

PRICE T ROWE GROUP INC

Form 10-K

February 04, 2014

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

Commission file number 000-32191

T. ROWE PRICE GROUP, INC.

(Exact name of registrant as specified in its charter)

Maryland

52-2264646

State of incorporation

IRS Employer Identification No.

100 East Pratt Street, Baltimore, Maryland 21202

Address, including zip code, of principal executive offices

(410) 345-2000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Common stock, \$.20 par value per share

The NASDAQ Stock Market LLC

(Title of class)

(Name of exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common equity (all voting) held by non-affiliates (excludes current executive officers and directors) computed using \$73.20 per share (the NASDAQ Official Closing Price on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter) was \$18.5 billion.

The number of shares outstanding of the registrant's common stock as of the latest practicable date, January 31, 2014, is 262,233,100.

DOCUMENTS INCORPORATED BY REFERENCE: In Part III, the Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A.

Exhibit index begins on page 56.

Table of Contents

| | PAGE |
|---|-----------|
| | <u>2</u> |
| ITEM 1. <u>Business</u> | <u>2</u> |
| ITEM 1A. <u>Risk Factors</u> | <u>10</u> |
| ITEM 1B. <u>Unresolved Staff Comments</u> | <u>17</u> |
| ITEM 2. <u>Properties</u> | <u>17</u> |
| ITEM 3. <u>Legal Proceedings</u> | <u>18</u> |
| ITEM 4. <u>Mine Safety Disclosures</u> | <u>18</u> |
| ITEM. <u>Executive Officers of the Registrant</u> | <u>18</u> |
| | <u>19</u> |
| ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>19</u> |
| ITEM 6. <u>Selected Financial Data</u> | <u>20</u> |
| ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>20</u> |
| ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>30</u> |
| ITEM 8. <u>Financial Statements and Supplementary Data</u> | <u>32</u> |
| ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>53</u> |
| ITEM 9A. <u>Controls and Procedures</u> | <u>53</u> |
| ITEM 9B. <u>Other Information</u> | <u>53</u> |
| | <u>56</u> |
| ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u> | <u>56</u> |
| ITEM 11. <u>Executive Compensation</u> | <u>56</u> |
| ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>56</u> |
| ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u> | <u>56</u> |
| ITEM 14. <u>Principal Accountant Fees and Services</u> | <u>56</u> |
| | <u>56</u> |
| ITEM 15. <u>Exhibits, Financial Statement Schedules</u> | <u>56</u> |
| <u>SIGNATURES</u> | <u>59</u> |

Table of Contents

PART I

Item 1. Business.

T. Rowe Price Group is a financial services holding company that provides global investment management services through its subsidiaries to individual and institutional investors in the sponsored T. Rowe Price mutual funds distributed in the United States and other investment portfolios, including separately managed accounts, subadvised funds, and other sponsored investment portfolios, including collective investment trusts, target-date retirement trusts, Luxembourg-based funds offered to investors outside the United States, and portfolios offered through variable annuity life insurance plans in the U.S.

The late Thomas Rowe Price, Jr., founded our firm in 1937, and the common stock of T. Rowe Price Associates, Inc. was first offered to the public in 1986. The T. Rowe Price Group corporate holding company structure was established in 2000.

We derive the vast majority of our consolidated net revenue and net income from investment advisory services provided by our subsidiaries, primarily T. Rowe Price Associates and T. Rowe Price International Ltd. Our revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations. At December 31, 2013, we had \$692.4 billion in assets under management, including \$435.3 billion in the T. Rowe Price U.S. mutual funds and \$257.1 billion in other investment portfolios.

Our assets under management are accumulated from a diversified client base across four primary distribution channels: third-party financial intermediaries that distribute our managed investment portfolios in the U.S. and other countries; individual U.S. investors on a direct basis; U.S. defined contribution retirement plans; and institutional investors globally. As of December 31, 2013, nearly forty-four percent of our assets under management are sourced from our third-party financial intermediary distribution channel with the remaining three distribution channels equally comprising the balance. We service clients in 39 countries around the world.

The assets we manage are a broad range of U.S. and international stock, blended asset, bond, and money market mutual funds and other investment portfolios that are designed to meet the varied and changing needs and objectives of individual and institutional investors. Investors select from among the mutual funds based on the distinct objective that is described in each fund's prospectus and can exchange balances among the funds as permitted when economic and market conditions and their investment needs change. Investment management of other client portfolios includes approaches similar to those employed in the Price funds.

Investment objectives for our managed investment portfolios, including the Price funds, accommodate a variety of strategies. Equity investment strategies may emphasize large-cap, mid-cap or small-cap investing; growth, value or core investing; and U.S., global, multi-regional and regional international, emerging market, and sector investing. We offer systematic, tax-efficient, blended equity, and asset allocation investment strategies, including target-date retirement investment portfolios. Our fixed income strategies may focus on high yield, U.S. taxable bond, taxable low-duration, international, and municipal tax-free investing. Our specialized advisory services include management of stable value investment contracts and a distribution management service for the disposition of equity securities our clients receive from third-party venture capital investment pools.

We employ fundamental and quantitative security analysis in the performance of the investment advisory function through substantial internal equity and fixed income investment research capabilities. We perform original industry and company research using such sources as inspection of corporate activities, management interviews, company-published financial and other information, financial newspapers and magazines, corporate rating services,

and field checks with suppliers and competitors in the same industry and particular business sector. Our research staff operates primarily from offices located in the U.S. and England with additional staff based in Australia, Hong Kong, Japan, and Singapore. We also use research provided by brokerage firms and security analysts in a supportive capacity and information received from private economists, political observers, commentators, government experts, and market analysts. Our securities selection process for some investment portfolios is based on quantitative analysis using computerized data modeling.

From time to time, we introduce new funds and other investment portfolios to complement and expand our investment offerings, respond to competitive developments in the financial marketplace, and meet the changing needs of our investment advisory clients. We will introduce a new investment strategy if we believe that we have the appropriate investment management expertise and that its objective will be useful for investors over a long period. Conversely, we may also limit new investments into a mutual fund or investment mandates in order to maintain the integrity of the investment strategy and to

Table of Contents

protect the interests of its existing fund shareholders and investors. At present, the following mutual funds are closed to new investors.

| Fund | Date Closed |
|--|-------------------|
| Institutional Mid-Cap Equity Growth Fund | December 8, 2003 |
| Mid-Cap Growth Fund | May 31, 2010 |
| Mid-Cap Value Fund | May 31, 2010 |
| High Yield Fund | April 27, 2012 |
| Institutional High Yield Fund | April 27, 2012 |
| Institutional Small-Cap Stock Fund | December 31, 2013 |
| New Horizons Fund | December 31, 2013 |
| Small-Cap Stock Fund | December 31, 2013 |

We also provide certain administrative services as ancillary services to our investment advisory clients. These administrative services are provided by several of our subsidiaries and include mutual fund transfer agent, accounting, distribution, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans investing in our sponsored mutual funds; recordkeeping services for defined contribution retirement plans investing in mutual funds outside the T. Rowe Price complex; brokerage; and trust services. Substantially all of our administrative and distribution and servicing fee revenues in 2013 were determined based generally on the recovery of our related costs to provide these services. Therefore, changes in our administrative revenues, distribution and servicing fees, and related expenses generally do not significantly affect our net operating income or net income.

We also offered federally insured certificates of deposit to our clients through our savings bank subsidiary, T. Rowe Price Savings Bank, which was sold on December 5, 2013. Additional information concerning the sale of our savings bank subsidiary is contained in Note 4 of our consolidated financial statements which are included in Item 8 of this report.

2013 DEVELOPMENTS.

U.S. stocks produced excellent returns in 2013, including the S&P 500 Stock Index which was up 32.4% and the NASDAQ Composite Index, which is heavily weighted in technology companies, which returned 38.3%. Equities in developed non-U.S. markets underperformed U.S. shares in 2013 but still produced very good returns while emerging markets equities fell slightly. Global bonds produced mostly negative returns in 2013 as interest rates rose during the year.

Our 2013 results include net revenues of nearly \$3.5 billion, net income of \$1.05 billion, and diluted earnings per share of \$3.90, an increase of 16.1% from the \$3.36 per share earned in 2012. Assets under management ended 2013 at a record \$692.4 billion, an increase of \$115.6 billion from the end of 2012. Market appreciation drove this increase as \$127.6 billion in market gains and income, net of distributions not reinvested, were reduced by net cash outflows of \$12.0 billion in the year. Net cash inflows of \$10.2 billion into the Price funds were more than offset by net cash outflows of \$22.2 billion from our other investment portfolios. The vast majority of these net outflows from our other investment portfolios were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio. A large portion of the outflows were from one international institutional client.

Table of Contents

Our assets under management (in billions) at December 31, 2013, categorized by mandate and account type are as follows:

| | |
|---|---------|
| Assets under management by mandate | |
| U.S. stocks and blended asset | \$461.7 |
| International stocks and blended asset | 75.3 |
| Total stock and blended asset portfolios | 537.0 |
| U.S. fixed income | 136.6 |
| International fixed income | 18.8 |
| Total fixed income portfolios | 155.4 |
| | \$692.4 |
| Assets under management by account type | |
| Retirement accounts and variable annuity portfolios | \$396.5 |
| Other | 295.9 |
| | \$692.4 |

Non-U.S. dollar denominated securities held in client accounts are \$96.3 billion, or 13.9% of our total assets under management at December 31, 2013. Investors domiciled outside the U.S. represent 6.5% of total assets under management at the end of 2013.

Our target-date retirement portfolios, which provide shareholders with single, diversified portfolios that invest in underlying Price funds and other investment portfolios, continue to be a significant source of our asset growth. In 2013, \$11.5 billion of our net cash flows originated in these portfolios. Assets under management in these portfolios were \$121.2 billion at December 31, 2013, including \$105.1 billion in target-date retirement funds and \$16.1 billion in target-date retirement trusts. These target-date retirement portfolios account for 17.5% of our managed assets at December 31, 2013, compared with 15.4% at the end of 2012.

Six Price funds - Growth Stock, Equity Income, Mid-Cap Growth, Blue-Chip Growth, Value, Capital Appreciation - accounted for 25% of our investment advisory revenues in 2013, and 22% of our assets under management at December 31, 2013. Our largest client account relationship apart from the Price funds is with a third-party financial intermediary that accounted for about 3% of our investment advisory revenues in 2013.

Strong investment performance and brand awareness is a key driver to attracting assets and to our long-term success. As of the end of 2013, 76% of the T. Rowe Price U.S. mutual funds across their share classes outperformed their comparable Lipper averages on a total return basis for the three-year period, 77% outperformed for the five-year period, 82% outperformed for the 10-year period, and 71% outperformed for the one-year period. In addition, T. Rowe Price stock, bond and blended asset funds that were given an overall rating of four or five stars from Morningstar at December 31, 2013, account for 78% of our rated funds' assets under management. The performance of our institutional strategies against their benchmarks was substantially similar. Our target-date retirement funds continue to deliver very attractive long-term performance, with 100% of these funds outperforming their comparable Lipper averages on a total return basis for the three- and five-year periods ended December 31, 2013.

At December 31, 2013, we remain debt-free with substantial liquidity and resources, including cash and fund investment holdings of \$3.0 billion. We presently plan to declare and pay quarterly cash dividends in 2014 that, taken together, will exceed the \$1.52 per share in annual regular dividends declared and paid in 2013; however, there can be no assurance that we will continue to pay dividends at increasing rates or at all. Our total capital expenditures for property and equipment in 2014 are expected to be approximately \$145 million. We generally repurchase shares of our common stock over time to offset the dilution created by our equity-based compensation plans. Our substantial

liquidity and resources also allow us to take advantage of attractive growth opportunities; invest in key capabilities, including investment professionals, technologies, and new investment strategy offerings; and, most importantly, provide our clients with strong investment management expertise and service both now and in the future. In the coming years, we expect to increase funding for long-term initiatives to sustain and deepen our investment talent, expand capabilities through enhanced technology, and broaden our distribution reach globally, including Italy and Germany.

Table of Contents

Additional information concerning our revenues, results of operations and total assets, and our assets under management during the past three years is contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K as well as our consolidated financial statements, which are included in Item 8 of this report.

PRICE FUNDS.

We provide investment advisory, distribution, and other administrative services to the Price funds under various agreements. Investment advisory services are provided to each fund under individual investment management agreements that grant the fund the right to use the T. Rowe Price name. The boards of the respective funds, including a majority of directors who are not interested persons of the funds or of T. Rowe Price Group (as defined in the Investment Company Act of 1940), must approve the investment management agreements annually. Fund shareholders must approve material changes to these investment management agreements. Each agreement automatically terminates in the event of its assignment (as defined in the Investment Company Act) and, generally, either party may terminate the agreement without penalty after a 60-day notice. The termination of one or more of these agreements could have a material adverse effect on our results of operations. Independent directors and trustees of the Price funds regularly review our fee structures.

Advisory Services.

Investment advisory revenues earned from the Price funds are determined daily based on the net assets managed in each fund. The advisory fee paid monthly by each of the Price funds is computed on a daily basis by multiplying a fund's net assets by its effective fee rate. Details of each fund's fee arrangement are available in its prospectus.

For the majority of the Price funds, the fee rate is equal to the sum of a tiered group fee rate plus an individual fund rate. The tiered group rate is based on the combined net assets of nearly all of the Price funds. When combined net assets of these Price funds exceeds \$400 billion, the weighted-average fee across pricing tiers is 29.5 basis points for the first \$400 billion of net assets plus 27.5 basis points for net assets in excess of \$400 billion. To the extent that the combined net assets of the funds included in the group rate calculation increase, the group charge component of a fund's advisory fee rate and the resulting advisory fee rate paid by each fund will decrease.

The individual fund rates are generally flat rates that are set based on the fund's specific investment objective. Several funds, including the Blue Chip Growth, Equity Income, Growth Stock and Mid-Cap Growth funds, have an effective tiered individual fund rate in which their base individual flat rate is reduced by about 15% on net assets in excess of \$15 billion. The effective fee rates for those stock and bond funds we earned advisory fees of at least \$6.0 million from in 2013 varied from a low of 40 basis points for the Maryland Tax-Free Bond, Tax-Free Short-Intermediate, and Short-Term Bond funds to a high of 105 basis points for the Emerging Markets Stock, International Discovery, and Latin America funds.

The fee rate of several of the Price funds, including the Index and Summit funds as well as specific funds offered solely to institutional investors, do not include a group fee component but rather an individual fund fee or an all-inclusive fee. An all-inclusive fee covered both the investment management fee and ordinary operating expenses incurred by the fund. Each of the funds in the series of Spectrum Funds, and in the series of target-date retirement funds that we offer invest in a diversified portfolio of other Price funds and have no separate investment advisory fee; however, they indirectly bear the expenses of the funds in which they invest.

We continued to voluntarily waive a portion of the advisory fees in 2013 of all of our money market funds and trusts in order to maintain a positive yield for fund investors. Advisory fees waived in 2013 totaled \$51.2 million, or about 2% of total investment advisory revenues earned in 2013, compared to \$35.0 million in 2012. We expect that these fee

waivers will continue in 2014.

Each Price fund typically bears all expenses associated with its operation and the issuance and redemption of its securities. In particular, each fund pays investment advisory fees; shareholder servicing fees and expenses; fund accounting fees and expenses; transfer agent fees; custodian fees and expenses; legal and auditing fees; expenses of preparing, printing and mailing prospectuses and shareholder reports to existing shareholders; registration fees and expenses; proxy and annual meeting expenses; and independent trustee or director fees and expenses.

We usually provide that a newly organized fund's expenses will not exceed a specified percentage of its net assets during an initial operating period. Generally, during the earlier portion of the period, we will waive advisory fees and absorb other mutual fund expenses in excess of these self-imposed limits. During the latter portion of the period, we may recover some or all of the waived fees and absorbed costs, but such recovery is not assured.

