-linked assets and liabilities relating to F&C Managed Pension Funds Limited (F&C MPF) as there is no direct exposure to the Group from the associated financial instruments. In addition, following the decision to close the underlying product associated with this business, there are no material related assets or liabilities as at 31 December 2013.

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 15, 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, although generally it is expected that the level of future cash flows arising from these assets will diminish over time.

Other financial investments, classified as fair value through profit or loss, as detailed in note 18(a)(i)(2), primarily comprise assets held in connection with current or historical employee remuneration arrangements. 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 £2.5m, 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.

Within F&C REIT, the Group's property asset management business, certain contractual arrangements provide for settlement of asset management fees on realisation of the property portfolio, to the extent that surplus liquid resources are not available in the fund. As at 31 December 2013 some £2.9m of debtors are in this category. In addition, a further receivable of £13.3m exists for which the cash will be settled from the realisation of property assets, although the Group also has collateral over separate assets with a view to mitigating any default exposure. Further details are given on page 125.

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, although, following the loss of some of the Achmea own risk assets, this exposure has reduced. At this point in time the Board has not chosen 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 adverse 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 25.

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 pages 105 and 106.

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. 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. Some 25.9 million shares were issued in 2013, the majority of which related to the vesting of retention awards which were put in place in 2010 when the TRC business was acquired.

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt-funded transactions.

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 recent Strategic Review, the Board has sought to improve dividend cover and to repurchase debt from cash generation. Cognisant of these matters, the Board declared an unchanged total dividend of 3.0 pence per share for 2013. While some debt was repurchased in 2012, no loan notes were repurchased during 2013, primarily due to the higher market price prevailing throughout 2013.

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.

35. Financial risk management continued

At 31 December 2013, 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

During 2013 the Group was required to maintain a minimum level of capital in accordance with the Capital Requirements Directive (CRD) prescribed for investment firms in the UK by the Financial Conduct Authority (FCA).

CRD IV applies to the Group from 1 January 2014 and establishes an EU-prescribed Capital Requirements Regulation, which is directly binding on firms, and a revised Capital Requirements Directive, which is transcribed into national law for investment firms by the relevant national regulatory authority. This introduces, for relevant firms, new capital requirement ratios, as well as making certain other changes to the calculation of capital requirements.

The Group has a waiver, granted by the Financial Services Authority (now the FCA), from meeting any minimum capital requirements under the consolidated supervision rules of the CRD. The waiver is grandfathered under CRD IV rules and shall continue in force and effect until the expiry date of April 2016.

At 31 December 2013, there were 12 regulated companies in the Group, of which 9 are registered in the United Kingdom and are subject to regulation by the FCA. This includes F&C MPF which, being a regulated insurance firm as opposed to an investment firm, is dual regulated by the FCA and the Prudential Regulation Authority and not part of the consolidation Group for regulatory capital reporting purposes. Overseas regulated companies, registered in 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.

CRD rules 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 FCA, 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 during 2013 the Group was required to submit a consolidated return semi-annually. However, under CRD IV rules the Group is no longer required to submit a consolidated capital adequacy return as long as the waiver from meeting minimum capital requirements under consolidated supervision rules remains in force.

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 firms 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. The requirement to undertake an ICAAP continues under CRD IV rules.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout 2012 and 2013 and are expected to hold sufficient regulatory capital to meet relevant regulatory requirements under CRD IV rules.

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 shown in the total column in the following table.

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 2013 and 31 December 2012.

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.

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 2013	**AAA £m**	**AA £m**	**A £m**	**Other rated £m**	**Not rated £m**	**Total £m**
Financial assets at fair value through profit or loss:						
Financial investments	**–**	**1.1**	**–**	**0.1**	**1.8**	**3.0**
Stock of units and shares	**–**	**–**	**–**		**1.3**	**1.3**
Available for sale financial assets:						
Financial investments	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Loans and receivables:						
Trade debtors	**–**	**–**	**0.4**	**0.9**	**32.4**	**33.7**
Accrued income	**–**	**–**	**0.3**	**2.9**	**31.0**	**34.2**
OEIC and unit trust debtors	**–**	**–**	**–**	**–**	**32.3**	**32.3**
Other debtors	**–**	**0.3**	**–**	**0.2**	**2.4**	**2.9**
Amounts owed by TRC related party entities	**–**	**–**	**–**	**–**	**0.9**	**0.9**
Cash and cash equivalents – shareholders	**6.7**	**63.2**	**87.8**	**24.3**	**–**	**182.0**
	6.7	**64.6**	**88.5**	**28.4**	**102.4**	**290.6**

As at 31 December 2012	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	–	1.2	1.1	–	1.7	4.0
Stock of units and shares	–	–	–	–	0.3	0.3
Available for sale financial assets:						
Financial investments	–	–	–	–	1.3	1.3
Loans and receivables:						
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
Cash and cash equivalents – shareholders	4.1	34.1	117.1	5.4	–	160.7
	4.1	37.0	118.6	6.0	79.8	245.5

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 2013	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
Financial assets at fair value through profit or loss:						
Financial investments	**3.0**	**–**	**–**	**–**	**–**	**3.0**
Stock of units and shares	**1.3**	**–**	**–**	**–**	**–**	**1.3**
Available for sale financial assets:						
Financial investments	**0.3**	**–**	**–**	**–**	**–**	**0.3**
Loans and receivables:						
Trade debtors	**13.1**	**4.7**	**1.9**	**6.7**	**7.3**	**33.7**
Accrued income	**34.2**	**–**	**–**	**–**	**–**	**34.2**
OEIC and unit trust debtors	**32.3**	**–**	**–**	**–**	**–**	**32.3**
Other debtors	**2.3**	**–**	**0.1**	**0.3**	**0.2**	**2.9**
Amounts owed by TRC related party entities	**0.9**	**–**	**–**	**–**	**–**	**0.9**
Cash and cash equivalents – shareholders	**182.0**	**–**	**–**	**–**	**–**	**182.0**
	269.4	**4.7**	**2.0**	**7.0**	**7.5**	**290.6**

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
Financial assets at fair value through profit or loss:						
Financial investments	4.0	–	–	–	–	4.0
Stock of units and shares	0.3	–	–	–	–	0.3
Available for sale financial assets:						
Financial investments	1.3	–	–	–	–	1.3
Loans and receivables:						
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
Cash and cash equivalents – shareholders	160.7	–	–	–	–	160.7
	224.5	4.2	4.0	12.7	0.1	245.5

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 2013 or 31 December 2012 in respect of trade debtors. The trade debtor balances, which have been impaired at the reporting dates, are shown in 36(a)(iii).

Collateral

The Group has obtained collateral over receivables in the F&C REIT property segment. The underlying unimpaired receivable which has the associated collateral at 31 December 2013 is £13.3m. This amount has been guaranteed by a related company and, with effect from 3 September 2013, interest is chargeable on any balance which remains unpaid six months after its original due date. The guarantee is a continuing security over the entire amount receivable. The collateral takes the form of two portfolios of properties, one in the UK and one overseas. It is expected that the receivables will be settled from the realisation of certain properties held within the portfolios. The fair value of both portfolios, at 31 December 2013, amounts to an aggregate of £52.5m.