Page 5

Table of Contents

Assets under Management

At December 31, 2013, assets under our management in the Price funds aggregated \$435.3 billion, an increase of 25.5% or \$88.4 billion from the beginning of the year. The following table presents the net assets (in billions) and the year of formation of our largest Price funds (net assets in excess of \$1.0 billion at December 31, 2013) at December 31.

| | 2012 | 2013 |
|--|-------|-------|
| Stock and blended asset funds: | | |
| Balanced (1991) | \$3.1 | \$3.7 |
| Blue Chip Growth (1993) | 15.4 | 22.8 |
| Capital Appreciation (1986) | 13.6 | 19.1 |
| Dividend Growth (1992) | 2.8 | 4.1 |
| Emerging Markets Stock (1995) | 7.1 | 7.1 |
| Equity Income (1985) | 24.3 | 29.5 |
| Equity Index 500 (1990) | 15.6 | 20.2 |
| European Stock (1990) | .8 | 1.5 |
| Growth & Income (1982) | 1.2 | 1.5 |
| Growth Stock (1950) | 30.4 | 41.6 |
| Health Sciences (1995) | 5.0 | 8.6 |
| Institutional Emerging Markets Equity (2002) | 1.0 | 1.0 |
| Institutional Large-Cap Growth (2001) | 5.7 | 9.7 |
| Institutional Large-Cap Value (2000) | 1.0 | 1.6 |
| Institutional Mid-Cap Equity Growth (1996) | 2.9 | 4.2 |
| Institutional Small-Cap Stock (2000) | 1.0 | 1.6 |
| International Discovery (1988) | 2.9 | 3.5 |
| International Growth & Income (1998) | 6.1 | 9.0 |
| International Stock (1980) | 9.9 | 12.3 |
| Latin America (1993) | 1.8 | 1.1 |
| Media & Telecommunications (1993) | 2.3 | 3.3 |
| Mid-Cap Growth (1992) | 18.0 | 23.2 |
| Mid-Cap Value (1996) | 9.3 | 11.6 |
| New America Growth (1985) | 3.6 | 4.5 |
| New Asia (1990) | 4.7 | 4.6 |
| New Era (1969) | 4.4 | 4.3 |
| New Horizons (1960) | 9.7 | 15.8 |
| Overseas Stock (2006) | 5.4 | 7.5 |
| Personal Strategy Balanced (1994) | 1.4 | 1.7 |
| Personal Strategy Growth (1994) | 1.0 | 1.3 |
| Personal Strategy Income (1994) | .9 | 1.0 |
| Real Assets (2010) | 2.9 | 3.7 |
| Real Estate (1997) | 3.6 | 3.7 |
| Science & Technology (1987) | 2.5 | 3.4 |
| Small-Cap Stock (1992) | 7.4 | 10.3 |
| Small-Cap Value (1988) | 7.8 | 10.2 |
| Value (1994) | 13.6 | 18.2 |
| Other stock and blended asset funds | 6.8 | 9.7 |
| | 256.9 | 341.7 |

Table of Contents

| | 2012 | 2013 |
|--------------------------------------|---------|---------|
| Bond and money market funds: | | |
| Emerging Markets Bond (1994) | 4.0 | 3.9 |
| GNMA (1985) | 1.8 | 1.5 |
| High Yield (1984) | 9.3 | 9.8 |
| Inflation Focused Bond (2006) | 3.8 | 5.3 |
| Institutional Floating Rate (2008) | 2.3 | 3.2 |
| Institutional High Yield (2002) | 2.6 | 2.9 |
| International Bond (1986) | 5.3 | 5.0 |
| Maryland Tax-Free Bond (1987) | 2.1 | 1.8 |
| New Income (1973) | 19.8 | 21.3 |
| Prime Reserve (1976) | 5.9 | 6.4 |
| Short-Term Bond (1984) | 6.3 | 6.4 |
| Summit Cash Reserves (1993) | 5.4 | 5.7 |
| Summit Municipal Intermediate (1993) | 2.3 | 3.0 |
| Tax-Free High Yield (1985) | 2.6 | 2.2 |
| Tax-Free Income (1976) | 3.1 | 2.4 |
| Tax-Free Short-Intermediate (1983) | 1.9 | 1.9 |
| U.S. Treasury Money (1982) | 2.0 | 2.0 |
| Other bond and money market funds | 9.5 | 8.9 |
| | 90.0 | 93.6 |
| | \$346.9 | \$435.3 |

The Spectrum Funds, Target Retirement Funds, and Retirement Date Funds are not presented in the table above because their assets are already included in their underlying fund holdings.

Our operating subsidiaries invest in many of the T. Rowe Price funds.

Administrative Services.

Our subsidiaries provide advisory-related administrative services to the Price funds and their shareholders. T. Rowe Price Services provides mutual fund transfer agency and shareholder services, including maintenance of staff, facilities, technology, and other equipment to respond to inquiries from fund shareholders. T. Rowe Price Associates provides mutual fund accounting services, including maintenance of financial records, preparation of financial statements and reports, daily valuation of portfolio securities, and computation of daily net asset values per share. T. Rowe Price Retirement Plan Services provides participant accounting, plan administration, and transfer agent services for defined contribution retirement plans that invest in both the Price funds and funds outside the Price fund complex. Plan sponsors and participants compensate us for some of the administrative services while the Price funds compensate us for maintaining and administering the individual participant accounts for those plans that invest in the Price funds.

We provide trustee services through our subsidiary, T. Rowe Price Trust Company, a Maryland-chartered limited service trust company. Through this entity, we offer collective investment trusts for investment by qualified retirement plans and serve as trustee for employer sponsored retirement plans and other retirement products. T. Rowe Price Trust Company may not accept deposits and cannot make personal or commercial loans.

We also provide non-discretionary advisory planning services to fund shareholders and potential investors through our subsidiary T. Rowe Price Advisory Services. These services are limited in scope and include retirement planning services, such as saving for retirement, transitioning into retirement, and income in retirement. An investment

portfolio evaluation service is an integral part of these services. An ongoing checkup service is also available to assist an investor in remaining on track to achieve their financial goals.

Table of Contents

Distribution and Servicing.

Each of the Price funds has a distinct investment objective that has been developed as part of our strategy to provide a broad, comprehensive selection of investing opportunities. The Investor class of all Price funds can be purchased in the U.S. on a no-load basis, without a sales commission or 12b-1 fee. No-load mutual fund shares offer investors a low-cost and relatively easy method of directly investing in a variety of stock and fixed income portfolios.

Certain of the Price funds also offer Advisor and R classes of shares that are distributed to mutual fund shareholders, and defined contribution retirement plans, respectively, through third-party financial intermediaries. These share classes pay 12b-1 fees of 25 and 50 basis points, respectively, for distribution, administration, and personal services. In addition, those Price funds offered to investors through variable annuity life insurance plans have a share class that pays a 12b-1 fee of 25 basis points. Our subsidiary, T. Rowe Price Investment Services, is the principal distributor of the Price funds and enters into a tri-party agreement with each intermediary and fund. Under the agreement, each fund is responsible to pay the distribution and service fees directly to the applicable intermediaries.

In accounting for 12b-1 fees, the applicable mutual fund share classes incur the related expense and we recognize the corresponding distribution and servicing fee revenue in our consolidated statements of income. We also recognize, as distribution and servicing costs in the consolidated statements of income, the corresponding cost paid to the third-party financial intermediaries who distribute these fund share classes. The fee revenue that we recognize from the funds and the expense that we recognize for the fees paid to third-party intermediaries are equal in amount and, therefore, do not impact our net operating income.

We believe that our lower fund cost structure, distribution methods, and fund shareholder and administrative services help promote the stability of our fund assets under management through market cycles.

Except as noted above for 12b-1 fees, we bear all advertising and promotion expenses associated with the distribution of the Price funds. These costs are recognized currently, and include advertising and direct mail communications to potential fund shareholders as well as substantial staff and communications capabilities to respond to investor inquiries. Marketing and promotional efforts are focused in print media, television, and the Internet. In addition, we direct considerable marketing efforts to defined contribution plans that invest in mutual funds. Advertising and promotion expenditures vary over time based on investor interest, market conditions, new and existing investment offerings, and the development and expansion of new marketing initiatives, including enhancements to our website.

OTHER INVESTMENT PORTFOLIOS.

Our other client investment portfolios had assets under management of \$257.1 billion at December 31, 2013, an increase of \$27.2 billion from the beginning of the year. We provide investment advisory services to these clients through our subsidiaries on a separately managed or subadvised account basis and through sponsored investment portfolios, including collective investment trusts, target-date retirement trusts, Luxembourg-based funds offered to investors outside the U.S. and portfolios offered through variable annuity life insurance plans in the U.S. At December 31, these portfolios included the following investment mandates:

| | 2012 | 2013 |
|-----------------------------------|----------|----------|
| U.S. equities | \$ 140.5 | \$ 171.5 |
| International equities | 23.7 | 23.8 |
| Stable value assets | 18.9 | 17.6 |
| Bonds and money market securities | 46.8 | 44.2 |
| | \$ 229.9 | \$ 257.1 |

We charge fees for investment management to these clients based on, among other things, the specific investment services to be provided. Our standard form of investment advisory agreement for client accounts provides that the agreement may be terminated at any time and that any unearned fees paid in advance will be refunded.

Our fees for managing these investment portfolios are computed using the value of assets under our management at a contracted annual fee rate. The value of assets under management billed is generally based on daily valuations, month-end

Table of Contents

average valuations, or end of billing period valuations. In 2013, approximately 65% of advisory fees were recognized based on daily portfolio valuations, 16% were based on month-end averages, and 18% were based on end of billing period valuations.

Our subsidiary, T. Rowe Price International provides sales, distribution and market services to our Luxembourg-based T. Rowe Price Funds SICAV, a self-managed Société d'Investissement à Capital Variable. The funds underlying this entity are distributed outside the U.S. by T. Rowe Price International and through distribution agents and other financial intermediaries. The fees earned for these distribution and marketing services are part of the overall investment management fee T. Rowe Price International earns for managing the SICAV fund assets. We recognize any related distribution fees paid to financial intermediaries in other operating expenses.

REGULATION.

T. Rowe Price Associates, T. Rowe Price International, T. Rowe Price (Canada), T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Private Ltd. and T. Rowe Price Advisory Services are registered with the Securities and Exchange Commission (SEC) as investment advisers under the Investment Advisers Act of 1940. T. Rowe Price International is also regulated by the Financial Conduct Authority (FCA) in the United Kingdom and, in certain cases, by other foreign regulators. The Securities and Futures Commission (SFC) and Monetary Authority of Singapore (MAS) also regulate T. Rowe Price Hong Kong and T. Rowe Price Singapore, respectively. T. Rowe Price (Canada) is also registered with several of the provincial securities commissions in Canada. T. Rowe Price (Luxembourg) Management Sàrl, the management company of our Luxembourg-based FCP (Fonds Commun de Placement) funds is regulated by the Commission de Surveillance du Secteur Financier (CSSF).

Our subsidiaries providing transfer agent services are registered under the Securities Exchange Act of 1934, and our trust company is regulated by the State of Maryland, Commissioner of Financial Regulation.

T. Rowe Price Investment Services is a registered broker-dealer and member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. We provide introducing brokerage services through this subsidiary primarily to complement the other services provided to shareholders of the Price funds. Pershing, a third-party clearing broker and affiliate of the Bank of New York, maintains our brokerage's customer accounts and clears all transactions.

On December 5, 2013, T. Rowe Price Associates completed its previously announced sale of 100% of the stock of T. Rowe Price Savings Bank to a non-affiliated third party; the new owner thereupon changed the name and headquarters location of the bank. Due to the sale of the stock, T. Rowe Price Associates and T. Rowe Price Group no longer meet the definition of a "savings and loan holding company," as defined in the Home Owners' Loan Act, and we have requested confirmation from the Federal Reserve Bank of Richmond that the companies have been de-registered as such.

All aspects of our business are subject to extensive federal, state and foreign laws and regulations. These laws and regulations are primarily intended to benefit or protect our clients and the Price funds' shareholders. They generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict the conduct of our business in the event that we fail to comply with laws and regulations. Possible sanctions that may be imposed on us in the event that we fail to comply include the suspension of individual employees, limitations on engaging in certain business activities for specified periods of time, revocation of our investment adviser and other registrations, censures, and fines.

Certain of our subsidiaries are subject to net capital requirements including those of various federal, state, and international regulatory agencies. Each of our subsidiaries' net capital, as defined, meets or exceeds all minimum

requirements.

For further discussion of the potential impact of current or proposed legal or regulatory requirements, please see the Legal and Regulatory risk factors included in Item 1A of this Form 10-K.

COMPETITION.

As a member of the financial services industry, we are subject to substantial competition in all aspects of our business. A significant number of proprietary and other sponsors' mutual funds are sold to the public by other investment management firms, broker-dealers, mutual fund companies, banks and insurance companies. We compete with brokerage and investment banking firms, insurance companies, banks, mutual fund companies, hedge funds, and other financial institutions and funds in all aspects of our business and in every country in which we offer our advisory services. Many of these financial institutions have substantially greater resources than we do. We compete with other providers of investment advisory services primarily based on the availability and objectives of the investment portfolios offered, investment performance, and the scope and quality of investment advice and other client services. In order to maintain and enhance our competitive position, we may review

Table of Contents

acquisition and venture opportunities and, if appropriate, engage in discussions and negotiations that could lead to the acquisition of a new equity or other financial relationship.

EMPLOYEES.

At December 31, 2013, we employed 5,668 associates, up 5.5% from the 5,372 associates employed at the end of 2012. We may add additional temporary and part-time personnel to our staff from time to time to meet periodic and special project demands, primarily for technology and mutual fund administrative services.

AVAILABLE INFORMATION.

Our Internet address is www.troweprice.com. At our Investor Relations website, <http://trow.client.shareholder.com>, we make available free of charge a variety of information for investors. Our goal is to maintain our websites as a portal through which investors can easily find or navigate to pertinent information about us and as a channel of distribution for material company information, including but not limited to:

our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after we electronically file that material with, or furnish them to the SEC;

our financial statement information from our periodic SEC filings in the form of XBRL data files that may be used to facilitate computer-assisted investor analysis;

corporate governance information including our charter, bylaws, governance guidelines, committee charters, code of ethics and conduct and other governance-related policies;

other news and announcements that we may post from time to time that investors might find useful or interesting; and

opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

The information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

Item 1A. Risk Factors.

An investment in our common stock involves various risks, including those mentioned below and those that are discussed from time to time in our periodic filings with the SEC. Investors should carefully consider these risks, along with the other information contained in this report, before making an investment decision regarding our common stock. There may be additional risks of which we are currently unaware, or which we currently consider immaterial. Any of these risks could have a material adverse effect on our financial condition, results of operations, and value of our common stock.

RISKS RELATING TO OUR BUSINESS AND THE FINANCIAL SERVICES INDUSTRY.

Our revenues are based on the market value and composition of the assets under our management, all of which are subject to fluctuation caused by factors outside of our control.

We derive our revenues primarily from investment advisory services provided by our subsidiaries to individual and institutional investors in the T. Rowe Price mutual funds distributed in the U.S. and other investment portfolios. Our investment advisory fees typically are calculated as a percentage of the market value of the assets under our management. We generally earn higher fees on assets invested in our equity funds and equity investment portfolios than we earn on assets invested in our fixed income funds and portfolios. Among equity investments, there is a

significant variation in fees earned from index-based funds and portfolios at the low end and emerging markets funds and portfolios at the high end. Fees also vary across the fixed income funds and portfolios, though not as widely as equity investments, with stable value portfolios and money market securities at the lower end and non-U.S. dollar denominated bonds at the high end. As a result, our revenues are dependent on the value and composition of the assets under our management, all of which are subject to substantial fluctuation due to many factors, including:

- **Investor Mobility.** Our investors generally may withdraw their funds at any time, on very short notice and without any significant penalty.

Table of Contents

General Market Declines. A downturn in stock or bond prices would cause the value of assets under our management to decrease, and may also cause investors to withdraw their investments, thereby further decreasing the level of assets under our management.

Investment Performance. If the investment performance of our managed portfolios is less than that of our competitors or applicable third-party benchmarks, we could lose existing and potential customers and suffer a decrease in assets under management. Institutional investors in particular consider changing investment advisers based upon poor relative investment performance. Individual investors in contrast are more likely to react to poor absolute investment performance.

Investing Trends. Changes in investing trends and, in particular, retirement savings trends, including the prevalence of defined contribution retirement plans, may reduce interest in our funds and portfolios and may alter our mix of assets under management.

Interest Rate Changes. Investor interest in and the valuation of our fixed income investment funds and portfolios are affected by changes in interest rates.

International Exposure. Our managed portfolios may have significant investments in international markets that are subject to risk of loss from political or diplomatic developments, government policies, civil unrest, currency fluctuations and changes in legislation related to foreign ownership. International markets, particularly emerging markets, which are often smaller, may not have the liquidity of established markets, may lack established regulations and may experience significantly more volatility than established markets.

Tax Regulation Changes. Changes in the status of tax deferred retirement plan investments and tax-free municipal bonds, the capital gains and corporate dividend tax rates, and other individual and corporate tax rates and regulations could adversely affect investor behavior and may cause investors to view certain investment offerings less favorably and withdraw their investment assets, thereby decreasing the level of assets under our management.

A decrease in the value of assets under our management, or an adverse change in their composition, could have a material adverse effect on our investment advisory fees and revenues. For any period in which revenues decline, net income and operating margins will likely decline by a greater proportion because certain expenses will be fixed over that finite period and may not decrease in proportion to the decrease in revenues.

The performance of our money market funds is impacted by the historically low interest rate environment.

Our money market funds' performance or yield is dependent on the income earned from the underlying securities exceeding the operating costs of the fund. When interest rates are at or near the historic lows that have recently existed, the operating costs of the funds will become a greater portion of the portfolio's income, thereby reducing the yield of the funds to very low levels. Since the second half of 2009 and presently, such an environment has led us to voluntarily waive a portion of our advisory fee earned on our money market funds in order to maintain yields at or above 0% for fund investors. Such actions reduce our advisory fee income and net income. The actual amount of fees waived is dependent on a number of variables including, among others, changes in the net assets held by our money market funds, changes in market yields, changes in the expense levels of the funds, and our willingness to voluntarily continue such fee waivers. Also, bank deposits may become more attractive to investors and money market funds could experience significant redemptions, which could decrease our revenues and net income. For further discussion of the fees we waived in the current period, management's expectation as to future fee waivers, and the net cash flows of our money market funds, please see our Management Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

A significant majority of our revenues are based on contracts with the Price funds that are subject to termination without cause and on short notice.

We provide investment advisory, distribution and other administrative services to the Price funds under various agreements. Investment advisory services are provided to each Price fund under individual investment management

agreements. The board of each Price fund must annually approve the terms of the investment management and service agreements and can terminate the agreement upon 60-days notice. If a Price fund seeks to lower the fees that we receive or terminate its contract with us, we would experience a decline in fees earned from the Price funds, which could have a material adverse effect on our revenues and net income.

Table of Contents

We operate in an intensely competitive industry, which could cause a loss of customers and their assets, thereby reducing our assets under management and our revenues and net income.