36. The extent of risks arising from financial instruments continued

(iii) Impairment losses

Details of impairment of financial assets at 31 December are as follows:

Trade debtors provision	2013 £m	2012 £m
At 1 January	**0.9**	1.1
Bad debt charge in the year*	**1.0**	0.1
Utilised in the year	**(0.3)**	(0.3)
At 31 December	**1.6**	0.9
Gross impaired trade debtors	**1.6**	0.9

* Included within operating expenses in the Income Statement.

No other financial instruments have been impaired during 2013 (2012: none).

(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:

Concentrations of £1.0m or more	31 December 2013 £m	31 December 2012 £m
Amounts held with banks and similar financial institutions – 2013: 17 (2012: 19)	**179.3**	158.6
Amounts due from OEICs and OEIC Trustees	**3.2**	9.6
Amounts due from other significant clients – 2013: 12 clients (2012: 9)	**58.1**	33.0
	240.6	201.2

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 2013	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
Interest-bearing loans and borrowings:					
Fixed/Floating Rate Subordinated Notes 2016/2026	**–**	**–**	**116.0**	**–**	**116.0**
Interest on Subordinated Notes*	**7.8**	**7.8**	**7.6**	**–**	**23.2**
Guaranteed Fixed Rate Loan Notes 2016	**–**	**–**	**142.0**	**–**	**142.0**
Interest on Guaranteed Loan Notes 2016	**12.8**	**12.8**	**12.4**	**–**	**38.0**
Trade and other payables:					
Trade creditors	**3.3**	**–**	**–**	**–**	**3.3**
OEIC and unit trust creditors	**38.6**	**–**	**–**	**–**	**38.6**
Other creditors	**7.2**	**0.8**	**2.0**	**1.4**	**11.4**
Accruals	**17.6**	**0.1**	**0.1**	**0.6**	**18.4**
Liabilities to members of LLPs	**2.2**	**–**	**–**	**–**	**2.2**
Other financial liabilities	**3.8**	**29.2**	**3.8**	**–**	**36.8**
	93.3	**50.7**	**283.9**	**2.0**	**429.9**

* 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

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
Interest-bearing loans and borrowings:					
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
Trade and other payables:					
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
Liabilities to members of LLPs	4.0	–	–	–	4.0
Other financial liabilities	3.8	3.8	26.2	–	33.8
	81.6	25.0	326.2	1.2	434.0

* To the date of the Group's option to extend the Notes beyond 19 December 2016.

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 cash flow commitments in respect of operating leases are disclosed in note 34.

(c) Market risks

(i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	31 December 2013 £m	31 December 2012 £m
Financial assets at fair value through profit or loss:		
Financial investments	**1.7**	1.7
Stock of units and shares	**1.3**	0.3
	3.0	2.0

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 25.

(ii) Other price risk

	31 December 2013 £m	31 December 2012 £m
Available for sale financial assets:		
Financial investments	**0.3**	1.3

36. The extent of risks arising from financial instruments continued

(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:

	Euro £m	US Dollar £m	Other £m	Total £m
As at 31 December 2013	**70.7**	**2.9**	**1.4**	**75.0**
As at 31 December 2012	54.2	5.1	1.7	61.0

The above table excludes intangible assets.

(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:

As at 31 December 2013	**Within 1 year £m**	**Within 1-2 years £m**	**Within 2-5 years £m**	**More than 5 years £m**
Fixed rate:				
Fixed/Floating Rate Subordinated Notes 2016/2026	**–**	**–**	**(116.0)**	**–**
Guaranteed Fixed Rate Loan Notes 2016	**–**	**–**	**(142.0)**	**–**
Financial investments – NIC hedge	**0.1**	**–**	**–**	**–**
Financial investments – corporate bonds	**0.1**	**–**	**–**	**–**
Floating rates:				
Financial investments – NIC hedge	**1.1**	**–**	**–**	**–**
Financial investments – mutual funds	**0.2**	**–**	**–**	**–**
Cash and cash equivalents – shareholder	**182.0**	**–**	**–**	**–**
	183.5	**–**	**(258.0)**	**–**

As at 31 December 2012	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
Fixed rate:				
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	(116.0)	–
Guaranteed Fixed Rate Loan Notes 2016	–	–	(142.0)	–
Financial investments – NIC hedge	0.1	–	–	–
Floating rates:				
Financial investments – NIC hedge	1.1	–	–	–
Financial investments – mutual funds	0.3	–	–	–
Cash and cash equivalents – shareholder	160.7	–	–	–
	162.2	–	(258.0)	–

(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 outturn 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.

36. The extent of risks arising from financial instruments continued

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.

The financial impact of market risk sensitivities, after taxation, are summarised below:

As at 31 December 2013	Profit or loss sensitivity £m	Profit or loss sensitivity £m	Equity sensitivity £m	Equity sensitivity £m
Exchange rate movement*	**+10%**	**–10%**	**+10%**	**–10%**
Sterling/Euro exchange rates	**1.7**	**(2.1)**	**5.9**	**(7.3)**
Sterling/USD exchange rates	**0.2**	**(0.2)**	**0.2**	**(0.2)**
Fair value movement – Investments	**+10%**	**–10%**	**+10%**	**–10%**
Sterling equity prices	**0.2**	**(0.2)**	**0.2**	**(0.2)**
Interest rate movement	**+1%**	**–1%**	**+1%**	**–1%**
Sterling market interest rates	**1.4**	**(1.4)**	**1.4**	**(1.4)**
As at 31 December 2012				
Exchange rate movement*	+10%	–10%	+10%	–10%
Sterling/Euro exchange rates	0.5	(0.6)	4.8	(5.8)
Sterling/USD exchange rates	0.2	(0.2)	0.2	(0.2)
Fair value movement – Investments	+10%	–10%	+10%	–10%
Sterling equity prices	0.2	(0.2)	0.2	(0.2)
Interest rate movement	+1%	–1%	+1%	–1%
Sterling market interest rates	1.4	(1.4)	1.4	(1.4)

* +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 28 at fair value. A 10% movement in the fair value of the options at 31 December 2013 would result in a £3.7m (31 December 2012: £3.4m) 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 2013 £m	31 December 2012 £m
Share capital	**0.6**	0.6
Share premium account	**58.9**	58.9
Capital redemption reserve	**0.8**	0.8
Merger reserve	**315.8**	336.8
Other reserves	**(24.2)**	(25.7)
Retained earnings	**182.9**	162.7
Non-controlling interests	**8.8**	12.1
Total equity	**543.6**	546.2
Net assets	**543.6**	546.2

Note 35 describes the Group's management of capital, working capital and regulatory capital requirements.