We are subject to competition in all aspects of our business from:

- asset management firms,
- mutual fund companies,
- commercial banks and thrift institutions,
- insurance companies,
- hedge funds,
- exchange traded funds,
- brokerage and investment banking firms, and
- other financial institutions including multinational firms and subsidiaries of diversified conglomerates.

Many of these financial institutions have substantially greater resources than we do and may offer a broader range of financial products across more markets. Some operate in a different regulatory environment than we do which may give them certain competitive advantages in the investment products and portfolio structures that they offer. We compete with other providers of investment advisory services primarily based on the availability and objectives of the investment portfolios offered, investment performance, and the scope and quality of investment advice and other client services. Some institutions have proprietary products and distribution channels that make it more difficult for us to compete with them. Most of our investment portfolios are available without sales or redemption fees, which means that investors may be more willing to transfer assets to competing funds.

If current or potential customers decide to use one of our competitors, we could face a significant decline in market share, assets under management, revenues, and net income. In the event that we were to decide to reduce the fees we charge for investment advisory services in response to competitive pressures, revenues and operating margins could be adversely impacted.

Our success depends on our key personnel and our financial performance could be negatively affected by the loss of their services.

In 2013, we had an increase in the normally very low turnover of our investment professionals. Our success depends on our highly skilled personnel, including our portfolio and fund managers, investment analysts, sales and client relationship personnel, and corporate officers, many of whom have specialized expertise and extensive experience in our industry. Strong financial services professionals are in demand, and we face significant competition for highly qualified employees. Our key employees do not have employment contracts, and generally can terminate their employment with us at any time. We cannot assure that we will be able to retain or replace key personnel. In order to retain or replace our key personnel, we may be required to increase compensation, which would decrease net income. The loss of key personnel could damage our reputation and make it more difficult to retain and attract new employees and investors. Losses of assets from our client investors would decrease our revenues and net income, possibly materially.

Our operations are complex and a failure to perform operational tasks or the misrepresentation of products and services could have an adverse effect on our reputation and subject us to regulatory sanctions, fines, penalties, litigation, and a decrease in revenues.

Operating risks include:

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failure to properly perform fund or portfolio recordkeeping responsibilities, including portfolio accounting, security pricing, corporate actions, investment restrictions compliance, daily net asset value computations, account reconciliations, and required distributions to fund shareholders to comply with tax regulations; failure to properly perform transfer agent and participant recordkeeping responsibilities, including transaction processing, supervision of staff, tax reporting and record retention; and failure to identify excessive trading in mutual funds by our customers or plan participants;

Table of Contents

sales and marketing risks, including the intentional or unintentional misrepresentation of products and services in advertising materials, public relations information, or other external communications, and failure to properly calculate and present investment performance data accurately and in accordance with established guidelines and regulations; and

our reliance on third-party vendors who now or in the future may perform or support important parts of our operations as there can be no assurance that they will perform properly or that our processes and plans to transition or delegate these functions to others will be successful or that there will not be interruptions in services from these third parties.

Any damage to our reputation could harm our business and lead to a loss of revenues and net income.

We have spent many years developing our reputation for integrity, strong investment performance, and superior client services. Our brand is a valuable intangible asset, but it is vulnerable to a variety of threats that can be difficult or impossible to control, and costly or even impossible to remediate. Regulatory inquiries and rumors can tarnish or substantially damage our reputation, even if they are satisfactorily addressed. Any damage to our brand could impede our ability to attract and retain customers and key personnel, and reduce the amount of assets under our management, any of which could have a material adverse effect on our revenues and net income.

Our expenses are subject to significant fluctuations that could materially decrease net income.

Our operating results are dependent on the level of our expenses, which can vary significantly for many reasons, including:

- changes in the level of our advertising expenses, including the costs of expanding investment advisory services to investors outside of the U.S. and further penetrating U.S. distribution channels;
- variations in the level of total compensation expense due to, among other things, bonuses, stock option grants and other stock-based awards, changes in employee benefit costs due to regulatory or plan design changes, changes in our employee count and mix, competitive factors, and inflation;
- a future impairment of investments recognized in our consolidated balance sheet;
- a future impairment of goodwill that is recognized in our consolidated balance sheet;
- unanticipated material fluctuations in foreign currency exchange rates applicable to the costs of our operations abroad;
- expenses and capital costs incurred to maintain and enhance our administrative and operating services infrastructure, such as technology assets, depreciation, amortization, and research and development;
- unanticipated costs incurred to protect investor accounts and client goodwill; and
- disruptions of third-party services such as communications, power, and mutual fund transfer agent and accounting systems.

Under our agreements with the T. Rowe Price mutual funds, we charge the mutual funds certain administrative fees and related expenses based upon contracted terms. If we fail to accurately estimate our underlying expense levels or otherwise are required to incur expenses relating to the mutual funds that are not otherwise paid by the funds, our operating results will be adversely affected. While we are under no obligation to provide financial support to any of our sponsored investment products, any financial support provided would reduce capital available for other purposes and may have an adverse effect on revenues and net income.

We have contracted with third-party financial intermediaries that distribute our investment portfolios in the U.S. and abroad and such relationships may not be available or profitable to us in the future.

These contracted third-party intermediaries generally offer their clients various investment products in addition to, and in competition with, our investment offerings, and have no contractual obligation to encourage investment in our portfolios. It would be difficult for us to acquire or retain the management of those assets without the assistance of the

intermediaries, and we cannot assure that we will be able to maintain an adequate number of successful distribution relationships. In addition, some investors rely on third-party financial planners, registered investment advisers, and other consultants or financial professionals to advise them on the choice of investment adviser and investment portfolio. These professionals and consultants can favor a competing investment portfolio as better meeting their particular client's needs. We cannot assure that our investment offerings will be among their recommended choices in the future. Further, their recommendations can change over time and we could lose their recommendation and their client assets under our management. Mergers, acquisitions, and other ownership or

Table of Contents

management changes could also adversely impact our relationships with these third-party intermediaries. The presence of any of the adverse conditions discussed above would reduce revenues and net income, possibly by material amounts.

Natural disasters and other unpredictable events could adversely affect our operations.

Armed conflict, terrorist attacks, cyber-attacks, power failures, and natural disasters could adversely affect our revenues, expenses and net income by:

- decreasing investment valuations in, and returns on, the investment portfolios that we manage,
- causing disruptions in national or global economies that decrease investor confidence and make investment products generally less attractive,
- incapacitating or inflicting losses of lives among our associates,
- interrupting our business operations,
- triggering technology delays or failures, and
- requiring substantial capital expenditures and operating expenses to remediate damage, replace our facilities, and restore our operations.

A significant portion of our business operations are concentrated in the Baltimore, Maryland region and in London, England. We have developed various backup systems and contingency plans but we cannot be assured that they will be adequate in all circumstances that could arise or that material interruptions and disruptions will not occur. In addition, we rely to varying degrees on outside vendors for disaster contingency support, and we cannot be assured that these vendors will be able to perform in an adequate and timely manner. If we lose the availability of any associates, or if we are unable to respond adequately to such an event in a timely manner, we may be unable to timely resume our business operations, which could lead to a tarnished reputation and loss of customers that results in a decrease in assets under management, lower revenues and materially reduced net income.

Our investment income and asset levels may be negatively impacted by fluctuations in our investment portfolio.

We currently have a substantial portion of our assets invested in sponsored stock, blended asset and bond funds. All of these investments are subject to investment market risk and our non-operating investment income could be adversely affected by the realization of losses upon the disposition of our investments or the recognition of significant other-than-temporary impairments in the case of our available-for-sale portfolio and the recognition of unrealized losses related to our sponsored investment portfolios that are held as trading and accounted for under the equity method. In addition, related investment income has fluctuated significantly over the years depending upon the performance of our corporate investments, including the impact of market conditions and interest rates, and the size of our corporate money market and longer-term mutual fund holdings. Fluctuations in other investment income are expected to occur in the future.

We may review and pursue acquisition and venture opportunities in order to maintain or enhance our competitive position.

Any strategic transaction can involve a number of risks, including additional demands on our staff; unanticipated problems regarding integration of investor account and investment security recordkeeping, operating facilities and technologies, and new employees; adverse effects in the event acquired intangible assets or goodwill become impaired; and the existence of liabilities or contingencies not disclosed to or otherwise known by us prior to closing a transaction.

We own a 26% investment in UTI Asset Management Company Ltd (UTI), an Indian asset management company, and we may consider non-controlling minority investments in other entities in the future. We may not realize future returns from such investments or any collaborative activities that may develop in the future.

We are exposed to a number of risks arising from our international operations.

We operate in a number of jurisdictions outside of the U.S. and have an equity investment in UTI. Our international operations require us to comply with the legal and regulatory requirements of various foreign jurisdictions and expose us to the political consequences of operating in foreign jurisdictions. Our foreign business operations are also subject to the following risks:

- difficulty in managing, operating and marketing our international operations;

Table of Contents

• fluctuations in currency exchange rates which may result in substantial negative effects on assets under our management, revenues, expenses and assets in our U.S. dollar based financial statements; and significant adverse changes in international legal and regulatory environments.

LEGAL AND REGULATORY RISKS.

Compliance within a complex regulatory environment imposes significant financial and strategic costs on our business, and non-compliance could result in fines and penalties.

If we are unable to maintain compliance with applicable laws and regulations, we could be subject to criminal and civil liability, the suspension of our employees, fines, penalties, sanctions, injunctive relief, exclusion from certain markets, or temporary or permanent loss of licenses or registrations necessary to conduct our business. A regulatory proceeding, even if it does not result in a finding of wrongdoing or sanctions, could consume substantial expenditures of time and capital. Any regulatory investigation and any failure to maintain compliance with applicable laws and regulations could severely damage our reputation, adversely affect our ability to conduct business, and decrease revenue and net income.

Legal and regulatory developments in the mutual fund and investment advisory industry could increase our regulatory burden, impose significant financial and strategic costs on our business, and cause a loss of, or impact the servicing of, our clients and fund shareholders.

Our regulatory environment is frequently altered by new regulations and by revisions to, and evolving interpretations of, existing regulations. Future changes could require us to modify or curtail our investment offerings and business operations, or impact our expenses and profitability. Additionally, some regulations may not directly apply to our business but may impact the capital markets, service providers or have another indirect effect on our ability to provide services to our clients.

Potential impacts of current or proposed legal or regulatory requirements include, without limitation, the following:

The Volcker Rule will not directly impact T. Rowe Price Group; however, there remains the risk that the rule could impact the liquidity in capital markets, which may make it more difficult or costly to execute certain security transactions on behalf of our clients.

As part of the debate in Washington, D.C. related to the economy and the U.S. deficit, there has been increasing focus on the framework of the U.S. retirement system. We could incur increased costs if new regulatory requirements are adopted since retirement plans are a significant part of our client base and other types of retirement accounts invest in our mutual funds. In addition, changes to the current framework may impact our business in other ways. For example, proposals to reduce contributions to Individual Retirement Accounts and Defined Contribution plans for certain individuals, as well as potential changes to Defined Benefit plans, may result in increased plan terminations and reduce our opportunity to manage and service retirement assets.

The Federal Reserve Board has adopted final regulations related to non-Bank Systemically Important Financial Institutions (“SIFIs”), and other jurisdictions are contemplating similar regulation. It has been suggested that large mutual funds, particularly money market funds, should be designated as SIFIs. We do not believe that mutual funds should be deemed SIFIs. Further, we do not believe SIFI designation was intended for traditional asset management businesses. If, however, any T. Rowe Price fund or T. Rowe Price affiliate is deemed a SIFI, increased regulatory oversight would apply, which may include enhanced capital, liquidity, leverage, stress testing, resolution planning, and risk management requirements.

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The Securities and Exchange Commission (the “SEC”) has proposed additional reforms to money market fund regulation. The proposal includes two basic alternatives that could be adopted alone or in combination. The first proposed alternative would require institutional non-government money market funds to operate with a floating net asset value (“NAV”) and the second proposed alternative would require non-government money market funds to impose liquidity fees and redemption gates under certain conditions. Regardless of whether either or both of these alternatives are adopted, the SEC proposal would institute other reforms for money market funds, including additional disclosure and reporting requirements, tightening of diversification requirements, and enhanced stress testing. Adoption of any such reforms could have a negative impact on the attractiveness of such funds to investors, or the willingness of the firm to sponsor such products. It would also subject us to additional regulatory requirements and costs to comply with any such requirements.

Table of Contents

The Commodity Futures Trading Commission has adopted certain amendments to its rules that would limit the ability of mutual funds and certain other products we sponsor to use commodities, futures, swaps and other derivatives without additional registration. If our use of these products on behalf of client accounts increases so as to require registration, we would be subject to additional regulatory requirements and costs associated with registration.

There has been increased global regulatory focus on the manner in which intermediaries are paid for distribution of mutual funds. Changes to long-standing market practices related to fees or enhanced disclosure requirements may negatively impact sales of mutual funds by intermediaries, especially if such requirements are not applied to other investment products.

Global regulations on OTC derivatives are evolving, including proposed rules under The Dodd-Frank Wall Street Reform and Consumer Protection Act and European Market Infrastructure Regulation relating to central clearing counterparties, trade reporting and repositories. There remains uncertainty related to the requirements under these new regulations and the exact manner in which they will impact current trading strategies for our clients.

- We are subject to various laws and regulations in the jurisdictions where we operate outside the U.S., including pan-European Directives, such as the Alternative Investment Fund Management Directive (“AIFMD”). The AIFMD has come into effect but interpretations of certain provisions are not yet final. It is expected that the AIFMD may impact remuneration policies, capital requirements, and the manner in which affiliated entities provide services to funds covered by the AIFMD.

We cannot predict the nature of future changes to the legal and regulatory requirements applicable to our business, nor the extent of the impacts that will result from current or future proposals. However, any such changes are likely to increase the costs of compliance and the complexity of our operations. They may also result in changes to our product or service offerings. The changing regulatory landscape may also impact a number of our service providers and to the extent such providers alter their services or increase their fees it may impact our expenses or those of the products we offer.

We may become involved in legal and regulatory proceedings that may not be covered by insurance.

We are subject to regulatory and governmental inquiries and civil litigation. An adverse outcome of any such proceeding could involve substantial financial penalties. From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. There also has been an increase of litigation and in regulatory investigations in the financial services industry in recent years, including customer claims, class action suits, and government actions alleging substantial monetary damages and penalties.

We carry insurance in amounts and under terms that we believe are appropriate. We cannot be assured that our insurance will cover every liability and loss to which we may be exposed, or that our insurance policies will continue to be available at acceptable terms and fees. Certain insurance coverage may not be available or may be prohibitively expensive in future periods. As our insurance policies come up for renewal, we may need to assume higher deductibles or co-insurance liabilities, or pay higher premiums, which would increase our expenses and reduce our net income.

Net capital requirements may impede the business operations of our subsidiaries.

Certain of our subsidiaries are subject to net capital requirements imposed by various federal, state, and foreign authorities. Each of our subsidiaries' net capital meets or exceeds all current minimum requirements; however, a significant change in the required net capital, an operating loss or an extraordinary charge against net capital could adversely affect the ability of our subsidiaries to expand or even maintain their operations if we were unable to make

additional investments in them.

TECHNOLOGY RISKS.

We require specialized technology to operate our business and would be adversely affected if our technology became inoperative or obsolete.

We depend on highly specialized and, in many cases, proprietary technology to support our business functions, including among others:

- securities analysis,
- securities trading,

Page 16

Table of Contents

portfolio management,
customer service,
accounting and internal financial reporting processes and controls, and
regulatory compliance and reporting.

All of our technology systems are vulnerable to disability or failures due to cyber-attacks such as hacking or viruses, natural disasters, power failures, acts of war or terrorism, sabotage, and other causes. Some of our software is licensed from and supported by outside vendors upon whom we rely to prevent operating system failure. A suspension or termination of these licenses or the related support, upgrades and maintenance could cause system delays or interruption. Although we have robust business and disaster recovery plans, if our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could lead to a loss of customers and could harm our reputation. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to disciplinary action and to liability to our customers.

In addition, our continued success depends on our ability to effectively integrate operations across many countries, and to adopt new or adapt existing technologies to meet client, industry and regulatory demands. We might be required to make significant capital expenditures to maintain competitive infrastructure. If we are unable to upgrade our infrastructure in a timely fashion, we might lose customers and fail to maintain regulatory compliance, which could affect our results of operations and severely damage our reputation.

We could be subject to losses if we fail to properly safeguard sensitive and confidential information.

As part of our normal operations, we maintain and transmit confidential information about our clients as well as proprietary information relating to our business operations. We maintain a system of internal controls designed to provide reasonable assurance that fraudulent activity, including misappropriation of assets, fraudulent financial reporting, and unauthorized access to sensitive or confidential data is either prevented or timely detected. Our systems or our third-party service providers' systems could be victimized by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information. Such disclosure could, among other things:

- seriously damage our reputation,
- allow competitors access to our proprietary business information,
- subject us to liability for a failure to safeguard client data,
- result in the termination of contracts by our existing customers,
- subject us to regulatory action, and
- require significant capital and operating expenditures to investigate and remediate the breach.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters occupies 422,000 square feet of space at 100 East Pratt Street in Baltimore, Maryland. In January 2014, we renewed and extended this lease through 2027. During 2013, we closed our office in Argentina and now have offices in 12 countries around the world, including the U.S.

Our operating and servicing activities are largely conducted at owned facilities in campus settings comprising 290,000 square feet in Colorado Springs, Colorado and 1.2 million square feet on three parcels of land in close proximity to Baltimore in Owings Mills, Maryland, including 405,100 square feet of space in two new facilities that we placed into service in the fourth quarter of 2013. We maintain a 59,940 square foot technology support facility in Hagerstown, Maryland and own a 72-acre parcel of land in Pasco County, Florida to accommodate potential future development as business demands require.