37. 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
(i) United Kingdom			
FP Asset Management Holdings Limited(1)	100	England	Holding company
F&C Asset Management Services Limited(1)	100	Scotland	Employee service company
ISIS Investment Manager plc(1)	100	England	Investment management
F&C Managed Pension Funds Limited(1)	100	England	Unit-linked pooled pensions business
F&C Treasury Limited(1)	100	England	Treasury management company
F&C Group (Holdings) Limited(1)	100	England	Holding company
F&C Group ESOP Trustee Limited(1)	100	Scotland	ESOP Trustee
F&C Investment Business Limited(1)	100	Scotland	Investment management
F&C Finance plc(1)	100	England	Debt financing company
F&C Aurora (GP) Limited(1)	100	Scotland	General Partner
The Aurora Fund (Founder Partner) LP(1)	50†	Scotland	Founder Partner
F&C European Capital Partners (GP) Limited(1)	100	Scotland	General Partner
F&C European Capital Partners (Founder Partner) LP(1)	50†	Scotland	Founder Partner
F&C European Capital Partners II (GP) Limited(1)	100	Scotland	General Partner
F&C European Capital Partners II (Founder Partner) LP(1)	50†	Scotland	Founder Partner
F&C Climate Opportunity Partners (GP) Limited(1)	100	Scotland	General Partner
F&C Climate Opportunity Partners (Founder Partner) LP(1)	50†	Scotland	Founder Partner
F&C REIT Asset Management LLP(1)	70†	England	Property asset management
FP Fund Managers Limited(2)	100	England	Investment management
F&C Asset Managers Limited(2)	100	England	Investment management
F&C Property Limited(2)	100	England	Property asset management
WAM Holdings Limited(3)	100	England	Holding company
F&C Property Investments Limited(4)	100	England	Property asset management
F&C Fund Management Limited(4)	100	England	OEIC investment management
F&C Managers Limited(4)	100	England	Investment management
F&C Alternative Investments (Holdings) Limited(5)	100	England	Holding company
F&C Group Management Limited(5)	100	England	Holding company
F&C Holdings Limited(6)	100	England	Holding company
F&C (CI) Limited(7)	100	England	Investment company
F&C Investment Services Limited(7)	100	England	Support services company
F&C Management Limited(7)	100	England	Investment management
FCEM Holdings (UK) Limited(8)	100	England	Holding company
F&C Emerging Markets Limited(9)	100	England	Investment management
F&C Partners LLP(10)	100†	England	Hedge fund investment management
F&C Private Equity Nominee Limited(11)	100	England	Investment company
F&C REIT Property Asset Management plc(12)	70	England	Property asset management
REIT Asset Management Limited(12)	70	England	Property asset management
F&C REIT Corporate Finance Limited(13)	70	England	Property asset management
F&C REIT Property Management Limited(14)	70	England	Property asset management
Tier Services Limited(15)	70	England	Property asset management
Thames River Capital UK Limited(17)	100	England	Support services company
Thames River Capital LLP(18)#	100†	England	Investment management
Thames River Multi-Capital LLP(18)#	100†	England	Investment management
(ii) Non United Kingdom			
Thames River Capital Group Limited(1)	100	Cayman Islands	Holding company
F&C Netherlands B.V.(5)	100	The Netherlands	Investment management
F&C Ireland Limited(5)	100	Republic of Ireland	Investment management
F&C Portugal Gestao de Patrimonios S.A.(5)	100	Portugal	Investment management
F&C Asset Management Asia Limited.(5)	100	Hong Kong	Investment management
F&C Management Luxembourg S.A.(5)	100	Luxembourg	Investment management
F&C REIT Asset Management S.à.r.l.(12)	70	Luxembourg	Property asset management
F&C REIT Asset Management Sweden AB(15)	70	Sweden	Property asset management
F&C REIT Asset Management Worldwide Limited(15)	70	Gibraltar	Property asset management
F&C REIT Asset Management GmbH & Co KG(15)	70†	Germany	Property asset management
F&C REIT Property Management India Pvt Ltd(15)#	70	India	Property asset management
Thames River Capital Holdings Limited(16)	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.

37. 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.

38. 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 37.

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 2013 £m	**Outstanding at 31 December 2013 £m**	Total compensation 2012 £m	Outstanding at 31 December 2012 £m
Short-term employee and member benefits	**9.7**	**2.9**	14.8	5.0
Long-term employee and member benefits	**0.3**	**0.3**	–	–
Post-employment benefits	**0.7**	**–**	1.0	–
Termination benefits	**0.4**	**–**	0.1	–
Share-based payments	**11.8**	**–**	7.2	–
Total	**22.9**	**3.2**	23.1	5.0

'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 38(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.

38. Related party transactions continued

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.

(b) Transactions with key management personnel of the Group

Appropriations of profits paid to key management are as follows:

	2013 £m	2012 £m
Ordinary dividends paid	**0.1**	0.1
Distributions paid to non-controlling interests	**5.0**	3.3

(c) Transactions and balances with Group related parties

Transactions with related parties during 2013 and 2012 and outstanding balances with these parties as at 31 December 2013 and 31 December 2012 are given below, by each group of related parties.

(i) Related party transactions with Sherborne

Sherborne was a related party until Edward Bramson's resignation from the Board of F&C on 22 August 2013. Sherborne previously owned approximately 20% of the Ordinary Share capital of F&C and was represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne, and by Ian Brindle, who was also a representative of Sherborne. Sherborne divested its holding in F&C to its underlying investors during 2013. Sherborne was entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C. The Company's transactions with Sherborne until 22 August 2013 are disclosed below:

	Total expensed and accrued during 2013* £m	**Outstanding at 31 December 2013 £m**	Total expensed and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Ordinary dividends paid to Sherborne	**2.2**	**n/a**	3.2	–
Director's fees payable to Sherborne	**–**	**n/a**	0.2	–
Other expenses payable to Sherborne	**0.1**	**n/a**	0.3	–

* Until Edward Bramson resigned from the Board of F&C on 22 August 2013.

(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:

	2013 amortisation and impairment of intangible assets £m	**2013 profit share £m**	**2013 distributions paid £m**	**NCI at 31 December 2013 £m**	2012 amortisation of intangible assets £m	2012 profit share £m	2012 distributions paid £m	NCI at 31 December 2012 £m
Kendray Properties Limited	**(1.3)**	**2.0**	**(1.7)**	**7.3**	(1.1)	3.1	(0.5)	8.3
Leo Noé	**(1.0)**	**1.7**	**(2.3)**	**1.8**	(0.8)	1.5	(2.0)	3.4
Ivor Smith	**(0.3)**	**0.6**	**(1.0)**	**(0.3)**	(0.3)	0.5	(0.8)	0.4
	(2.6)	**4.3**	**(5.0)**	**8.8**	(2.2)	5.1	(3.3)	12.1

38. Related party transactions continued

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 2013 £m	**Outstanding at 31 December 2013 £m**	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Shared services and administrative services:				
Employee benefits*	**9.3**	**6.3**	9.8	6.3
Administration service fees*	**0.7**	**0.3**	0.8	0.2

* These amounts are eliminated on consolidation.

In addition, F&C REIT Asset Management LLP paid Leo Noé and Ivor Smith £0.5m during 2013 (2012: £0.5m) in respect of rent for the F&C REIT Group's head office at Wigmore Street, London.

The F&C REIT Asset Management LLP Group had balances with related parties as follows:

	Balances outstanding at 31 December 2013 £m	Balances outstanding at 31 December 2012 £m
Kendray Properties Limited	**–**	(0.5)
REIT Europe Limited	**–**	0.1

F&C Asset Management plc has made carried interest investments in F&C REIT Carry LP, F&C REIT Carry 3 LP, F&C REIT Carry 4 LP and F&C REIT Carry 5 LP respectively. These investments will entitle the Company to a share of any future carried interest arising from the management of F&C REIT Club Deals LPs.

£9.1m of profit distributions, which eliminate on consolidation, were paid by F&C REIT Asset Management LLP to the Company in 2013 (2012: £5.1m).

Certain management fees receivable by F&C companies outwith the F&C REIT Group are passed to the F&C REIT Group under delegation agreements, under which 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:

	Total invoiced and accrued during 2013 £m	**Outstanding at 31 December 2013 £m**	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Management fees*	**11.4**	**5.4**	11.6	4.5

* These amounts are eliminated on consolidation.

Details of the F&C REIT variable non-controlling interest share-based payment plan are disclosed in note 26(b). No income or expense has been recognised in either 2012 or 2013 in respect of this plan.

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 28.

38. Related party transactions continued

(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.

	Total invoiced and accrued during 2013 £m	**Outstanding at 31 December 2013 £m**	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Support and infrastructure services	**1.4**	**0.3**	1.6	0.6
Profit share	**0.8**	**0.6**	0.9	0.1

(iv) Post-employment benefit plans

The Group operates and participates in several post-employment benefit plans as detailed in note 25.

The Group contributed amounts to the defined benefit plans and the amounts outstanding at 31 December each year are as follows:

	Employer contributions 2013 £m	**Outstanding at 31 December 2013 £m**	Employer contributions 2012 £m	Outstanding at 31 December 2012 £m
F&C Asset Management Pension Plan	**5.2**	**–**	6.9	–
F&C Portugal[1]	**0.1**	**–**	0.3	–
F&C Netherlands	**0.7**	**–**	0.7	–
F&C Ireland	**0.1**	**–**	0.1	–
	6.1	**–**	8.0	–

[1] 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 25.

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 £208.9m at 31 December 2013 (31 December 2012: £187.7m).

The Group received the following investment management fees from this Plan:

	Fees receivable 2013 £m	**Outstanding at 31 December 2013 £m**	Fees receivable 2012 £m	Outstanding at 31 December 2012 £m
F&C Asset Management Pension Plan	**0.1**	**–**	0.2	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 2013 (2012: £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:

	Total invoiced and accrued during 2013 £m	**Outstanding at 31 December 2013 £m**	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Investment management fees	**60.3**	**7.9**	54.3	7.2

39. Capital Requirements Directive

Under Pillar 3 of the Capital Requirements Directive, prescribed in the UK by the Financial Conduct 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).

Country by country reporting

CRD IV brings in new transparency rules for EU institutions and introduces a requirement for institutions to disclose certain information on a country by country basis. The disclosures in respect of 2013 are not subject to audit and require to be reported by 1 July 2014; the Group is currently considering the basis and format of the disclosures which will be disclosed separately on the Company's website (www.fandc.com) by 1 July 2014.

40. Guarantees

At 31 December 2013 the Company's subsidiary, F&C Netherlands B.V., has provided a lease guarantee for £0.1m (31 December 2012: £0.1m) to the landlord of its premises at Jachthavenweg 109E, 1081 KM Amsterdam.

41. Parent undertaking and controlling party

In the opinion of the Directors, the Group has no ultimate parent undertaking and controlling party.

42. Events after the reporting period

(a) Proposed acquisition of F&C by Bank of Montreal

On 28 January 2014, F&C Asset Management plc (F&C) and the Bank of Montreal (BMO) announced that agreement had been reached for BMO Global Asset Management (Europe) Limited (BMO Europe), a wholly owned subsidiary of BMO, to acquire the entire issued and to be issued Ordinary Share capital of F&C for an aggregate consideration of approximately £708m. F&C shareholders will receive 120p per share and will also be entitled to retain an ordinary course dividend of 2p per share which was declared on 28 January 2014.

The proposed acquisition is subject to the satisfaction of certain regulatory and other conditions.

The acquisition will be effected by means of a Court sanctioned scheme of arrangement, full details of which, together with the terms and conditions of the transaction, are contained in the Scheme Circular. A copy of this document is available via the link on the front page of the Group's website: www.fandc.com. The Scheme was approved by shareholders on 25 March 2014. In addition to the regulatory conditions referred to above, the Scheme is also subject to sanction by the Court prior to it becoming effective. Once the Scheme becomes effective, BMO Europe will acquire 100% of the share capital of F&C and F&C will, therefore, become a wholly-owned subsidiary of BMO Europe.

Subject to the fulfilment of the conditions, the acquisition is currently expected to complete on or around 7 May 2014. However, if the Scheme does not become effective on or before 31 August 2014 (or such later date (if any) as BMO and F&C may agree), it will lapse and the acquisition will not proceed (unless the Takeover Panel otherwise consents).

While the proposed acquisition has not materially impacted the Group results for 2013 or the financial position of the Group as at 31 December 2013, it will impact the results of subsequent periods. In particular, the Scheme document highlights that the aggregate fees and expenses which are expected to be incurred by F&C in connection with the acquisition are estimated to amount to between £7.9m and £9.1m (excluding applicable VAT). A significant element of these costs is conditional upon completion of the acquisition; however, certain costs will be incurred irrespective of whether the transaction completes or not. In addition, the aggregate cost of share awards and the profile of the associated accounting charge will be influenced by the combination of the increase in the F&C share price since the date of the announcement of the proposed acquisition and its impact on share awards vesting in 2014, and the proposed replacement of certain existing F&C share awards with new BMO awards.

(b) Friends Life – notice to withdraw assets under management

At 31 December 2013, the Group managed £16.2bn of Strategic Partner assets on behalf of Friends Life. The associated long-term contracts were due to expire during 2014. However, on 18 March 2014 F&C was informed by Friends Life that they have selected a new investment manager in respect of £12.2bn of multi-asset and equity mandates currently managed by F&C and that they intend to transfer a further £2.3bn of sterling fixed income assets to Friends Life Investments, their in-house asset manager. The Group has received notice of termination or an indication to serve notice in respect of these assets and anticipates that they will be withdrawn by the end of 2014. The annualised revenues associated with the assets which are to be withdrawn are approximately £16m.

42. Events after the reporting period continued

(c) F&C REIT LTRP awards

The following Deferred and Restricted Awards were made in respect of F&C REIT after the reporting date:

Plan	Grant date	Vesting date	No. of units awarded	Market value per unit at grant date
F&C REIT LTRP (Deferred Awards)	16 January 2014	1 April 2016	2,553.19	£70.50
F&C REIT LTRP (Restricted Awards)	16 January 2014	1 April 2017	5,390.08	£70.50

Details of the F&C REIT LTRP plan are shown in note 26(c)(i).