Table of Contents

We closed nine of the 15 investor centers we maintained for walk-in traffic and investor meetings in May 2013. The cost to terminate these leased facilities was \$3.5 million, which was recognized in the second quarter of 2013. We presently maintain the remaining six investor centers, four of which are in leased facilities located in Baltimore, Maryland, Tampa, Florida, Washington, D.C, and McLean, VA. The remaining two investor centers are located in our owned facilities in Colorado Springs and Owings Mills.

We lease all our offices outside the U.S., including London and Hong Kong, as well as our business operations recovery site in Maryland and our customer service call center in Tampa.

Information concerning our anticipated capital expenditures in 2014 and our future minimum rental payments under noncancelable operating leases at December 31, 2013, is set forth in the capital resources and liquidity and contractual obligations discussions in Item 7 of this Form 10-K.

Item 3. Legal Proceedings.

From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood that an adverse determination in one or more pending claims would have a material adverse effect on our financial position or results of operations is remote.

Item 4. Mine Safety Disclosures.

Not applicable.

Item. Executive Officers of the Registrant.

The following information includes the names, ages, and positions of our executive officers. There are no arrangements or understandings pursuant to which any person serves as an officer. The first seven individuals are members of our management committee.

James A.C. Kennedy (60), Chief Executive Officer and President since 2007.

Brian C. Rogers (58), Chairman since 2007, Chief Investment Officer since 2004, and a Vice President since 1985.

Edward C. Bernard (57), Vice Chairman since 2007, and a Vice President since 1989.

William J. Stromberg (53), Head of Equity since 2010, and a Vice President since 1990.

Christopher D. Alderson (51), Head of International Equity since 2009 and a Vice President since 2002.

Michael C. Gitlin (43), Head of Fixed Income since 2010, and a Vice President since 2007.

John D. Linehan (49), Head of U.S. Equity since 2010, and a Vice President since 2001.

William W. Strickland, Jr. (52), Head of Services and Technology since 2012, and a Vice President since 2001.

Kenneth V. Moreland (57), Chief Financial Officer and a Vice President since 2004, and Treasurer since 2010.

Jessica M. Hiebler (38), Principal Accounting Officer since 2010 and a Vice President since 2009. Ms. Hiebler has been a Vice President of T. Rowe Price Associates since she joined the firm in 2005.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock (\$.20 par value per share) trades on the NASDAQ Global Select Market under the symbol TROW. The high and low trade price information and dividends per share during the past two years were:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|-------------------------|----------------|----------------|----------------|----------------|
| 2012 – High price | \$65.63 | \$66.00 | \$65.97 | \$66.95 |
| Low price | \$56.48 | \$54.47 | \$58.52 | \$62.35 |
| Cash dividends declared | \$.34 | \$.34 | \$.34 | \$1.34 |
| 2013 – High price | \$76.00 | \$80.13 | \$80.26 | \$83.99 |
| Low price | \$66.18 | \$70.07 | \$69.90 | \$70.96 |
| Cash dividends declared | \$.38 | \$.38 | \$.38 | \$.38 |

The cash dividends declared during the fourth quarter of 2012 includes a special dividend of \$1.00 per share that was paid on December 28, 2012. We presently plan to declare and pay quarterly cash dividends in 2014 that, taken together, will exceed the \$1.52 per share in annual regular dividends declared and paid in 2013. Our annual regular dividends per share have increased every year since we became a public company in 1986; however, there can be no assurance that we will continue to pay dividends at increasing rates or at all.

Our common stockholders have approved all of our equity-based compensation plans. These plans provide for the issuance of up to 51,303,413 shares of our common stock at December 31, 2013, including 31,574,958 shares that may be issued upon the exercise of outstanding stock options at a weighted-average price of \$52.18, and 859,063 shares that may be issued upon settlement of our outstanding stock units. Additionally, 18,869,392 shares remain available for future issuances, including 3,412,508 shares that may be issued under our Employee Stock Purchase Plan. No shares have been issued under our Employee Stock Purchase Plan since its inception; all shares have been purchased in the open market. Under the terms of the 2012 Long-Term Incentive Plan, approved by stockholders in April 2012, the number of shares provided and available for future issuance will increase as we repurchase common stock in the future with the proceeds from stock option exercises.

The following table presents repurchase activity during the fourth quarter of 2013.

| Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under the Program |
|----------|-------------------------------------|---------------------------------|---|---|
| October | 74,538 | \$75.56 | — | 11,213,467 |
| November | 253,232 | \$79.40 | — | 11,213,467 |
| December | 189,962 | \$80.61 | — | 11,213,467 |
| Total | 517,732 | \$79.29 | — | |

Shares repurchased by us in a quarter may include repurchases conducted pursuant to publicly announced board authorizations, outstanding shares surrendered to the company to pay the exercise price in connection with swap exercises of employee stock options, and shares withheld to cover the minimum tax withholding obligations associated with the vesting of restricted stock awards. Of the shares purchased in the fourth quarter of 2013, 434,851 were related to shares surrendered to the company in connection with employee stock option exercises and 82,881 were related to shares withheld to cover tax withholdings associated with the vesting of restricted stock awards.

During 2013, we repurchased 200,000 shares of our common stock pursuant to the Board of Directors' September 8, 2010 authorization. We have 6,120 stockholders of record and approximately 151,000 beneficial stockholder accounts held by brokers, banks, and other intermediaries holding our common stock. Common stock owned outright by our associates, combined with outstanding vested stock options and unvested restricted stock awards, total nearly 16% of the firm's outstanding shares and outstanding vested stock options at December 31, 2013.

Table of Contents

Item 6. Selected Financial Data.

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------------------------------|---------|---------|---------|---------|
| | (in millions, except per-share data) | | | | |
| Net revenues | \$1,867 | \$2,367 | \$2,747 | \$3,023 | \$3,484 |
| Net operating income | \$702 | \$1,037 | \$1,227 | \$1,364 | \$1,637 |
| Net income | \$434 | \$672 | \$773 | \$884 | \$1,048 |
| Net cash provided by operating activities | \$536 | \$733 | \$948 | \$903 | \$1,233 |
| Per common share information | | | | | |
| Basic earnings | \$1.69 | \$2.60 | \$3.01 | \$3.47 | \$4.02 |
| Diluted earnings | \$1.65 | \$2.53 | \$2.92 | \$3.36 | \$3.90 |
| Cash dividends declared ⁽¹⁾ | \$1.00 | \$1.08 | \$1.24 | \$2.36 | \$1.52 |
| Weighted-average common shares outstanding | 255.9 | 257.2 | 255.6 | 253.4 | 258.3 |
| Weighted-average common shares outstanding assuming dilution | 262.3 | 265.1 | 263.3 | 261.0 | 266.3 |

⁽¹⁾ Cash dividends declared in 2012 includes a special dividend of \$1.00 per share that we paid on December 28, 2012.

| | December 31, 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------------------|----------------------|---------|---------|---------|---------|
| | (in millions) | | | | |
| Balance sheet data | | | | | |
| Total assets | \$3,210 | \$3,642 | \$3,770 | \$4,203 | \$5,033 |
| Stockholders' equity | \$2,882 | \$3,297 | \$3,421 | \$3,846 | \$4,818 |
| Assets under management (in billions) | \$391.3 | \$482.0 | \$489.5 | \$576.8 | \$692.4 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL.

Our revenues and net income are derived primarily from investment advisory services provided to individual and institutional investors in our U.S. sponsored mutual funds and other investment portfolios. The other investment portfolios include separately managed accounts, subadvised funds, and other sponsored investment portfolios including collective investment trusts, target-date retirement trusts and Luxembourg-based funds offered to investors outside the U.S. and portfolios offered through variable annuity life insurance plans in the U.S. Investment advisory clients outside the U.S. account for 6.5% of our assets under management at December 31, 2013.

We manage a broad range of U.S., international and global stock, bond, and money market mutual funds and other investment portfolios, which meet the varied needs and objectives of individual and institutional investors. Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management affect our revenues and results of operations.

We remain debt-free with substantial liquidity and resources that allow us to take advantage of attractive growth opportunities; invest in key capabilities, including investment professionals, technologies, and new fund offerings; and, most importantly, provide our clients with strong investment management expertise and service both now and in the future. In the coming years, we expect to increase funding for long-term initiatives to sustain and deepen our investment talent, expand capabilities through enhanced technology, and broaden our distribution reach globally, including Italy and Germany.

Page 20

Table of Contents

BACKGROUND.

U.S. stocks produced excellent returns in 2013, as the economy and the labor market strengthened—despite federal tax increases and spending cuts that took effect in the first quarter. The Federal Reserve continued their purchase of Treasuries and agency mortgage-backed securities during the year to suppress long-term interest rates. The equity market also overcame a sharp increase in longer-term rates stemming from the concern over the Fed’s plans to curtail its asset purchases, as well as the October U.S. government shutdown and debt ceiling showdown. The mid-December announcement that the Fed would reduce its asset purchases starting in January 2014 did not dismay investors because the central bank pledged to keep short-term interest rates low as long as inflation remains contained. Equities in developed non-U.S. markets underperformed U.S. shares but still produced very good returns. Many parts of the eurozone emerged from recession, while Japan benefited from highly accommodative fiscal and monetary policies and a sharply weaker yen. Emerging markets equities fell slightly amid slowing economic growth in developing countries and fears that smaller Fed asset purchases would lead to reduced global liquidity.

Results of several major equity market indexes for the full year 2013 are as follows:

| Index | | |
|---|------|----|
| S&P 500 Index | 32.4 | % |
| NASDAQ Composite Index (excluding dividends) | 38.3 | % |
| Russell 2000 Index | 38.8 | % |
| MSCI EAFE (Europe, Australasia, and Far East) Index | 23.3 | % |
| MSCI Emerging Markets Index | (2.3 |)% |

Global bonds produced mostly negative returns in 2013. In the U.S., high yield bonds produced solid gains and significantly outperformed investment-grade issues amid favorable corporate fundamentals and strong demand for securities with a yield advantage. Investment-grade bonds declined; intermediate- and long-term Treasuries fared worst as longer-term interest rates rose sharply amid stronger growth and expectations for smaller Fed asset purchases. The 10-year Treasury note yield finished 2013 at 3.0% versus 1.8% at the end of 2012. Government bonds in developed non-U.S. markets produced moderate losses in U.S. dollar terms. Emerging markets debt underperformed because of factors such as currency weakness and fears that the Fed tapering would decrease global liquidity.

Results of several major bond market indexes for the full year 2013 are as follows:

| Index | | |
|---|------|----|
| Barclays U.S. Aggregate Bond Index | (2.0 |)% |
| Credit Suisse High Yield Index | 7.5 | % |
| Barclays Municipal Bond Index | (2.6 |)% |
| Barclays Global Aggregate Ex-U.S. Dollar Bond Index | (3.1 |)% |
| JPMorgan Emerging Markets Index Plus | (8.3 |)% |

Table of Contents

ASSETS UNDER MANAGEMENT.

Reflecting the strong growth in equity markets, our assets under management ended 2013 at a record \$692.4 billion, an increase of \$115.6 billion from the end of 2012. Market appreciation drove this increase as \$127.6 billion in market gains and income, net of distributions not reinvested, were reduced by net cash outflows of \$12.0 billion in the 2013 year.

Assets under management (in billions) at the end of the year and changes during each of the last three years are detailed below.

Assets under management by investment portfolio

| | December 31, | | |
|-----------------------------|--------------|---------|---------|
| | 2011 | 2012 | 2013 |
| Sponsored U.S. mutual funds | \$289.4 | \$346.9 | \$435.3 |
| Other investment portfolios | 200.1 | 229.9 | 257.1 |
| Total | \$489.5 | \$576.8 | \$692.4 |

Assets under management by investment objective

| | December 31, | | |
|-------------------------|--------------|---------|---------|
| | 2011 | 2012 | 2013 |
| Stock and blended asset | \$352.4 | \$421.1 | \$537.0 |
| Fixed income portfolios | 137.1 | 155.7 | 155.4 |
| Total | \$489.5 | \$576.8 | \$692.4 |

Components of changes in assets under management

| | Year ended December 31, | | |
|--|-------------------------|---------|---------|
| | 2011 | 2012 | 2013 |
| Assets under management at beginning of year | \$482.0 | \$489.5 | \$576.8 |
| Net cash flows | | | |
| Sponsored U.S. mutual funds | 11.0 | 15.7 | 10.2 |
| Other investment portfolios | 3.1 | 1.5 | (22.2) |
| | 14.1 | 17.2 | (12.0) |
| Net market gains (losses) and income | (5.8) |) 70.7 | 128.4 |
| Distributions not reinvested | (.8) |) (.6) |) (.8) |
| Change during the period | 7.5 | 87.3 | 115.6 |
| Assets under management at end of year | \$489.5 | \$576.8 | \$692.4 |

| | | | |
|---|-------|-------|-------|
| Assets under management transferred from our sponsored U.S. mutual funds to our other investment portfolios | \$1.4 | \$4.5 | \$7.7 |
|---|-------|-------|-------|

Our net cash flows in 2011 and 2012 and our sponsored U.S. mutual fund cash flows in 2013 were sourced primarily from third-party financial intermediaries. In 2013, a vast majority of the net outflows from our other investment portfolios were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio. The majority of the transfers from our sponsored mutual funds to our other investment portfolios disclosed in the table above in 2012 and 2013 were from our target-date retirement funds to our collective investment trusts and target-date retirement trusts.

Our target-date retirement funds and trusts, which invest in a broadly diversified portfolio of other T. Rowe Price funds and T. Rowe Price collective investment trusts and automatically rebalance to maintain their specific asset allocation weightings, are a significant source of cash flows. Total net cash flows shown in the table above include \$8.0 billion in 2011, \$10.1 billion in 2012, and \$11.5 billion in 2013 of net cash inflows that originated in these target-date portfolios. Assets under management at

Table of Contents

December 31, 2013, in these retirement portfolios totaled \$121.2 billion, including \$105.1 billion in target-date retirement funds and \$16.1 billion in target-date retirement trusts.

Strong investment performance and brand awareness is a key driver to attracting assets and to our long-term success. For 2013, 76% of the T. Rowe Price U.S. mutual funds across their share classes outperformed their comparable Lipper averages on a total return basis for the three-year period ended December 31, 2013, 77% outperformed for the five-year period, 82% outperformed for the 10-year period, and 71% outperformed for the one-year period. In addition, T. Rowe Price stock, bond and blended asset funds that were given an overall rating of four or five stars from Morningstar at December 31, 2013, account for 78% of our rated funds' assets under management. The performance of our institutional strategies against their benchmarks was substantially similar. Our target-date retirement funds continue to deliver very attractive long-term performance, with 100% of these funds outperforming their comparable Lipper averages on a total return basis for the three- and five-year periods ended December 31, 2013.

We incur significant expenditures to attract new investment advisory clients and additional investments from our existing clients. These efforts often involve costs that precede any future revenues that we may recognize from an increase to our assets under management.

RESULTS OF OPERATIONS.

2013 versus 2012.

| (in millions, except per-share data) | Year ended December 31, | | Dollar Change | Percent Change | |
|--------------------------------------|-------------------------|-----------|---------------|----------------|----|
| | 2013 | 2012 | | | |
| Investment advisory fees | \$3,022.6 | \$2,592.0 | \$430.6 | 16.6 | % |
| Net revenues | \$3,484.2 | \$3,022.5 | \$461.7 | 15.3 | % |
| Operating expenses | \$1,846.8 | \$1,658.2 | \$188.6 | 11.4 | % |
| Net operating income | \$1,637.4 | \$1,364.3 | \$273.1 | 20.0 | % |
| Non-operating investment income | \$63.0 | \$70.8 | \$(7.8) | (11.0) |)% |
| Net income | \$1,047.7 | \$883.6 | \$164.1 | 18.6 | % |
| Diluted earnings per share | \$3.90 | \$3.36 | \$.54 | 16.1 | % |

Investment advisory fees in 2013 are up over 2012 as average assets under our management increased \$84.4 billion to \$633.8 billion for the 2013 year. In addition, the average annualized fee rate earned on our assets under management increased to 47.7 basis points during 2013 from the 47.2 basis points earned in 2012, due primarily to asset growth in higher than average fee rate strategies. We voluntarily waived \$51.2 million in money market advisory fees in 2013, an increase of \$16.2 million from the \$35.0 million waived in 2012, in order to maintain a positive yield for fund investors. These fee waivers represent about 2% of total investment advisory revenues earned in 2013. Fees were waived from each of our money market funds and trusts that have combined net assets at December 31, 2013, of \$16.3 billion, or 2.4% of our total assets under management. The firm expects that these fee waivers will continue in 2014.

Greater average assets under management and a higher annualized fee rate have increased our investment advisory revenues and helped lift our operating margin in 2013 to 47.0% compared to 45.1% in the 2012 period. Non-operating investment income in 2013 is down compared to 2012, primarily because we sold fewer sponsored fund holdings in 2013 resulting in lower realized gains.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. were \$2.1 billion in 2013, an increase of 18.8%, or \$335.8 million, on higher average mutual fund assets. Average mutual fund assets in 2013 were \$391.2 billion, an increase of 19.8% from the 2012 average. Mutual fund assets at December 31, 2013, were \$435.3 billion, up \$88.4 billion from the end of 2012.