The Restricted Awards are subject to conditions of continued service being met and have the following conditions:

31 December 2016 EBITDA results for F&C REIT LLP Group	Percentage of Restricted Award due to vest on 1 April 2017
£19.4m or above	100%
Between £18.1m and £19.4m	Pro rata between 75% and 100% on a straight-line basis
£18.1m	75%
Between £16.0m and £18.1m	Pro rata between 40% and 75% on a straight-line basis
£16.0m	40%
Between £14.2m and £16.0m	Pro rata between 0% and 40% on a straight-line basis
Less than £14.2m	0%

These awards will be settled in cash.

(d) TRC Commutation arrangements

Note 26(f) on pages 113 and 114 outlines the agreement reached by F&C to defer the potential exercise of the remaining option for F&C to purchase additional profit entitlement until April 2014. As at 31 December 2013, the accounting assumption was that the remaining option would be exercised by the issue of shares. However, as a consequence of the announcement of the proposed acquisition of F&C by Bank of Montreal, F&C is prohibited from issuing new shares to satisfy the Commutation arrangements, without shareholder approval unless the consent of the Takeover Panel is obtained. The rules of these arrangements do, however, allow for cash settlement. On 4 April 2014 a Commutation Settlement Agreement was signed whereby the Commutation consideration of £5.25m is settled in cash rather than shares, as previously assumed under these arrangements which have been accounted for as equity-settled share awards. 50% of this consideration is deferred for a period of 24 months. No adjustment has been made to these Consolidated Financial Statements. As at 31 December 2013, the balance within equity in relation to this Commutation arrangement was £4.0m. Upon settlement in cash, the balance of £1.25m will be charged to the Income Statement and the remaining 24-month vesting period.

Five Year Record (unaudited)

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.

	2009 £m	2010 £m	2011 £m	2012* £m	**2013** **£m**
Consolidated Income Statements					
Revenue					
Investment management fees	237.8	258.2	279.0	252.6	**252.5**
Other income	4.1	1.6	4.2	4.8	**5.0**
Total revenue	241.9	259.8	283.2	257.4	**257.5**
Fee and commission expenses	(16.8)	(16.6)	(16.2)	(13.9)	**(16.3)**
Net revenue	225.1	243.2	267.0	243.5	**241.2**
Net gains and investment income on unit-linked assets	136.0	74.3	13.7	40.6	**6.5**
Movement in fair value of unit-linked liabilities	(134.6)	(73.3)	(13.4)	(40.8)	**(6.3)**
Operating expenses					
Operating expenses	(164.8)	(169.7)	(183.8)	(162.6)	**(140.9)**
Distributions to members of LLPs	–	(6.0)	(18.3)	(11.6)	**(11.1)**
Amortisation and impairment of intangible assets – management contracts	(49.8)	(50.7)	(45.8)	(42.5)	**(42.7)**
Other exceptional net operating expenses	(19.0)	(20.9)	(19.0)	(21.9)	**(8.2)**
Unrealised gains on forward currency contracts	1.2	–	–	–	**–**
Total operating expenses	(232.4)	(247.3)	(266.9)	(238.6)	**(202.9)**
Operating (loss)/profit	(5.9)	(3.1)	0.4	4.7	**38.5**
Finance revenue	11.5	11.1	17.2	3.9	**2.3**
Finance costs	(30.3)	(33.6)	(35.4)	(23.1)	**(22.1)**
F&C REIT put option fair value gain/(loss)	5.6	6.4	8.7	11.5	**(3.0)**
TRC acquisition consideration adjustments	–	–	7.6	–	**–**
Gain on debt exchange	27.9	–	–	–	**–**
Impairment in associates and other financial investments	(0.1)	–	–	–	**–**
Profit/(loss) before tax	8.7	(19.2)	(1.5)	(3.0)	**15.7**
Tax – Shareholders	10.4	6.2	4.1	5.4	**(5.5)**
Tax – Policyholders	(0.4)	(0.4)	–	0.2	**–**
Tax income/(expense)	10.0	5.8	4.1	5.6	**(5.5)**
Profit/(loss) for the year	18.7	(13.4)	2.6	2.6	**10.2**
Attributable to:					
Equity holders of the parent	15.9	(16.6)	(0.5)	(0.3)	**8.5**
Non-controlling interests	2.8	3.2	3.1	2.9	**1.7**
Profit/(loss) for the year	18.7	(13.4)	2.6	2.6	**10.2**
Underlying earnings per Ordinary Share#$	5.75p	6.02p	5.51p	6.99p	**8.78p**
Basic earnings/(loss) per Ordinary Share	3.24p	(3.31)p	(0.10)p	(0.06p)	**1.52p**
Diluted earnings/(loss) per Ordinary Share	3.19p	(3.31)p	(0.10)p	(0.06p)	**1.43p**
Dividends					
Memo					
Final dividend for 2008, 2009, 2010, 2011 and 2012	19.8	19.4	10.4	10.4	**10.9**
Interim dividend for 2009, 2010, 2011, 2012 and 2013	9.7	5.1	5.2	5.4	**5.8**
	29.5	24.5	15.6	15.8	**16.7**
Final dividend per Ordinary Share for 2008, 2009, 2010, 2011 and 2012	4.0p	4.0p	2.0p	2.0p	**2.0p**
Interim dividend per Ordinary Share for 2009, 2010, 2011, 2012 and 2013	2.0p	1.0p	1.0p	1.0p	**1.0p**
Dividend cover†	0.54	(0.68)	(0.03)	(0.02)	**0.51**
Underlying dividend cover†#$	0.96	1.23	1.82	2.34	**2.94**

* As restated for the adoption of IAS 19 Employee Benefits (revised).
\# As restated in 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 2009, 2010, 2011, 2012 and 2013.
$ Excluding foreign exchange gains and losses.

Reconciliations of Statutory Results to Underlying Earnings (unaudited)

The following tables reconcile the statutory 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 2013

£ millions unless otherwise stated

		Statutory results	Adjustments	Adjusted Income Statement	Adjustments for FX gains	Underlying earnings	Non-controlling interests profits*	Underlying earnings (ex NCI)
A	**Net Revenue**	**241.2**	**–**	**241.2**	**–**	**241.2**	**–**	**241.2**
	Net policyholder income	0.2	–	0.2	–	0.2	–	0.2
	Operating expenses	(141.3)	–	(141.3)	–	(141.3)	–	(141.3)
	Exchange gains	0.4	–	0.4	(0.4)	–	–	–
	Operating expenses	**(140.9)**	**–**	**(140.9)**	**(0.4)**	**(141.3)**	**–**	**(141.3)**
	Distributions to members of LLPs	(11.1)	–	(11.1)	–	(11.1)	–	(11.1)
	Amortisation and impairment of intangible assets	(42.7)	42.7	–	–	–	–	–
	Other exceptional operating expenses	(8.2)	8.2	–	–	–	–	–
	Total operating expenses	**(202.9)**	**50.9**	**(152.0)**	**(0.4)**	**(152.4)†**	**–**	**(152.4)**
B	**Operating profit**	**38.5**	**50.9**	**89.4**	**(0.4)**	**89.0**	**–**	**89.0**
	Interest paid	(21.2)	–	(21.2)	–	(21.2)	–	(21.2)
	Interest and investment income received	2.3	–	2.3	–	2.3	–	2.3
	F&C REIT put option fair value loss	(3.0)	3.0	–	–	–	–	–
	Other non-operating items	(0.9)	–	(0.9)	–	(0.9)	–	(0.9)
	Non-controlling interests share of profits	–	–	–	–	–	(5.0)	(5.0)
	Profit before tax	**15.7**	**53.9**	**69.6**	**(0.4)**	**69.2‡**	**(5.0)**	**64.2**
	Tax expense	(5.5)	(10.5)	(16.0)	0.1	(15.9)	0.7	(15.2)
C	**Profit for year**	**10.2**	**43.4**	**53.6**	**(0.3)**	**53.3**	**(4.3)**	**49.0**
	Underlying EPS (C÷D)							**8.8p**
	Underlying operating margin (B÷A)							**36.9%**
D	**Weighted average number of shares (000's)**							**557,459**

* Excluding NCI share of amortisation and impairment of intangible assets.
† Defined as 'underlying operating costs'.
‡ Defined as 'Group underlying profit before tax'.

Year ended 31 December 2012ø

£ millions unless otherwise stated

		Statutory results	Adjustments	Adjusted Income Statement	Adjustments for FX losses	Underlying earnings	Non-controlling interests profits*	Underlying earnings (ex NCI)
A	**Net Revenue**	**243.5**	**–**	**243.5**	**–**	**243.5**	**–**	**243.5**
	Net policyholder expense	(0.2)	–	(0.2)	–	(0.2)	–	(0.2)
	Operating expenses	(160.6)	–	(160.6)	–	(160.6)	–	(160.6)
	Exchange losses	(2.0)	–	(2.0)	2.0	–	–	–
	Operating expenses	**(162.6)**	**–**	**(162.6)**	**2.0**	**(160.6)**	**–**	**(160.6)**
	Distributions to members of LLPs	(11.6)	–	(11.6)	–	(11.6)	–	(11.6)
	Amortisation of intangible assets	(42.5)	42.5	–	–	–	–	–
	Other exceptional operating expenses	(21.9)	21.9	–	–	–	–	–
	Total operating expenses	**(238.6)**	**64.4**	**(174.2)**	**2.0**	**(172.2)†**	**–**	**(172.2)**
B	**Operating profit**	**4.7**	**64.4**	**69.1**	**2.0**	**71.1**	**–**	**71.1**
	Interest paid	(22.4)	–	(22.4)	–	(22.4)	–	(22.4)
	Interest and investment income received	3.9	–	3.9	–	3.9	–	3.9
	F&C REIT put option fair value gain	11.5	(11.5)	–	–	–	–	–
	Other non-operating items	(0.7)	–	(0.7)	–	(0.7)	–	(0.7)
	Non-controlling interests share of profits	–	–	–	–	–	(5.8)	(5.8)
	(Loss)/profit before tax	**(3.0)**	**52.9**	**49.9**	**2.0**	**51.9‡**	**(5.8)**	**46.1**
	Tax income/(expense)	5.6	(14.8)	(9.2)	(0.5)	(9.7)	0.7	(9.0)
C	**Profit for year**	**2.6**	**38.1**	**40.7**	**1.5**	**42.2**	**(5.1)**	**37.1**
	Underlying EPS (C÷D)							**7.0p**
	Underlying operating margin (B÷A)							**29.2%**
D	**Weighted average number of shares (000's)**							**530,963**

ø As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.
* 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:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 (as restated)* £m
Staff costs and related expenses	**86.9**	104.5
Premises expenses	**10.1**	12.2
Communication and information technology expenses	**16.0**	16.4
Third-party administration expenses	**11.0**	9.7
Promotional and client servicing expenses	**4.0**	5.1
Other expenses	**13.3**	12.7
Core operating expenses	**141.3**	160.6
Distributions to members of LLPs	**11.1**	11.6
Underlying operating costs	**152.4**	172.2

* As restated for the adoption of IAS 19 Employee Benefits (revised), as disclosed in note 1.

Company Financial Statements

for the year ended 31 December 2013

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 57 to 136 have been prepared in accordance with International Financial Reporting Standards (IFRS).

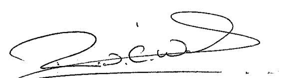
Company Balance Sheet

as at 31 December 2013

	Notes	31 December 2013 £m	31 December 2012 £m
Fixed assets			
Tangible fixed assets	4	**0.5**	0.5
Investments in subsidiaries	5	**1,261.8**	1,261.4
Other investments	6	**2.7**	3.6
		1,265.0	1,265.5
Current assets			
Debtors – amounts falling due:			
Within one year	7	**147.3**	91.8
After more than one year	7	**0.4**	60.4
Cash and short-term deposits		**0.3**	0.1
		148.0	152.3
Creditors (amounts falling due within one year)	8	**(7.9)**	(8.1)
Net current assets		**140.1**	144.2
Total assets less current liabilities		**1,405.1**	1,409.7
Creditors (amounts falling due after more than one year)	8	**(295.3)**	(295.1)
Provisions for liabilities	9	**(4.0)**	(5.1)
Net assets		**1,105.8**	1,109.5
Capital and reserves			
Called up Ordinary Share capital	14, 15	**0.6**	0.6
Share premium account	15	**58.9**	58.9
Capital redemption reserve	15	**0.8**	0.8
Merger reserve	15	**912.7**	912.7
Other reserves	15	**80.0**	80.5
Profit and loss account	15	**52.8**	56.0
Total shareholders' funds	15	**1,105.8**	1,109.5

The Company Financial Statements were approved by the Board of Directors and authorised for issue on 9 April 2014. They were signed on its behalf by:

Kieran Poynter
Chairman



Richard Wilson
Chief Executive

The accompanying notes to the Company Financial Statements form an integral part of these Financial Statements.

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 2013 and 31 December 2012.

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 Strategic Report on pages 6 to 21. The financial position of the Group, its cash flows and liquidity position are also described in the Strategic Report. In addition, note 35 to the Consolidated Financial Statements on pages 120 to 123 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 tax

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 5(c) to the Consolidated Financial Statements on page 76.

2. Directors' remuneration

Details of Directors' remuneration are as follows:

	2013 £m	2012 £m
Aggregate emoluments	2.8	2.1
Company contributions paid to defined contribution pension schemes	0.1	0.2
Aggregate value of gains made by Directors on exercise of share awards	1.3	2.8

	2013 No.	2012 No.
Members of defined contribution pension schemes	2	3

Full disclosure of Directors' remuneration is shown in the Annual Report on Remuneration on pages 44 to 51.

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 12 to the Consolidated Financial Statements on page 83.