Net inflows into the mutual funds during 2013 were \$10.2 billion, including \$5.8 billion into our stock and blended asset funds, \$3.5 billion into our bond funds, and \$.9 billion into the money market funds. These mutual fund net inflow amounts are

Table of Contents

presented net of \$7.7 billion that clients transferred to the other investment portfolios, primarily our collective investment trusts and target-date retirement trusts. Without these transfers, the mutual funds would have had net cash inflows of \$17.9 billion in 2013. Market appreciation and income, net of distributions not reinvested, added \$78.2 billion to our mutual fund assets under management in 2013.

Investment advisory revenues earned on the other investment portfolios that we manage increased \$94.8 million, or 11.8%, to \$896.5 million. Average assets in these portfolios were \$242.6 billion during 2013, an increase of \$19.8 billion, or 8.9%, from the 2012 year. Ending assets at December 31, 2013, were \$257.1 billion, an increase of \$27.2 billion from the end of 2012. Market appreciation and income of \$49.4 billion was reduced by net outflows of \$22.2 billion during 2013. Net outflows during 2013 are presented net of the \$7.7 billion assets that clients transferred in from the mutual funds. The vast majority of these net outflows were concentrated among several large institutional clients outside the U.S. and intermediary clients that changed their investment objectives, repositioned their strategy allocations, or experienced investment performance challenges within their portfolio.

Administrative fees increased \$11.1 million to \$343.7 million in 2013. The increase is primarily attributable to our transfer agent servicing activities and defined contribution recordkeeping services for the mutual funds and their investors. Changes in administrative fee revenues are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fee revenues earned from 12b-1 plans of the Advisor, R, and variable annuity class shares of our sponsored portfolios were \$117.2 million in 2013, an increase of \$21.1 million from the comparable 2012 period on greater average assets under management in these share classes. The 12b-1 fees earned are offset entirely by the costs paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs on the face of our consolidated income statements.

Operating expenses

Compensation and related costs increased 10.4% from 2012 to about \$1.2 billion. A significant part of the increase is attributable to a \$45.4 million increase in our annual variable compensation program and a \$37.2 million increase in salaries and related benefits. We increased our average staff size by 4.1% over 2012 to support both business growth and added capabilities. Higher temporary staff expenses, non-cash stock-based compensation expense, and other employee costs account for the remainder of the increase in compensation and related costs in the 2013 period. At December 31, 2013, we employed 5,668 associates, an increase of 5.5% from the end of 2012.

Advertising and promotion expenditures were \$88.7 million in 2013 compared to \$89.8 million in 2012. The decrease in cost from the 2012 period is primarily attributable to process efficiencies realized through the realignment of certain marketing activities. We currently estimate that advertising and promotion expenditures for 2014 will be down about 5% from 2013 levels as we continue to realize the benefits of these process efficiencies.

Occupancy and facility costs together with depreciation expense increased \$20.8 million, or 10.1%, versus 2012. The increase in costs is largely attributable to the expansion of our international facilities, the opening of two new buildings located at our Owings Mills campus, and continued investment in our technology capabilities, including related maintenance programs. The 2013 year also includes a non-recurring charge of \$3.5 million related to the termination of certain facility leases.

Other operating expenses were \$257.6 million in 2013, an increase of \$38.5 million from the comparable 2012 period as increased business demands and our continued investment in our capabilities have increased our costs. These costs include consulting and professional fees, costs related to our defined contribution recordkeeping business, information services, and other third-party services. We also made a higher charitable contribution to the T. Rowe Price

Foundation in 2013 than in 2012.

Non-operating investment income

Our non-operating investment income, which includes the recognition of investment gains and losses, was down \$7.8 million from the 2012 period. The decrease is due in part to the 2013 results including \$13.5 million in gains realized on the sale of certain sponsored fund holdings compared with \$35.1 million in gains realized in the comparable 2012 period. This reduction in realized gains was partially offset by \$7.9 million in higher dividends received on our sponsored mutual fund holdings and \$5.6 million in higher gains recognized on our other investments. The 2013 year also includes a \$1.5 million gain recognized on the sale of our savings bank subsidiary.

Page 24

Table of Contents

Provision for income taxes

Our 2013 effective tax rate of 38.4% is unchanged from the 2012 rate. The firm currently estimates its effective tax rate for 2014 will be about 38.4%. Our effective income tax rate reflects the relative contribution of pre-tax income generated by our non-U.S. subsidiaries that are subject to tax rates lower than our U.S. rates. Changes in the relative contribution of pre-tax income from U.S. and non-U.S. sources or changes in tax rates in relevant non-U.S. jurisdictions may affect our effective income tax rate and overall net income in the future.

2012 versus 2011.

Investment advisory revenues were up 10.3%, or \$243.0 million, to nearly \$2.6 billion in 2012, as average assets under our management increased \$52.3 billion to \$549.4 billion. The average annualized fee rate earned on our assets under management was 47.2 basis points during 2012, virtually unchanged from the 47.3 basis points earned in 2011. We continued to voluntarily waive a portion of our money market advisory fees in 2012 in order to maintain a positive or zero yield for fund investors. These fees were waived from each of our money market funds and trusts and totaled \$35.0 million, or about 1% of total investment advisory revenues earned in 2012, as compared to \$36.4 million in 2011. Combined net assets at December 31, 2012 of the funds and trusts in which we waived fees in 2012 was \$15.4 billion, or 2.7% of our total assets under management.

Net revenues increased \$275.4 million, or 10.0%, to \$3.0 billion in 2012. Operating expenses were \$1.7 billion in 2012, an increase of \$138.0 million, or 9.1%. Overall, net operating income for 2012 increased \$137.4 million, or 11.2%, to nearly \$1.4 billion. The increase in our average assets under management and resulting advisory revenue lifted our operating margin for 2012 to 45.1% from 44.7% in 2011. Non-operating investment income of \$70.8 million in 2012 included \$32.6 million, or \$.07 per share after income taxes, in gains realized from the sale of certain of our investments in sponsored funds to seed other sponsored funds in support of our distribution efforts outside the U.S. Net income, including these realized gains, increased \$110.4 million, or 14.3%, to \$883.6 million in 2012, and our diluted earnings per share on our common stock increased 15.1% to \$3.36 from the \$2.92 earned in 2011.

Net revenues

Investment advisory revenues earned from the T. Rowe Price mutual funds distributed in the U.S. were \$1.8 billion in 2012, an increase of 11.4%, or \$182.7 million, on higher average mutual fund assets. Average mutual fund assets in 2012 were \$326.6 billion, an increase of 11.8% from the 2011 average. Mutual fund assets at December 31, 2012, were \$346.9 billion, up \$57.5 billion from the end of 2011.

Net inflows to the mutual funds during 2012 were \$15.7 billion, including \$8.6 billion into our stock and blended asset funds and \$7.5 billion into our bond funds. Our money market funds had net outflows of \$.4 billion. Mutual fund net inflows include \$6.4 billion that originated in our target-date retirement funds, which in turn invest in a broadly diversified portfolio of other Price funds, and automatically rebalance to maintain their specific asset allocation weightings. These fund net inflow amounts are presented net of \$4.5 billion that was transferred to the other investment portfolios during the year. These transfers were primarily from our target-date retirement funds to our target-date retirement trusts. Market appreciation and income, net of distributions not reinvested, added \$41.8 billion to our mutual fund assets under management in 2012.

Investment advisory revenues earned on the other investment portfolios that we manage increased \$60.3 million, or 8.1%, to \$801.7 million. Average assets in these portfolios were \$222.8 billion during 2012, an increase of \$17.8 billion, or 8.7%, from the 2011 year. Ending assets at December 31, 2012, were \$229.9 billion, an increase of \$29.8 billion from the end of 2011. Net inflows into these portfolios in 2012 were \$1.5 billion, including \$4.5 billion that was transferred from the mutual funds. Strong cash inflows in 2012 into our subadvised funds from third-party

intermediaries were offset by outflows from institutional investors outside the U.S. These net outflows were primarily from institutional separate account portfolios that have experienced investment performance challenges or changes in the clients' investment objectives. Market appreciation and income increased assets under management in these portfolios by \$28.3 billion.

Administrative fees increased \$11.4 million to \$332.6 million in 2012. The increase is attributable to our mutual fund servicing activities and defined contribution recordkeeping services for the mutual funds and their investors. Changes in administrative fees are generally offset by similar changes in related operating expenses that are incurred to provide services to the funds and their investors.

Distribution and servicing fees earned from 12b-1 plans of the Advisor, R, and VIP II classes of our sponsored mutual funds were \$96.1 million in 2012, an increase of \$21.5 million from 2011. The increase includes \$13.0 million recognized on greater assets under management in these share classes, and \$8.5 million earned primarily on R class shares in the first quarter of 2012

Table of Contents

for which the comparable 2011 fees were netted against related distribution and servicing costs. The 12b-1 fees earned are offset entirely by the cost paid to third-party intermediaries who source these assets. These costs are reported as distribution and servicing costs on the face of the consolidated statements of income.

Operating expenses

Compensation and related costs were \$1.0 billion, an increase of \$77.8 million, or 8.0%, compared to 2011. The largest part of the increase is attributable to a \$33.7 million increase in salaries and related benefits, which results from a modest increase in salaries at the beginning of 2012 combined with a 2.1% increase in our average staff size from 2011. The 2012 change also includes a \$32.0 million increase in our annual variable compensation programs. The remainder of the change from 2011 is attributable to increased use of outside contractors to meet growing business demands, higher non-cash stock-based compensation expense, and other employee related costs. At December 31, 2012, we employed 5,372 associates, an increase of 2.2% from the end of 2011, to support both business growth and added capabilities.

Advertising and promotion expenditures were \$89.8 million in 2012 compared to \$90.8 million in 2011. We vary our level of spending based on market conditions and investor demand as well as our efforts to expand our investor base globally.

Distribution and servicing costs paid to third-party intermediaries who source assets into the Advisor, R, and VIP II classes of our sponsored mutual funds were \$96.1 million in 2012, an increase of \$21.5 million from 2011. The increase includes \$13.0 million recognized on greater assets under management in these share classes, and \$8.5 million incurred primarily on R class shares in the first quarter of 2012 for which the comparable 2011 costs were netted against related distribution and servicing fees. The costs are offset entirely by the 12b-1 fees we earn. These fees are reported as distribution and servicing fees on the face of the consolidated statements of income.

Occupancy and facility costs together with depreciation expense increased \$18.6 million, or 9.9%, versus 2011. The change includes the added costs incurred to expand our facilities around the world as well as update our technology capabilities, including related maintenance programs, to meet increasing business demands.

Other operating expenses increased \$21.1 million, or 10.7%, from 2011, including \$16.4 million in certain third-party servicing costs incurred in 2012, for which the comparable 2011 costs were reported as reductions of advisory and administrative fee revenues.

Non-operating investment income

Our non-operating investment income, which includes interest income as well as the recognition of investment gains and losses, was up \$47.1 million from the 2011 period. This increase includes \$32.6 million in gains realized in the second half of 2012 from the sale of certain of our investments in sponsored funds to seed other sponsored funds in support of our distribution efforts outside the U.S. The balance of the change is primarily attributable to \$8.4 million in higher net gains recognized on our cost-method investments and trading securities and \$3.8 million in larger dividends earned on our mutual fund investments.

Provision for income taxes

Our effective tax rate for 2012 was 38.4% as compared to 38.2% in 2011. Our effective income tax rate reflects the relative contribution of pre-tax income generated by our non-U.S. subsidiaries that are subject to tax rates lower than our U.S. rates.

CAPITAL RESOURCES AND LIQUIDITY.

During 2013, stockholders' equity increased from \$3.8 billion to \$4.8 billion. In 2013, we paid \$1.52 per share in regular dividends and expended \$14.1 million to repurchase 200,000 common shares from existing cash balances and cash generated from operations. We generally repurchase shares of our common stock over time to offset the dilution created by our equity-based compensation plans. Tangible book value is \$4.2 billion at December 31, 2013, and our cash and fund investment holdings total \$3.0 billion. Given the availability of these financial resources, we do not maintain an available external source of liquidity.

At December 31, 2013, we had outstanding commitments to make additional contributions totaling \$40.7 million to various investment partnerships in which we have an existing investment. We currently expect total capital expenditures for property and equipment in 2014 to be approximately \$145 million. These outstanding commitments, if called, and the capital expenditures will be funded from operating resources.

Table of Contents

2013 versus 2012.

Operating activities during 2013 provided cash flows of \$1.2 billion, up \$330.4 million from the 2012 period, including a \$164.1 million increase in net income. Timing differences in the cash settlement of our accounts receivable and accrued revenues, payables and accrued liabilities, and other assets and liabilities increased our operating cash flows by \$62.4 million compared to the 2012 year. The increase from 2012 is also a result of a \$63.7 million reduction in cash used to make net purchases of trading securities held by our consolidated sponsored investment portfolios and a \$21.6 million reduction in the adjustment for gains realized from the sale of certain available-for-sale sponsored fund investments as less investments were sold in 2013.

Net cash used in investing activities totaled \$437.5 million, up \$127.4 million from 2012. We made \$60.1 million more net investments in our sponsored funds during 2013 compared with 2012 as we utilized more of our cash to make additional investments as compared to the rebalancing of the portfolio in 2012. The 2012 year also included greater net cash proceeds of \$40.1 million from the sale of debt securities held by our savings bank subsidiary as the bank was sold in early December 2013. We spent \$28.9 million more in property and equipment additions in 2013 compared to the 2012 period. The 2013 year also includes a net cash outflow of \$11.7 million related to the sale of our savings bank subsidiary as the cash that was held by the bank on the closing date was greater than the \$23.6 million in proceeds we received.

Net cash used in financing activities was \$276.8 million in 2013, down \$334.7 million from the comparable 2012 period. The decrease is primarily attributable to the repurchase of 2.1 million more shares of common stock and the payment of a \$1.00 special dividend in 2012.

2012 versus 2011.

Operating activities during 2012 provided cash flows of \$902.8 million, down \$45.6 million from 2011, due in part to the \$92.7 million in net investments made by the consolidated sponsored funds we seeded during the first half of 2012 for which we have a controlling financial interest. Timing differences in the cash settlement of our accounts receivable and accrued revenues, payables and accrued liabilities, and other assets and liabilities decreased our operating cash flows by \$42.5 million compared to the 2011 year. The cash flows from operating activities in 2012 also includes a reduction for the \$35.1 million in gains recognized on the sale of certain fund investments as the related cash flow activity is reflected in net cash used in investing activities. These operating cash flow decreases are offset by a \$110.4 million increase in net income and increases in non-cash expenses for depreciation, amortization, and stock-based compensation, which are added back to net income to determine cash from operations.

Net cash used in investing activities totaled \$310.1 million, up \$145.1 million from 2011. We made \$218.3 million more net investments in our sponsored funds during 2012 compared with 2011. This increase was offset by greater net cash proceeds of \$73.4 million in 2012 from the sale of more debt securities held by our savings bank subsidiary.

Net cash used in financing activities was \$611.5 million in 2012, down \$87.1 million from the comparable 2011 period. During 2011, we expended \$344.5 million more for stock repurchases, including the repurchase of 6.4 million more shares than in 2012. This reduction in cash used was partially offset by the change in customer deposits at our savings bank subsidiary during 2012 compared to 2011 as well as a \$285.5 million increase in dividends paid. The increase in dividends paid in 2012 is due to a \$.03 increase in our quarterly per-share dividend and the payment of a \$1.00 per share special dividend in December 2012. The balance of the decrease from 2011 in cash used is due to greater proceeds and tax benefits related to our stock-based compensation plans on increased exercise activity in late 2012.

CONTRACTUAL OBLIGATIONS.

The following table presents a summary of our future obligations (in millions) under the terms of existing operating leases and other contractual cash purchase commitments at December 31, 2013. Other purchase commitments include contractual amounts that will be due for the purchase of goods or services to be used in our operations and may be cancelable at earlier times than those indicated, under certain conditions that may involve termination fees. Because these obligations are generally of a normal recurring nature, we expect that we will fund them from future cash flows from operations. The information presented does not include operating expenses or capital expenditures that will be committed in the normal course of operations in 2014 and future years. The information also excludes the \$4.8 million of uncertain tax positions discussed in Note 8 to our consolidated financial statements because it is not possible to estimate the time period in which a payment might be made to the tax authorities.

Table of Contents

| | Total | 2014 | 2015-16 | 2017-18 | Later |
|--------------------------------|--------|--------|---------|---------|-------|
| Noncancelable operating leases | \$ 124 | \$32 | \$57 | \$25 | \$10 |
| Other purchase commitments | 149 | 108 | 34 | 7 | — |
| Total | \$ 273 | \$ 140 | \$91 | \$32 | \$10 |

We also have outstanding commitments to fund additional contributions to investment partnerships totaling \$40.7 million at December 31, 2013. The vast majority of these additional contributions will be made to investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

In January 2014, we renewed and extended our operating lease at our corporate headquarters in Baltimore, Maryland through 2027. This lease agreement increases the above disclosed total noncancelable operating lease commitments by an additional \$133.0 million, the vast majority of which will be paid after 2018.

CRITICAL ACCOUNTING POLICIES.

The preparation of financial statements often requires the selection of specific accounting methods and policies from among several acceptable alternatives. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our consolidated balance sheets, the revenues and expenses in our consolidated statements of income, and the information that is contained in our significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our consolidated financial statements, significant accounting policies, and notes.

We present those significant accounting policies used in the preparation of our consolidated financial statements as an integral part of those statements within this 2013 Annual Report. In the following discussion, we highlight and explain further certain of those policies that are most critical to the preparation and understanding of our financial statements.