4. Tangible fixed assets

	Leasehold improvements £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:				
At 1 January 2013	**4.1**	**0.4**	**4.2**	**8.7**
Additions	**0.2**	**–**	**0.1**	**0.3**
Disposals	**(0.2)**	**–**	**(1.5)**	**(1.7)**
At 31 December 2013	**4.1**	**0.4**	**2.8**	**7.3**
Depreciation:				
At 1 January 2013	**3.6**	**0.4**	**4.2**	**8.2**
Depreciation charge for the year	**0.2**	**–**	**–**	**0.2**
Disposals	**(0.1)**	**–**	**(1.5)**	**(1.6)**
At 31 December 2013	**3.7**	**0.4**	**2.7**	**6.8**
Net book values:				
At 31 December 2012	0.5	–	–	0.5
At 31 December 2013	**0.4**	**–**	**0.1**	**0.5**

5. Investments in subsidiaries

	£m
Cost:	
At 1 January 2013	**1,264.4**
Additions in respect of share-based payment awards	**6.9**
Recharge in respect of share-based payment awards	**(6.5)**
At 31 December 2013	**1,264.8**
Cumulative impairment:	
At 1 January 2013 and 31 December 2013	**3.0**
Net book values:	
At 31 December 2012	1,261.4
At 31 December 2013	**1,261.8**

Included within the above net book value is £80.0m (31 December 2012: £79.6m) 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:

	Notes	**31 December 2013 £m**	31 December 2012 £m
Available for sale	(a)	**0.1**	1.1
Fair value through profit or loss	(b)	**2.6**	2.5
		2.7	3.6

(a) Available for sale

	Unquoted £m
At 1 January 2013	**1.1**
Fair value gain in the year	**0.2**
Fair value gains transferred to the Profit and Loss Account	**(1.2)**
At 31 December 2013	**0.1**

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

	NIC hedge £m
At 1 January 2013	**2.5**
Disposals in the year	**(0.2)**
Fair value movement in year	**0.3**
At 31 December 2013	**2.6**

Further details of this investment are disclosed in note 18(a)(i)(2) to the Consolidated Financial Statements, on page 90.

The fair value of quoted investments as at 31 December 2013 was £1.5m (31 December 2012: £1.3m). These investments are either offshore mutual funds or funds not quoted on a daily basis.

7. Debtors

	Note	**31 December 2013 £m**	31 December 2012 £m
Amounts due within one year:			
Trade debtors		**0.8**	0.9
Amounts owed by subsidiary undertakings		**3.5**	2.8
Loan to subsidiary undertaking		**136.5**	81.2
Prepayments		**2.2**	2.3
VAT recoverable		**0.5**	0.6
Group relief receivable		**3.2**	3.2
Other debtors		**0.6**	0.8
		147.3	91.8
Amounts due after more than one year:			
Loan to subsidiary undertaking		**–**	60.0
Deferred tax	11	**0.4**	0.4
		0.4	60.4

The loan to the subsidiary undertaking bears interest at three-month LIBOR minus 0.25%, is repayable on demand and is with F&C Treasury Limited.

8. Creditors

	Note	**31 December 2013 £m**	31 December 2012 £m
Amounts due within one year:			
Trade creditors		**0.1**	0.4
Accruals		**2.6**	2.4
Amounts owed to subsidiary undertakings		**0.3**	0.4
Other creditors		**0.9**	0.9
Loans from subsidiary undertakings	10	**4.0**	4.0
		7.9	8.1
Amounts due after more than one year:			
Loans from subsidiary undertakings		**45.0**	45.0
Fixed/Floating Rate Subordinated Notes 2016/2026		**250.3**	250.1
	10	**295.3**	295.1

During 2012, a final consideration payment of £0.7m for the acquisition of F&C Group (Holdings) Limited was made to Achmea B.V..

9. Provisions for liabilities

	Onerous premises contracts £m	**Pension Plan guarantee £m**	**Deferred tax £m**	**Litigation guarantee £m**	**Total £m**
At 1 January 2012	5.7	0.2	0.4	2.0	8.3
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)
At 31 December 2012	**4.5**	**0.3**	**0.3**	**–**	**5.1**
Provided during the year	**0.6**	**–**	**–**	**–**	**0.6**
Utilised during the year	**(1.4)**	**–**	**(0.3)**	**–**	**(1.7)**
At 31 December 2013	**3.7**	**0.3**	**–**	**–**	**4.0**
At 31 December 2013					
Falling due after more than one year	**2.5**	**0.3**	**–**	**–**	**2.8**
Falling due within one year	**1.2**	**–**	**–**	**–**	**1.2**
At 31 December 2012					
Falling due after more than one year	3.1	0.3	0.3	–	3.7
Falling due within one year	1.4	–	–	–	1.4

9. Provisions for liabilities continued

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 seven 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 2013 is £0.1m (2012: £0.1m).

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 2013 and 31 December 2012.

Deferred tax

The deferred tax provision related to short-term timing differences which had 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 related to the revaluation of available for sale assets, which is recognised as a separate component of reserves.

A further analysis of deferred tax is disclosed in note 11.

Litigation guarantee

Note 24 to the Consolidated Financial Statements on pages 98 and 99 summarises the Group position in respect of the F&C Partners litigation, which was settled in 2012.

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 2013 £m**	31 December 2012 £m
Amounts repayable:			
Fixed/Floating Rate Subordinated Notes 2016/2026	(i)	**250.3**	250.1
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
		299.3	299.1

(i) The £251.0m (31 December 2012: £251.0m) 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 2013 £135.0m (31 December 2012: £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.

10. Loans continued

	Fixed/Floating Rate Subordinated Notes 2016/2026 £m
At 1 January 2012	258.9
Debt buy-backs	(9.0)
Issue costs amortisation	0.2
At 31 December 2012	**250.1**
Issue costs amortisation	**0.2**
At 31 December 2013	**250.3**

	Note	31 December 2013 £m	31 December 2012 £m
Amounts repayable:			
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	**295.3**	295.1
In more than five years		**–**	–
		299.3	299.1

Borrowing facilities

The undrawn committed borrowing facilities available at the year end are as follows:

	31 December 2013 £m	31 December 2012 £m
Revolving credit facility	**–**	20.0

Details of the revolving credit facility are disclosed in note 22 to the Consolidated Financial Statements on page 97.

11. Deferred tax

	2013 £m	2012 £m
At 1 January	**0.1**	0.2
Current year movement	**0.2**	–
Adjustments in respect of previous periods	**0.1**	(0.1)
At 31 December	**0.4**	0.1

	Notes	31 December 2013 £m	31 December 2012 £m
Deferred tax is provided as follows:			
Depreciation in advance of capital allowances		**0.3**	0.3
Other timing differences		**0.1**	0.1
Revaluation of available for sale assets		**–**	(0.3)
		0.4	0.1
Disclosed in the Financial Statements as follows:			
Debtors: Amounts due after more than one year	7	**0.4**	0.4
Provisions for liabilities	9	**–**	(0.3)
Net deferred tax asset		**0.4**	0.1

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

Details of this share-based payment award are disclosed in note 26(b) to the Consolidated Financial Statements on page 111.

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 2013		31 December 2012	
Ordinary Share capital of 0.1p	**No. of shares**	**£m**	No. of shares	£m
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p*	**581,035,337**	**0.6**	555,180,788	0.6

* Includes those categorised as own shares.

	2013 No. of shares	2012 No. of shares
Issued at 1 January	**555,180,788**	532,118,789
Issue of shares at par to settle share-based payment awards*	**25,854,549**	12,377,307
Issue of shares in respect of TRC Commutation arrangements	**–**	10,684,692
Issued at 31 December	**581,035,337**	555,180,788

* During 2013 and 2012 Ordinary Shares were allotted at par value into an EBT or Nominee account to settle share-based payment 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.