Other-than-temporary impairments of available-for-sale securities. We generally classify our investment holdings in sponsored funds as available-for-sale if we are not deemed to have a controlling financial interest. At the end of each quarter, we mark the carrying amount of each investment holding to fair value and recognize an unrealized gain or loss as a component of comprehensive income within the consolidated statements of comprehensive income. We next review each individual security position that has an unrealized loss or impairment to determine if that impairment is other than temporary.

In determining whether a mutual fund holding is other-than-temporarily impaired, we consider many factors, including the duration of time it has existed, the severity of the impairment, any subsequent changes in value, and our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value. Subject to the other considerations noted above, we believe a fund holding with an unrealized loss that has persisted daily throughout the six months between quarter-ends is generally presumed to have an other-than-temporary impairment. We may also recognize an other-than-temporary loss of less than six months in our consolidated statements of income if the particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

We sold our savings bank subsidiary in December 2013. Through the date of the transaction, we generally classified the debt securities held by the bank as available-for-sale and would mark their carrying amount to fair value quarterly and recognize an unrealized gain or loss as a component of comprehensive income within the consolidated statements of comprehensive income. We would review each individual security position that had an unrealized loss or

impairment to determine if that impairment was other than temporary. The impairment was considered to be other-than-temporary if the impairment was caused by a change in credit quality that affected our ability to recover our amortized cost or if we intended to sell the security or believed it was more likely than not that we would be required to sell the security before recovering its cost. Minor impairments of 5% or less were generally considered temporary.

Other-than-temporary impairments of equity method investments. We evaluate our equity method investments, including our investment in UTI, for impairment when events or changes in circumstances indicate that the carrying value of the investment exceeds its fair value, and the decline in fair value is other than temporary.

Table of Contents

Goodwill. We internally conduct, manage, and report our operations as one investment advisory business. We do not have distinct operating segments or components that separately constitute a business. Accordingly, we attribute goodwill to a single reportable business segment and reporting unit – our investment advisory business.

We evaluate the carrying amount of goodwill in our consolidated balance sheets for possible impairment on an annual basis in the third quarter of each year using a fair value approach. Goodwill would be considered impaired whenever our historical carrying amount exceeds the fair value of our investment advisory business. Our annual testing has demonstrated that the fair value of our investment advisory business (our market capitalization) exceeds our carrying amount (our stockholders' equity) and, therefore, no impairment exists. Should we reach a different conclusion in the future, additional work would be performed to ascertain the amount of the non-cash impairment charge to be recognized. We must also perform impairment testing at other times if an event or circumstance occurs indicating that it is more likely than not that an impairment has been incurred. The maximum future impairment of goodwill that we could incur is the amount recognized in our consolidated balance sheets, \$665.7 million.

Stock options. We recognize stock option-based compensation expense in our consolidated statements of income using a fair value based method. Fair value methods use a valuation model for shorter-term, market-traded financial instruments to theoretically value stock option grants even though they are not available for trading and are of longer duration. The Black-Scholes option-pricing model that we use includes the input of certain variables that are dependent on future expectations, including the expected lives of our options from grant date to exercise date, the volatility of our underlying common shares in the market over that time period, and the rate of dividends that we will pay during that time. Our estimates of these variables are made for the purpose of using the valuation model to determine an expense for each reporting period and are not subsequently adjusted. Unlike most of our expenses, the resulting charge to earnings using a fair value based method is a non-cash charge that is never measured by, or adjusted based on, a cash outflow.

Provision for income taxes. After compensation and related costs, our provision for income taxes on our earnings is our largest annual expense. We operate in numerous states and countries through our various subsidiaries and must allocate our income, expenses, and earnings under the various laws and regulations of each of these taxing jurisdictions. Accordingly, our provision for income taxes represents our total estimate of the liability that we have incurred in doing business each year in all of our locations. Annually, we file tax returns that represent our filing positions with each jurisdiction and settle our return liabilities. Each jurisdiction has the right to audit those returns and may take different positions with respect to income and expense allocations and taxable earnings determinations. From time to time, we may also provide for estimated liabilities associated with uncertain tax return filing positions that are subject to, or in the process of, being audited by various tax authorities. Because the determination of our annual provision is subject to judgments and estimates, it is likely that actual results will vary from those recognized in our financial statements. As a result, we recognize additions to, or reductions of, income tax expense during a reporting period that pertain to prior period provisions as our estimated liabilities are revised and actual tax returns and tax audits are settled. We recognize any such prior period adjustment in the discrete quarterly period in which it is determined.

NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE.

We have considered all newly issued accounting guidance that is applicable to our operations and the preparation of our consolidated financial statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

FORWARD-LOOKING INFORMATION.

From time to time, information or statements provided by or on behalf of T. Rowe Price, including those within this report, may contain certain forward-looking information, including information or anticipated information relating to: our revenues, net income, and earnings per share on common stock; changes in the amount and composition of our assets under management; our expense levels; our estimated effective income tax rate; and our expectations regarding financial markets, future transactions, dividends, investments, capital expenditures, and other conditions. Readers are cautioned that any forward-looking information provided by or on behalf of T. Rowe Price is not a guarantee of future performance. Actual results may differ materially from those in forward-looking information because of various factors including, but not limited to, those discussed below and in Item 1A, Risk Factors, of this Form 10-K Annual Report. Further, forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

Our future revenues and results of operations will fluctuate primarily due to changes in the total value and composition of assets under our management. Such changes result from many factors including, among other things: cash inflows and outflows in the T. Rowe Price mutual funds and other managed investment portfolios, fluctuations in global financial markets that result

Table of Contents

in appreciation or depreciation of the assets under our management, our introduction of new mutual funds and investment portfolios, and changes in retirement savings trends relative to participant-directed investments and defined contribution plans. The ability to attract and retain investors' assets under our management is dependent on investor sentiment and confidence; the relative investment performance of the Price mutual funds and other managed investment portfolios as compared to competing offerings and market indexes; the ability to maintain our investment management and administrative fees at appropriate levels; competitive conditions in the mutual fund, asset management, and broader financial services sectors; and our level of success in implementing our strategy to expand our business. Our revenues are substantially dependent on fees earned under contracts with the Price funds and could be adversely affected if the independent directors of one or more of the Price funds terminated or significantly altered the terms of the investment management or related administrative services agreements. Non-operating investment income will also fluctuate primarily due to the size of our investments, changes in their market valuations, and any other-than-temporary impairments that may arise or, in the case of our equity method investments, our proportionate share of the investee's net income.

Our future results are also dependent upon the level of our expenses, which are subject to fluctuation for the following or other reasons: changes in the level of our advertising expenses in response to market conditions, including our efforts to expand our investment advisory business to investors outside the U.S. and to further penetrate our distribution channels within the U.S.; variations in the level of total compensation expense due to, among other things, bonuses, stock option and other equity grants, other incentive awards, changes in our employee count and mix, and competitive factors; any goodwill or other asset impairment that may arise; fluctuation in foreign currency exchange rates applicable to the costs of our international operations; expenses and capital costs, such as technology assets, depreciation, amortization, and research and development, incurred to maintain and enhance our administrative and operating services infrastructure; unanticipated costs that may be incurred to protect investor accounts and the goodwill of our clients; and disruptions of services, including those provided by third parties, such as facilities, communications, power, and the mutual fund transfer agent and accounting systems.

Our business is also subject to substantial governmental regulation, and changes in legal, regulatory, accounting, tax, and compliance requirements may have a substantial effect on our operations and results, including, but not limited to, effects on costs that we incur and effects on investor interest in mutual funds and investing in general or in particular classes of mutual funds or other investments.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The following table (in millions) presents the equity price risk from investments in sponsored funds that are accounted for as available-for-sale securities by assuming a hypothetical decline in the fair values of fund shares. We have chosen to use a variant of each fund's net asset value to quantify the equity price risk as we believe the volatility in each fund's net asset value best reflects the underlying risk potential as well as the market trends surrounding each fund's investment objective. The potential future loss of value, before any income tax benefits, of our fund investments at year-end was determined by using the lower of each fund's lowest net asset value per share during 2013 or its net asset value per share at December 31, 2013 reduced by 10%. In considering this presentation, it is important to note that: not all funds experienced their lowest net asset value per share on the same day; it is likely that the composition of the fund investment portfolio would be changed if adverse market conditions persisted; and we could experience future losses in excess of those presented below.

| | Fair value 12/31/2013 | Percentage of portfolio | Potential lower value | Percentage of portfolio | Potential loss | | | |
|----------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|-------------------|----|---|--|
| Stock and blended asset funds | \$657.2 | 41 | % \$513.4 | 38 | % \$143.8 | 22 | % | |
| Bond funds | 954.7 | 59 | % 851.4 | 62 | % 103.3 | 11 | % | |

\$1,611.9 100 % \$1,364.8 100 % \$247.1 15 %

The comparable potential loss of value in 2012 using the same methodology noted above was \$153.8 million on sponsored fund investments of \$1,140.1 million. During 2013, we actually experienced net unrealized gains of \$149.7 million.

As available-for-sale securities, we recognize unrealized losses that are considered temporary in other comprehensive income. We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating investment income (loss) whenever an unrealized loss is considered other than temporary.

Investments in mutual funds generally moderate market risk because funds, by their nature, are diversified investment portfolios that invest in a number of different financial instruments. T. Rowe Price further manages its exposure to market risk

Table of Contents

by diversifying its investments among many domestic and international funds. In addition, investment holdings may be altered from time to time in response to changes in market risks and other factors, as management deems appropriate.

We also held equity method investments of \$231.5 million at December 31, 2013, including our \$122.6 million equity investment in UTI. Given the nature of UTI's business, should conditions deteriorate in markets in which they operate, we are at risk for loss up to our carrying amount. In addition, our investment in UTI exposes us to foreign currency risk related to translating our proportionate share of its financial statements, which are denominated in Indian rupees (INR), to U.S. dollars (USD) each reporting period. We do not use derivative financial instruments to manage this foreign currency risk, so both positive and negative fluctuations in the INR against the USD will affect accumulated other comprehensive income and the carrying amount of our investment. We had a cumulative translation loss, net of tax, of \$26.9 million at December 31, 2013, related to our investment in UTI.

We operate in several foreign countries of which the United Kingdom is the most prominent. We incur operating expenses and have foreign currency-denominated assets and liabilities associated with these operations, though our revenues are predominately realized in USD. We do not believe that foreign currency fluctuations materially affect our results of operations.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

| | Page |
|--|-----------|
| Index to Financial Statements: | |
| <u>Consolidated Balance Sheets at December 31, 2012 and 2013</u> | <u>33</u> |
| <u>Consolidated Statements of Income for each of the three years in the period ended December 31, 2013</u> | <u>34</u> |
| <u>Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2013</u> | <u>35</u> |
| <u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2013</u> | <u>36</u> |
| <u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2013</u> | <u>37</u> |
| <u>Summary of Significant Accounting Policies</u> | <u>38</u> |
| <u>Notes to Consolidated Financial Statements, including Supplementary Quarterly Financial Data</u> | <u>42</u> |
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>52</u> |

Table of Contents

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

| | 12/31/2012 | 12/31/2013 |
|---|------------|------------|
| ASSETS | | |
| Cash and cash equivalents | \$879.1 | \$1,398.0 |
| Accounts receivable and accrued revenue | 353.9 | 398.8 |
| Investments in sponsored funds | 1,140.1 | 1,611.9 |
| Debt securities held by savings bank subsidiary | 136.0 | — |
| Other investments | 304.7 | 313.6 |
| Property and equipment | 561.0 | 572.9 |
| Goodwill | 665.7 | 665.7 |
| Other assets | 162.3 | 72.2 |
| Total assets | \$4,202.8 | \$5,033.1 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$89.7 | \$103.9 |
| Accrued compensation and related costs | 90.8 | 72.4 |
| Income taxes payable | 21.5 | 38.7 |
| Customer deposits at savings bank subsidiary | 154.7 | — |
| Total liabilities | 356.7 | 215.0 |
| Commitments and contingent liabilities | | |
| Stockholders' equity | | |
| Preferred stock, undesignated, \$.20 par value - authorized and unissued 20,000,000 shares | — | — |
| Common stock, \$.20 par value - authorized 750,000,000; issued 257,018,000 shares in 2012 and 262,073,000 in 2013 | 51.4 | 52.4 |
| Additional capital in excess of par value | 631.0 | 894.6 |
| Retained earnings | 3,031.8 | 3,682.8 |
| Accumulated other comprehensive income | 131.9 | 188.3 |
| Total stockholders' equity | 3,846.1 | 4,818.1 |
| Total liabilities and stockholders' equity | \$4,202.8 | \$5,033.1 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except earnings per share)

| | Year ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2011 | 2012 | 2013 |
| Revenues | | | |
| Investment advisory fees | \$2,349.0 | \$2,592.0 | \$3,022.6 |
| Administrative fees | 321.2 | 332.6 | 343.7 |
| Distribution and servicing fees | 74.6 | 96.1 | 117.2 |
| Net revenue of savings bank subsidiary | 2.3 | 1.8 | .7 |
| Net revenues | 2,747.1 | 3,022.5 | 3,484.2 |
| Operating expenses | | | |
| Compensation and related costs | 969.8 | 1,047.6 | 1,156.9 |
| Advertising and promotion | 90.8 | 89.8 | 88.7 |
| Distribution and servicing costs | 74.6 | 96.1 | 117.2 |
| Depreciation and amortization of property and equipment | 72.0 | 80.9 | 90.6 |
| Occupancy and facility costs | 115.0 | 124.7 | 135.8 |
| Other operating expenses | 198.0 | 219.1 | 257.6 |
| Total operating expenses | 1,520.2 | 1,658.2 | 1,846.8 |
| Net operating income | 1,226.9 | 1,364.3 | 1,637.4 |
| Non-operating investment income | 23.7 | 70.8 | 63.0 |
| Income before income taxes | 1,250.6 | 1,435.1 | 1,700.4 |
| Provision for income taxes | 477.4 | 551.5 | 652.7 |
| Net income | \$773.2 | \$883.6 | \$1,047.7 |
| Earnings per share on common stock | | | |
| Basic | \$3.01 | \$3.47 | \$4.02 |
| Diluted | \$2.92 | \$3.36 | \$3.90 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Page 34

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

| | Year ended December 31, | | |
|--|-------------------------|---------|-----------|
| | 2011 | 2012 | 2013 |
| Net income | \$773.2 | \$883.6 | \$1,047.7 |
| Other comprehensive income (loss) | | | |
| Net unrealized holding gains (losses) on: | | | |
| Investments in sponsored funds | | | |
| Net unrealized holding gains (losses) | (40.2 |) 99.9 | 149.7 |
| Reclassification adjustment related to capital gain distributions | (5.3 |) (4.7 |) (15.3 |
| Reclassification adjustment on net gains realized, determined using average cost | — | (35.1 |) (13.5 |
| Investments in sponsored funds | (45.5 |) 60.1 | 120.9 |
| Debt securities held by savings bank subsidiary | | | |
| Net unrealized holding gains (losses) | (.2 |) .1 | (1.6 |
| Reclassification adjustment for net unrealized holding gains derecognized upon the sale of savings bank subsidiary | — | — | (1.6 |
| Debt securities held by savings bank subsidiary | (.2 |) .1 | (3.2 |
| Proportionate share of net unrealized holding gains on securities held by UTI Asset Management Company Limited | .4 | .2 | — |
| Total net unrealized holding gains (losses) recognized in other comprehensive income | (45.3 |) 60.4 | 117.7 |
| Currency translation adjustment | (14.2 |) (10.7 |) (23.7 |
| Total other comprehensive income (loss) before income taxes | (59.5 |) 49.7 | 94.0 |
| Net deferred tax benefits (income taxes) | 23.2 | (20.6 |) (37.6 |
| Total other comprehensive income (loss) | (36.3 |) 29.1 | 56.4 |
| Total comprehensive income | \$736.9 | \$912.7 | \$1,104.1 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Page 35

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

| | Year ended December 31, | | |
|--|-------------------------|---------|-----------|
| | 2011 | 2012 | 2013 |
| Cash flows from operating activities | | | |
| Net income | \$773.2 | \$883.6 | \$1,047.7 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization of property and equipment | 72.0 | 80.9 | 90.6 |
| Stock-based compensation expense | 98.7 | 104.1 | 114.6 |
| Intangible asset amortization | .4 | .4 | .4 |
| Realized gains on the dispositions of sponsored funds | — | (35.1) | (13.5) |
| Net gains recognized on other investments | (4.0) | (11.4) | (13.0) |
| Net change in trading securities held by consolidated investment portfolios | — | (89.3) | (25.6) |
| Changes in accounts receivable and accrued revenue | 2.8 | (49.7) | (44.7) |
| Changes in payables and accrued liabilities | (4.9) | 35.3 | (5.1) |
| Other changes in assets and liabilities | 10.2 | (16.0) | 81.8 |
| Net cash provided by operating activities | 948.4 | 902.8 | 1,233.2 |
| Cash flows from investing activities | | | |
| Investments in sponsored funds | (62.2) | (498.5) | (377.7) |
| Dispositions of sponsored funds | .1 | 218.1 | 37.2 |
| Investments in debt securities held by savings bank subsidiary | (65.0) | (31.1) | (28.2) |
| Proceeds from debt securities held by savings bank subsidiary | 52.0 | 91.5 | 48.5 |
| Additions to property and equipment | (82.3) | (76.9) | (105.8) |
| Other investing activity | (7.6) | (13.2) | (11.5) |
| Net cash used in investing activities | (165.0) | (310.1) | (437.5) |
| Cash flows from financing activities | | | |
| Repurchases of common stock | (479.7) | (135.2) | (14.1) |
| Common share issuances under stock-based compensation plans | 50.6 | 86.6 | 118.2 |
| Excess tax benefits from stock-based compensation plans | 35.3 | 59.3 | 45.5 |
| Dividends | (317.9) | (603.4) | (396.7) |
| Change in savings bank subsidiary deposits | 13.1 | (18.8) | (29.7) |
| Net cash used in financing activities | (698.6) | (611.5) | (276.8) |
| Cash and cash equivalents | | | |
| Net change during year | 84.8 | (18.8) | 518.9 |
| At beginning of year | 813.1 | 897.9 | 879.1 |
| At end of year | \$897.9 | \$879.1 | \$1,398.0 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Table of Contents