Details of Ordinary Shares issued between the balance sheet date and approval of the Company Financial Statements are disclosed in note 11 to the Consolidated Financial Statements on page 82.

Contingent rights to the allotment of shares

The F&C 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 2013 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)	11,394,251	0.00	10 March 2014 – 13 May 2016
Long-Term Remuneration Plan (Restricted Award)	30,203,555	0.00	4 May 2014 – 13 May 2017
TRC Management Incentive Plan	6,276,366	0.00	1 September 2015 – 1 September 2016
TRC Commutation Awards*	4,928,363	0.00	4 April 2014 – 1 September 2016
Deferred Share Awards	22,200	0.00	1 April 2014
2002 Executive Share Option Scheme	363,580	240.83	1 January 2014 – 9 March 2014#
	53,188,315		

* The potential number of shares as quantified at the reporting date.
\# These options expired on 9 March 2014.

Details of share-based payment arrangements are given in note 26 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 2013 No. of shares	31 December 2012 No. of shares
Held by RBC cees in a nominee capacity*	**3,955,932**	4,072,180
F&C Management Limited Employee Benefit Trust	**2,524,501**	8,864,824
The Ivory & Sime Employee Benefit Trust	**64,176**	64,176
	6,544,609	13,001,180

* 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 2013 was £6,545 (31 December 2012: £13,001). The market value of these shares at 31 December 2013 was £6.0m (31 December 2012: £13.3m).

The Trustees of the EBTs have waived their right to the dividend entitlement on some of these shares.

During the year, the Company purchased 1,528,931 of its own Ordinary Shares (2012: 64,105) 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 £1.6m (2012: £0.1m).

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[1] £m	Capital contribution reserve[1] £m	Profit and loss account £m	Total shareholders' funds £m
Balance at 1 January 2012	0.5	51.8	0.8	912.7	1.2	74.2	66.5	1,107.7
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)
Balance at 31 December 2012	**0.6**	**58.9**	**0.8**	**912.7**	**0.9**	**79.6**	**56.0**	**1,109.5**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**8.6**	**8.6**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**
Equity-settled share-based payment charge	**–**	**–**	**–**	**–**	**–**	**6.9**	**–**	**6.9**
Transfer to Profit and Loss Account on settlement of share-based payment awards by subsidiaries	**–**	**–**	**–**	**–**	**–**	**(6.5)**	**6.5**	**–**
Fair value gains in the year	**–**	**–**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Fair value gains transferred to Profit and Loss Account	**–**	**–**	**–**	**–**	**(1.2)**	**–**	**–**	**(1.2)**
Tax on fair value movements	**–**	**–**	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Final 2012 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(10.9)**	**(10.9)**
Interim 2013 dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(5.8)**	**(5.8)**
Balance at 31 December 2013	**0.6**	**58.9**	**0.8**	**912.7**	**–**	**80.0**	**52.8**	**1,105.8**

[1] The Fair value reserve and Capital contribution reserve constitute 'Other reserves' as disclosed on the face of the Balance Sheet and amount to £80.0m at 31 December 2013 (31 December 2012: £80.5m).

The profit after tax of the Company for the year, before dividends paid, was £8.6m (2012: £4.6m).

16. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases:

	Premises	
	31 December 2013 £m	31 December 2012 £m
Commitments expiring within one year	**–**	–
Commitments expiring within two to five years	**1.2**	1.2
Commitments expiring outwith five years	**3.3**	3.3
	4.5	4.5

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 2013 (31 December 2012: £nil).

18. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in note 37 to the Consolidated Financial Statements on pages 130 and 131.

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 was a related party until Edward Bramson's resignation from the Board of F&C on 22 August 2013. Sherborne previously owned approximately 20% of the Ordinary Share capital of F&C and was represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne, and by Ian Brindle, who was also a representative of Sherborne. Sherborne divested its holding in F&C to its underlying investors during 2013. Sherborne was entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C. The Company's transactions with Sherborne until 22 August 2013 are disclosed below:

	Total expensed and accrued during 2013* **£m**	**Outstanding at 31 December 2013** **£m**	Total expensed and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Ordinary dividends paid to Sherborne	**2.2**	**n/a**	3.2	–

* Until Edward Bramson resigned from the Board of F&C on 22 August 2013.

(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 2013 **£m**	**Outstanding at 31 December 2013** **£m**	Total invoiced and accrued during 2012 £m	Outstanding at 31 December 2012 £m
Administration service fees	**0.7**	**0.3**	0.8	0.2

£9.1m of profit distributions were paid to the Company by F&C REIT Asset Management LLP in 2013 (2012: £5.1m).

F&C Asset Management plc has a potential share-based payment obligation in respect of the variable non-controlling interest (NCI) enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 26(b) to the Consolidated Financial Statements on page 111.

The F&C REIT NCI 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 2013, the value of this commitment is estimated at £36.8m (31 December 2012: £33.8m). Further details are provided in note 28 to the Consolidated Financial Statements on page 116.

The Company has made carried interest investments in F&C REIT Carry LP, F&C REIT Carry 3 LP, F&C REIT Carry 4 LP and F&C REIT Carry 5 LP respectively. These investments will entitle the Company to a share of any future carried interest 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 2013:

- 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 22 to the Consolidated Financial Statements on page 97. These Loan Notes are unconditionally and irrevocably guaranteed by the Company.
- Guaranteed funding for its subsidiary F&C Treasury Limited until 25 September 2014 for satisfying its liabilities. At 31 December 2013, F&C Treasury Limited had net liabilities of £26.6m.
- Guaranteed funding for its subsidiary FP Asset Management Holdings Limited until 25 September 2014 for satisfying its liabilities. At 31 December 2013, FP Asset Management Holdings Limited had net liabilities of £0.6m.
- Guaranteed funding for its subsidiary F&C Alternative Investments (Holdings) Limited until 25 September 2014 for satisfying its liabilities. At 31 December 2013, F&C Alternative Investments (Holdings) Limited had net liabilities of £8.8m.

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.

23. Post balance sheet events

(a) Proposed acquisition of F&C by Bank of Montreal

Details of this are disclosed in note 42(a) to the Consolidated Financial Statements on page 135.

(b) TRC Commutation arrangements

Details of this are disclosed in note 42(d) to the Consolidated Financial Statements on page 136, with the payments being made for the obligation out 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

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Richard Wilson, Chief Executive
Keith Bedell-Pearce, Senior Independent Non-executive*†‡°
Keith Jones, Non-executive‡*°
David Logan, Chief Financial Officer
Derham O'Neill, Non-executive*†
Keith Percy, Non-executive‡†°
Charlie Porter, Non-executive
Ruth Sack, Non-executive

‡ Member of Nomination Committee
* Member of Remuneration Committee
† Member of Audit & Compliance Committee
° Member of the Risk Committee

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F&C Asset Management plc
Registered in Scotland
Company Registration Number SC73508

Website
Shareholders are encouraged to visit our website
www.fandc.com

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

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coordinated communication

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