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(shares in thousands; dollars in millions)

| | Common shares outstanding | Common stock | Additional capital in excess of par value | Retained earnings | Accumulated other comprehensive income (loss) | Total stockholders' equity |
|--|---------------------------------|-----------------|--|----------------------|--|----------------------------------|
| Balances at December 31, 2010 | 258,760 | \$51.7 | \$ 506.3 | \$2,599.4 | \$ 139.1 | \$ 3,296.5 |
| Net income | | | | 773.2 | | 773.2 |
| Other comprehensive loss, net of tax | | | | | (36.3) | (36.3) |
| Dividends | | | | (317.9) | | (317.9) |
| Common stock-based compensation plans activity | | | | | | |
| Shares issued upon option exercises | 2,920 | .6 | 54.1 | | | 54.7 |
| Restricted shares issued, net of shares withheld for taxes | 224 | .1 | (3.0) | | | (2.9) |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 92 | — | (1.5) | | | (1.5) |
| Forfeiture of restricted awards | (29) | — | — | | | — |
| Net tax benefits | | | 35.9 | | | 35.9 |
| Stock-based compensation expense | | | 98.7 | | | 98.7 |
| Common shares repurchased | (8,695) | (1.7) | (188.5) | (289.5) | | (479.7) |
| Balances at December 31, 2011 | 253,272 | 50.7 | 502.0 | 2,765.2 | 102.8 | 3,420.7 |
| Net income | | | | 883.6 | | 883.6 |
| Other comprehensive income, net of tax | | | | | 29.1 | 29.1 |
| Dividends | | | | (603.6) | | (603.6) |
| Common stock-based compensation plans activity | | | | | | |
| Shares issued upon option exercises | 5,239 | 1.1 | 91.5 | | | 92.6 |
| Restricted shares issued, net of shares withheld for taxes | 734 | .1 | (4.1) | | | (4.0) |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 101 | — | (2.0) | | | (2.0) |
| Forfeiture of restricted awards | (26) | — | — | | | — |
| Net tax benefits | | | 60.8 | | | 60.8 |
| Stock-based compensation expense | | | 104.1 | | | 104.1 |
| Common shares repurchased | (2,302) | (.5) | (121.3) | (13.4) | | (135.2) |
| Balances at December 31, 2012 | 257,018 | 51.4 | 631.0 | 3,031.8 | 131.9 | 3,846.1 |
| Net income | | | | 1,047.7 | | 1,047.7 |
| Other comprehensive income, net of tax | | | | | 56.4 | 56.4 |
| Dividends | | | | (396.6) | | (396.6) |
| Common stock-based compensation plans activity | | | | | | |
| Shares issued upon option exercises | 4,147 | .8 | 127.3 | | | 128.1 |
| | 1,041 | .2 | (6.9) | | | (6.7) |

| | | | | | | |
|--|---------|--------|----------|-----------|----------|------------|
| Restricted shares issued, net of shares withheld for taxes | | | | | | |
| Shares issued upon vesting of restricted stock units, net of shares withheld for taxes | 149 | — | (3.3 |) | | (3.3 |
| Forfeiture of restricted awards | (82 |) | — | | | — |
| Net tax benefits | | | 45.9 | | | 45.9 |
| Stock-based compensation expense | | | 114.6 | | | 114.6 |
| Restricted stock units issued as dividend equivalents | | | .1 | (.1 |) | — |
| Common shares repurchased | (200 |) | — | (14.1 |) | — |
| Balances at December 31, 2013 | 262,073 | \$52.4 | \$ 894.6 | \$3,682.8 | \$ 188.3 | \$ 4,818.1 |

The accompanying summary of significant accounting policies and notes to consolidated financial statements are an integral part of these statements.

Page 37

Table of Contents

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

T. Rowe Price Group derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the sponsored T. Rowe Price U.S. mutual funds and other investment portfolios. We also provide our investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

BASIS OF PREPARATION.

These consolidated financial statements have been prepared by our management in accordance with accounting principles generally accepted in the U.S. These principles require that we make certain estimates and assumptions. Actual results may vary from our estimates. Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

NEW FINANCIAL REPORTING GUIDANCE.

On January 1, 2013, we adopted new financial reporting guidance that requires the disclosure of information about significant items reclassified out of accumulated other comprehensive income, including the line item of our consolidated income statements to which such items were reclassified. The required information could be presented either on the face of the financial statements or in the notes. We elected to present these disclosures in Note 12 to the financial statements.

CONSOLIDATION.

Our financial statements include the accounts of all subsidiaries and sponsored portfolios in which we have a controlling financial interest. We are generally deemed to have a controlling financial interest when we own the majority of the voting interest of an entity or are considered to be the primary beneficiary of a variable interest entity. All material intercompany accounts and transactions are eliminated in consolidation. We have determined that the sponsored portfolios we have investments in at December 31, 2012 and 2013, are voting interest entities and, as a result, have consolidated those sponsored portfolios in which we own a majority of the voting interest.

If we determine that we no longer have a controlling financial interest in a subsidiary or a sponsored portfolio, we deconsolidate the carrying value of their assets and liabilities, and record our remaining equity interest, if any, at its fair value. Any gain or loss realized upon deconsolidation is included in non-operating investment income in our consolidated statements of income.

CASH EQUIVALENTS.

Cash equivalents consist primarily of short-term, highly liquid investments in our sponsored money market mutual funds. The cost of these funds is equivalent to fair value.

INVESTMENTS IN SPONSORED FUNDS - AVAILABLE FOR SALE.

These are investments we have made for both general corporate investment purposes and to provide seed capital for newly formed funds. These sponsored funds were determined to be voting interest entities and are classified as available-for-sale. These investments are carried at fair value using the quoted closing net asset value, or NAV, per share of each fund as of the balance sheet date. Changes in net unrealized holding gains (losses) on these investments are recognized in other comprehensive income.

We review the carrying amount of each investment on a quarterly basis and recognize an impairment charge in non-operating investment income whenever an unrealized loss is considered other than temporary. In determining whether a fund holding is other-than-temporarily impaired, we consider various factors, including the duration of time it has existed, the severity of the impairment, any subsequent changes in value, and our intent and ability to hold the fund for a period of time sufficient for an anticipated recovery in fair value. Subject to the other considerations noted above, we believe a fund holding with an unrealized loss that has persisted daily throughout the six months between quarter-ends is generally presumed to have an other-than-

Table of Contents

temporary impairment. We may also recognize an other-than-temporary impairment if particular circumstances of the underlying investment do not warrant our belief that a near-term recovery is possible.

DEBT SECURITIES HELD BY SAVINGS BANK SUBSIDIARY.

We completed the sale of our savings bank subsidiary in December 2013. Until the sale was completed, the investments held by the savings bank were in marketable debt securities, including mortgage- and other asset-backed securities and were classified as available-for-sale and reported at fair value. Changes in net unrealized holding gains (losses) on these debt securities were recognized in other comprehensive income.

These debt securities were generally traded in the over-the-counter market. Securities with remaining maturities of one year or more at the time of acquisition were valued by us based on prices furnished by dealers who make markets in such securities or by an independent pricing service, which considers the yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Securities with remaining maturities of less than one year at the time of acquisition generally were valued at amortized cost, which approximates fair value; however, if amortized cost was deemed not to reflect fair value, such securities were valued by us based generally on prices furnished by dealers who make markets in such securities or by an independent pricing service. Our investment valuation policies, methods, and sources were the same as those employed by the T. Rowe Price U.S. sponsored mutual funds to price similar investment holdings.

We reviewed the carrying amount of each investment on a quarterly basis and recognized an impairment charge in non-operating investment income if the impairment was caused by a change in credit quality that affected our ability to recover our amortized cost. An impairment charge would also be taken if we intended to sell the security before its maturity, which generally correlated to the maturities of our customer deposits, or if we believed that it was more likely than not that we would be required to sell the security before recovering cost.

OTHER INVESTMENTS.

Cost method investments consist of investments in entities over which we do not exercise significant influence over the operating and financial policies of the investee.

Equity method investments consist of investments in entities, including sponsored portfolios, over which we have the ability to exercise significant influence over the operating and financial policies of the investee. The carrying value of these investments are adjusted to reflect our proportionate share of the investee's net income or loss, any unrealized gain or loss resulting from the translation of foreign denominated financial statements into U.S. dollars, and dividends received. Our proportionate share of income or loss is included in non-operating investment income in the consolidated statements of income. As permitted under existing accounting guidance, we adopted a policy by which we recognize our share of UTI Asset Management Company Limited's (UTI) earnings on a quarter lag as current financial information is not available in a timely manner. The basis difference between our carrying value and our proportionate share of UTI's book value is primarily related to consideration paid in excess of the stepped-up basis of assets and liabilities on the date of purchase.

We evaluate our equity and cost method investments for impairment when events or changes in circumstances indicate that the carrying value of the investment exceeds its fair value, and the decline in fair value is other than temporary.

Investments held as trading consist of the underlying securities of sponsored portfolios in which we have a controlling financial interest and sponsored portfolio investments we expect to hold for only a short period of time. These investments are generally the initial seed investments we make at the portfolio's formation. If we are deemed to have a

controlling financial interest in the sponsored portfolio, we will consolidate the investment, and the portfolio's underlying securities are accounted for as trading securities. These investments are carried at fair value, with changes in fair value recognized in non-operating investment income. The valuation policies, methods, and sources for these investments are the same as those employed by the T. Rowe Price U.S. mutual funds to price similar investment holdings as further described under our revenue recognition policy below.

CONCENTRATIONS OF RISK.

Concentration of credit risk in accounts receivable is believed to be minimal in that our clients generally have substantial assets, including those in the investment portfolios that we manage for them.

Our investments in sponsored funds and investments held as trading expose us to market risk in the form of equity price risk, that is, the potential future loss of value that would result from a decline in the fair value of each investment or its underlying

Table of Contents

net assets. Our underlying holdings of our assets under management are also subject to market risk, which may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates.

PROPERTY AND EQUIPMENT.

Property and equipment is stated at cost net of accumulated depreciation and amortization computed using the straight-line method. Provisions for depreciation and amortization are based on the following weighted-average estimated useful lives: computer and communications software and equipment, 4 years; buildings and improvements, 33 years; leasehold improvements, 9 years; furniture and other equipment, 7 years; and leased land, 99 years.

GOODWILL.

We evaluate the carrying amount of goodwill in our consolidated balance sheets for possible impairment on an annual basis in the third quarter of each year using a fair value approach. Our evaluations have indicated that no impairment exists.

We internally conduct, manage, and report our operations as one investment advisory business. We do not have distinct operating segments or components that separately constitute a business. Accordingly, we attribute goodwill to a single reportable business segment and reporting unit—our investment advisory business.

REVENUE RECOGNITION.

Fees for investment advisory services, which are based on a percentage of assets under management, and related administrative services that we provide to investment advisory clients, including our sponsored funds and portfolios, are recognized in the period that our services are provided.

Our assets under management are valued in accordance with a valuation and pricing policy that defines the valuation and pricing processes for each major type of investment held in our sponsored U.S. mutual funds and other client investment portfolios. Fair values used in our processes are primarily determined from quoted market prices; prices furnished by dealers who make markets in such securities; or from data provided by an independent pricing service that considers yield or price of investments of comparable quality, coupon, maturity, and type. Investments for which market prices are not readily available are not a material portion of our total assets under management.

Distribution and servicing fees earned from 12b-1 plans of the Advisor, R, and VIP II classes of our sponsored U.S. mutual funds are recognized in the period that they are earned, which is the same period that the related mutual funds recognize their expense. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that source the assets of these share classes.

We provide all services to the sponsored U.S. mutual funds under contracts that are subject to periodic review and approval by each of the funds' boards. Regulations require that the funds' shareholders also approve material changes to investment advisory contracts.

Taxes billed to our clients based on our fees for services rendered are not included in revenues.

ADVERTISING.

Costs of advertising are expensed the first time that the advertising takes place.

STOCK-BASED COMPENSATION.

We maintain three stockholder approved employee long-term incentive plans (2012 Long-Term Incentive Plan, 2004 Stock Incentive Plan, and 2001 Stock Incentive Plan, collectively the LTI Plans) and two stockholder approved non-employee director plans (2007 Non-Employee Director Equity Plan and 1998 Director Stock Option Plan). We believe that our stock-based compensation programs align the interests of our employees and directors with those of our common stockholders. As of December 31, 2013, a total of 15,456,884 shares were available for future grant under the 2012 Long-Term Incentive Plan and 2007 Non-Employee Director Equity Plan.

Under our LTI Plans, we have issued restricted shares and restricted stock units to employees that convert to shares after vesting. Vesting of these awards is based on the individual continuing to render service over a four-to six-year graded schedule.

Page 40

Table of Contents

All restricted shareholders and restricted stock unit holders receive non-forfeitable cash dividends and cash dividend-equivalents, respectively, on our dividend payable date.

In 2012, we began granting performance-based restricted shares and restricted stock units to certain executive officers in which the number of restricted shares or restricted stock units ultimately retained is determined based on achievement of certain performance thresholds. The number of restricted shares or restricted stock units retained is also subject to the same time-based vesting requirement as the other restricted shares or restricted stock units described above. Cash dividends and cash dividend-equivalents are accrued and paid to the holders of performance-based restricted shares and restricted stock units only after the performance period has lapsed and the performance thresholds have been met.

Under our LTI plans, we have granted qualified incentive and nonqualified fixed stock options with a maximum term of 10 years to employees. Vesting of our employee option grants is based on the individual continuing to render service and generally occurs over a five- to six-year graded schedule. The exercise price of each option granted is equivalent to the market price of the common stock at the date of grant.

We grant options, with a maximum term of 10 years, restricted shares and restricted stock units to non-employee directors under the stockholder approved 2007 Non-Employee Director Plan. These grants vest over 6 months to one year, and in the case of restricted stock units, are settled upon the non-employee directors' departure from the board. Non-employee directors holding restricted shares receive non-forfeitable dividends while restricted stock unit holders are issued non-forfeitable dividend equivalents in the form of vested stock units on our dividend payable date.

We recognize the grant-date fair value of these awards as compensation expense ratably over the awards' requisite service period. The expense recognized includes an estimate of awards that will be forfeited. Both time-based and performance-based restricted shares and units are valued on the grant-date using the closing market price of our common stock, though consideration is also given to the probability of the performance thresholds being met when valuing the performance-based restricted awards and units. We used the Black-Scholes option-pricing model to estimate the fair value of each option grant, including reloads, as follows:

| | Weighted-average | | | |
|---|------------------|----------|----------|---|
| | 2011 | 2012 | 2013 | |
| Grant-date fair value per option awarded, including reload grants | \$ 17.94 | \$ 16.27 | \$ 19.56 | |
| Assumptions used: | | | | |
| Expected life in years | 6.9 | 6.8 | 7.0 | |
| Expected volatility | 33 | % 32 | % 31 | % |
| Dividend yield | 1.9 | % 2.1 | % 2.1 | % |
| Risk-free interest rate | 2.2 | % 1.3 | % 1.9 | % |

Our expected life assumptions are based on the vesting period for each option grant and our historical experience with respect to the average holding period from vesting to option exercise. The assumptions for expected volatility are based on historical experience for the same periods as our expected lives. Dividend yields are based on recent historical experience and future expectations. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as our expected lives.

EARNINGS PER SHARE.

We compute our basic and diluted earnings per share under the two-class method, which considers our outstanding restricted shares and stock units, on which we pay non-forfeitable dividends, as if they were a separate class of stock.

COMPREHENSIVE INCOME.

The components of comprehensive income are presented in a separate statement following our consolidated statements of income and include net income, the change in net unrealized security holding gains (losses), and the change in our currency translation adjustment. The currency translation adjustment results primarily from translating our proportionate share of the financial statements of UTI, our equity method investment, into U.S. dollars. Assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using weighted-average exchange rates for the period. The changes in accumulated balances of each component of other comprehensive income and the deferred tax impacts of each component are presented in the notes to the financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – CASH EQUIVALENTS.

Cash equivalent investments in our sponsored money market mutual funds aggregate \$732.8 million at December 31, 2012, and \$1,288.1 million at December 31, 2013. Dividends earned on these investments were \$.1 million in 2011, 2012, and 2013.

NOTE 2 – INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES.

Accounts receivable from our sponsored U.S. mutual funds for advisory fees and advisory-related administrative services aggregate \$184.0 million at December 31, 2012, and \$221.9 million at December 31, 2013.

Revenues (in millions) from advisory services provided under agreements with our sponsored U.S. mutual funds and other investment portfolio clients include:

| | 2011 | 2012 | 2013 |
|--------------------------------------|-----------|-----------|-----------|
| Sponsored U.S. mutual funds | | | |
| Stock and blended asset | \$1,304.5 | \$1,437.6 | \$1,759.7 |
| Bond and money market | 303.1 | 352.7 | 366.4 |
| | 1,607.6 | 1,790.3 | 2,126.1 |
| Other investment portfolios | | | |
| Stock and blended asset | 604.8 | 635.1 | 735.6 |
| Bond, money market, and stable value | 136.6 | 166.6 | 160.9 |
| | 741.4 | 801.7 | 896.5 |
| Total | \$2,349.0 | \$2,592.0 | \$3,022.6 |

The following table summarizes the various investment portfolios and assets under management (in billions) on which we earn advisory fees.

| | Average during | | | As of December 31, | |
|--------------------------------------|----------------|---------|---------|--------------------|---------|
| | 2011 | 2012 | 2013 | 2012 | 2013 |
| Sponsored U.S. mutual funds | | | | | |
| Stock and blended asset | \$217.6 | \$241.6 | \$299.1 | \$256.9 | \$341.7 |
| Bond and money market | 74.5 | 85.0 | 92.1 | 90.0 | 93.6 |
| | 292.1 | 326.6 | 391.2 | 346.9 | 435.3 |
| Other investment portfolios | | | | | |
| Stock and blended asset | 149.6 | 158.0 | 179.3 | 164.2 | 195.3 |
| Bond, money market, and stable value | 55.4 | 64.8 | 63.3 | 65.7 | 61.8 |
| | 205.0 | 222.8 | 242.6 | 229.9 | 257.1 |
| Total | \$497.1 | \$549.4 | \$633.8 | \$576.8 | \$692.4 |

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 6.5% of our assets under management at December 31, 2013.

The following table summarizes the other fees (in millions) earned from our sponsored U.S. mutual funds.

| | 2011 | 2012 | 2013 |
|---------------------------------|---------|---------|---------|
| Administrative fees | \$247.0 | \$258.3 | \$264.8 |
| Distribution and servicing fees | \$74.6 | \$96.1 | \$117.2 |

Table of Contents

NOTE 3 – INVESTMENTS IN SPONSORED FUNDS.

Our investments (in millions) in sponsored funds accounted for as available-for-sale at December 31 include:

| | Aggregate cost | Unrealized holding gains | Unrealized holding losses | Aggregate fair value |
|-------------------------------|----------------|-----------------------------|------------------------------|-------------------------|
| 2012 | | | | |
| Stock and blended asset funds | \$336.9 | \$178.9 | \$— | \$515.8 |
| Bond funds | 570.9 | 53.4 | — | 624.3 |
| Total | \$907.8 | \$232.3 | \$— | \$1,140.1 |
| 2013 | | | | |
| Stock and blended asset funds | \$354.7 | \$302.5 | \$— | \$657.2 |
| Bond funds | 904.0 | 53.6 | (2.9) | 954.7 |
| Total | \$1,258.7 | \$356.1 | \$(2.9) | \$1,611.9 |

The unrealized holding losses at December 31, 2013, are attributable to six fund holdings with an aggregate fair value of \$155.9 million and are considered temporary.

Dividends, excluding capital gain distributions, earned on sponsored mutual fund investments totaled \$10.6 million in 2011, \$11.8 million in 2012, and \$10.6 million in 2013.

NOTE 4 – SAVINGS BANK SUBSIDIARY.

On May 23, 2013, we entered into an agreement to sell 100% of the capital stock of our savings bank subsidiary to Jacob M. Safra for cash equal to the bank's net book value on the closing date plus \$500,000. We completed the sale on December 5, 2013, for proceeds of \$23.6 million. The total gain we recognized in non-operating investment income also included \$1.0 million of net unrealized holding gains previously recognized on the saving bank's available-for-sale portfolio that were reclassified from accumulated other comprehensive income.

The net revenue (in millions) contributed by our savings bank subsidiary included the following:

| | 2011 | 2012 | 2013 |
|--|-------|-------|-------|
| Investment income from debt securities | \$5.4 | \$4.1 | \$2.2 |
| Interest expense on customer deposits | 3.1 | 2.3 | 1.5 |
| Net revenue | \$2.3 | \$1.8 | \$0.7 |

The following table summarizes the assets and liabilities (in millions) of our savings bank subsidiary in our consolidated balance sheet at December 31, 2012.

| | |
|---------------------------------------|---------|
| Cash and cash equivalents | \$44.3 |
| Debt securities | 136.0 |
| Other assets | .4 |
| Total assets | \$180.7 |
| Accounts payable and accrued expenses | \$0.1 |
| Income taxes payable | 1.3 |
| Customer deposits | 154.7 |
| Total liabilities | \$156.1 |

Table of Contents

The debt securities held by our savings bank subsidiary were marketable debt securities, including mortgage- and other asset-backed securities, which were accounted for as available-for-sale. The following table (in millions) details the components of these investments at December 31, 2012.

| | Fair value | Unrealized holding gains (losses) |
|---|------------|-----------------------------------|
| Investments with temporary impairment of | | |
| Less than 12 months | \$6.4 | \$— |
| 12 months or more | 1.0 | — |
| Total | 7.4 | — |
| Investments with unrealized holding gains | 128.6 | 3.2 |
| Total | \$136.0 | \$3.2 |
| Aggregate cost | \$132.8 | |

The unrealized losses in these investments at December 31, 2012 totaled \$35,000 and were generally caused by changes in interest rates and market liquidity, and not by changes in credit quality. We intended to hold these securities to their maturities and believed it was more-likely-than-not that we would not be required to sell any of these securities before recovery of their amortized cost. Accordingly, impairment of these investments was considered temporary at December 31, 2012.

NOTE 5 – OTHER INVESTMENTS.

These investments (in millions) at December 31 include:

| | 2012 | 2013 |
|---|---------|---------|
| Cost method investments | | |
| 10% interest in Daiwa SB Investments Ltd. (Japan) | \$12.7 | \$6.6 |
| Other investments | 46.5 | 53.5 |
| Equity method investments | | |
| 26% interest in UTI Asset Management Company Limited (India) | 139.8 | 122.6 |
| Sponsored fund investments | — | 104.1 |
| Other investments | 9.4 | 4.8 |
| Investments held as trading | | |
| Sponsored mutual fund investments | 2.6 | 8.5 |
| Securities held by consolidated sponsored investment portfolios | 92.7 | 12.5 |
| U.S. Treasury note | 1.0 | 1.0 |
| Total | \$304.7 | \$313.6 |

During 2013, we deconsolidated certain sponsored investment portfolios, in which we provided initial seed capital at the time of its formation, as we no longer had a controlling financial interest. Accordingly, we deconsolidated the carrying value of the investments held as trading, which was \$106.3 million at the deconsolidation dates, and are reporting our residual interest in these sponsored investment portfolios as an equity method investment. Since our consolidated investment portfolios were carried at fair value, we did not recognize any gain or loss in our consolidated statement of income upon deconsolidation. The impact of the deconsolidation on our consolidated balance sheet was immaterial.

At December 31, 2013, we had outstanding commitments to make additional contributions totaling \$40.7 million to various investment partnerships. The vast majority of these additional contributions will be made to investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions

may be called under certain circumstances.

Page 44

Table of Contents

NOTE 6 – FAIR VALUE MEASUREMENTS.

We determine the fair value of our investments using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.

Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.

Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. We do not value any of our investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. There were no transfers between the levels in 2012 or 2013. The following table summarizes our investments (in millions) that are recognized in our consolidated balance sheets at year end using fair value measurements determined based on the differing levels of inputs.

| | Level 1 | Level 2 |
|---|-----------|---------|
| 2012 | | |
| Cash equivalents | \$732.8 | |
| Investments in sponsored funds | 1,140.1 | |
| Investments held as trading | 18.1 | \$77.2 |
| Debt securities held by savings bank subsidiary | — | 136.0 |
| Total | \$1,891.0 | \$213.2 |
| 2013 | | |
| Cash equivalents | \$1,288.1 | |
| Investments in sponsored funds | 1,611.9 | |
| Investments held as trading | 21.0 | \$— |
| Total | \$2,921.0 | \$— |

Customer deposits at our savings bank subsidiary at December 31, 2012, were not measured at fair value in our consolidated balance sheet. At December 31, 2012, the estimated fair value of these deposits, based on discounting expected cash outflows at maturity dates that range up to five years using current interest rates offered for deposits with the same dates of maturity, was \$157.8 million. This fair value was determined using Level 2 inputs.

NOTE 7 – PROPERTY AND EQUIPMENT.

Property and equipment (in millions) at December 31 consists of:

| | 2012 | 2013 |
|--|---------|---------|
| Computer and communications software and equipment | \$373.9 | \$430.4 |
| Buildings and improvements | 382.3 | 386.6 |
| Leasehold improvements | 100.6 | 93.2 |
| Furniture and other equipment | 115.0 | 131.1 |
| Land | 40.3 | 40.3 |
| Leased land | 2.7 | 2.7 |
| | 1,014.8 | 1,084.3 |
| Less accumulated depreciation and amortization | 453.8 | 511.4 |
| Total | \$561.0 | \$572.9 |

Compensation and related costs attributable to the development of computer software for internal use totaling \$7.5 million in 2011, \$14.9 million in 2012, and \$15.5 million in 2013 have been capitalized.

Page 45

Table of Contents

We occupy certain office facilities and lease computer and other equipment under noncancelable operating leases. Related rental expense was \$26.5 million in 2011, \$28.3 million in 2012, and \$31.5 million in 2013. Future minimum payments under these leases aggregate \$31.7 million in 2014, \$29.2 million in 2015, \$27.7 million in 2016, \$17.7 million in 2017, \$8.0 million in 2018, and \$10.1 million in later years. In January 2014, we renewed and extended our operating lease at our corporate headquarters in Baltimore, Maryland through 2027. This lease agreement increases our future minimum lease payments by an additional \$133.0 million, the vast majority of which will be paid in and after 2018.

NOTE 8 – INCOME TAXES.

The provision for income taxes (in millions) consists of:

| | 2011 | 2012 | 2013 |
|-----------------------|---------|---------|---------|
| Current income taxes | | | |
| U.S. federal | \$375.8 | \$437.3 | \$523.3 |
| Foreign | 29.9 | 31.3 | 20.7 |
| State and local | 68.8 | 73.8 | 92.9 |
| Deferred income taxes | 2.9 | 9.1 | 15.8 |
| Total | \$477.4 | \$551.5 | \$652.7 |

Deferred income taxes and benefits arise from temporary differences between taxable income for financial statement and income tax return purposes. Deferred income taxes in 2011 include \$13.9 million related to property and equipment offset by deferred tax benefits of \$15.1 million related to the recognition of stock-based compensation expense. Deferred income taxes in 2012 include \$14.2 million from the reversal of deferred tax assets related to other-than-temporary impairments previously recognized on sponsored fund investments that were sold in 2012 offset by deferred tax benefits of \$5.2 million related to accrued compensation. Deferred income taxes in 2013 include \$5.2 million from the reversal of the deferred tax assets related to accrued compensation that were established in 2012, \$5.3 million related to property and equipment, and \$4.3 million from the reversal of deferred tax assets related to other-than-temporary impairments previously recognized on sponsored fund investments that were sold in 2013.

The following table reconciles the statutory federal income tax rate to the effective income tax rate.

| | 2011 | 2012 | 2013 |
|---|------|--------|--------|
| Statutory U.S. federal income tax rate | 35.0 | % 35.0 | % 35.0 |
| State income taxes for current year, net of federal income tax benefits | 3.5 | 3.5 | 3.7 |
| Other items | (.3 |) (.1 |) (.3 |
| Effective income tax rate | 38.2 | % 38.4 | % 38.4 |

Table of Contents

The net deferred tax asset (liability) (in millions) recognized in our consolidated balance sheets in other assets at December 31, 2012, and income taxes payable at December 31, 2013, includes the following:

| | December 31, | |
|---|--------------|-----------|
| | 2012 | 2013 |
| Deferred tax liabilities | | |
| Related to property and equipment | \$(31.0 |) \$(36.3 |
| Recognized in other comprehensive income on net unrealized holding gains | (91.6 |) (137.5 |
| Other | (14.1 |) (19.4 |
| | (136.7 |) (193.2 |
| Deferred tax assets | | |
| Related to stock-based compensation | 134.5 | 136.7 |
| Related to other-than-temporary impairments of investments in sponsored funds | 34.9 | 30.4 |
| Related to accrued compensation | 8.1 | 2.9 |
| Recognized in other comprehensive income on currency translation adjustment | 6.7 | 15.0 |
| Other | 3.2 | 5.3 |
| | 187.4 | 190.3 |
| Net deferred tax asset (liability) | \$50.7 | \$(2.9 |

A deferred tax liability for unremitted earnings of our foreign subsidiaries has not been recognized, as it is our intention to indefinitely reinvest these earnings outside the U.S. The unremitted earnings of these subsidiaries are estimated to be \$270.8 million at December 31, 2013. If these earnings were distributed to the U.S. in the form of dividends or otherwise, or if any of the entities were sold or otherwise transferred, we would be subject to U.S. income taxes, less any foreign tax credits. Determination of the amount of the unrecognized deferred tax liability related to these earnings is not practicable.

Other assets includes tax refund receivables of \$45.0 million at December 31, 2012, and \$1.2 million at December 31, 2013.

Cash outflows from operating activities include net income taxes paid of \$430.1 million in 2011, \$514.9 million in 2012, and \$532.9 million in 2013.

Additional income tax benefits of \$36.3 million in 2011, \$60.9 million in 2012, and \$45.9 million in 2013 arising from stock-based compensation plans activity reduced the amount of income taxes that would have otherwise been payable.

The following table summarizes the changes in our unrecognized tax benefits (in millions).

| | 2011 | 2012 | 2013 |
|-------------------------------------|-------|-------|-------|
| Balance at beginning of year | \$3.8 | \$4.7 | \$4.9 |
| Changes in tax positions related to | | | |
| Current year | .9 | .9 | .7 |
| Prior years | .4 | .2 | — |
| Expired statute of limitations | (.4 |) (.9 |) (.8 |
| Balance at end of year | \$4.7 | \$4.9 | \$4.8 |

If recognized, these tax benefits would affect our effective tax rate; however, we do not expect that unrecognized tax benefits for tax positions taken with respect to 2013 and prior years will significantly change in 2014. The U.S. has concluded examinations related to federal tax obligations through the year 2009. Net interest recognized in our consolidated balance sheets was a \$6.3 million receivable at December 31, 2012, and a \$1.0 million payable at

December 31, 2013. Our accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of our provision for income taxes. Interest recognized as part of our provision for income taxes was not material.

Table of Contents

NOTE 9 – STOCKHOLDERS' EQUITY.

SHARE REPURCHASES.

The Board of Directors has authorized the future repurchase of up to 11,213,467 common shares as of December 31, 2013.

DIVIDENDS.

Regular cash dividends declared per share were \$1.24 in 2011, \$1.36 in 2012, and \$1.52 in 2013. In December 2012, the Board of Directors also declared a special dividend of \$1.00 per share that was paid on December 28, 2012.

RESTRICTED CAPITAL.

Our consolidated stockholders' equity at December 31, 2013, includes about \$79 million that is restricted as to use by various regulations and agreements arising in the ordinary course of our business.

NOTE 10 – STOCK-BASED
COMPENSATION.

SHARES AUTHORIZED FOR STOCK-BASED COMPENSATION PROGRAMS.

At December 31, 2013, 47,890,905 shares of unissued common stock were authorized for issuance under our stock-based compensation plans. Additionally, 3,412,508 shares are authorized for issuance under a plan whereby substantially all employees may acquire common stock through payroll deductions at prevailing market prices.

STOCK OPTIONS.

The following table summarizes the status of and changes in our stock option grants during 2013.

| | Options | Weighted- average exercise price | Weighted-average remaining contractual term in years |
|----------------------------------|-------------|---|--|
| Outstanding at December 31, 2012 | 34,622,435 | \$48.82 | |
| Semiannual grants | 3,559,375 | \$71.73 | |
| New hire and reload grants | 22,714 | \$75.63 | |
| Non-employee director grants | 8,400 | \$74.77 | |
| Exercised | (5,773,052) |) \$43.65 | |
| Forfeited | (859,874) |) \$55.79 | |
| Expired | (5,040) |) \$73.19 | |
| Outstanding at December 31, 2013 | 31,574,958 | \$52.18 | 5.9 |
| Exercisable at December 31, 2013 | 19,269,276 | \$47.48 | 4.7 |

Compensation and related costs includes a charge for stock option-based compensation expense of \$79.5 million in 2011, \$74.5 million in 2012, and \$64.2 million in 2013.

The total intrinsic value of options exercised was \$123.5 million in 2011, \$239.6 million in 2012, and \$182.6 million in 2013. At December 31, 2013, the aggregate intrinsic value of in-the-money options outstanding was \$997.5 million, including \$699.3 million related to options exercisable.

Table of Contents

RESTRICTED SHARES AND STOCK UNITS.

The following table summarizes the status of and changes in our nonvested restricted shares and restricted stock units during 2013.

| | Restricted shares | Restricted stock units | Weighted- average fair value |
|--|----------------------|------------------------------|------------------------------------|
| Nonvested at December 31, 2012 | 1,161,164 | 597,042 | \$59.13 |
| Granted to employees and non-employee directors - time based | 1,101,556 | 398,448 | \$71.86 |
| Granted to employees - performance based | 24,000 | 62,250 | \$71.70 |
| Vested (value at vest date was \$40.5 million) | (328,048 |) (183,722 |) \$55.35 |
| Forfeited | (81,586 |) (50,425 |) \$61.38 |
| Nonvested at December 31, 2013 | 1,877,086 | 823,593 | \$67.21 |

The nonvested at December 31, 2013 includes 43,200 performance-based restricted shares and 118,950 performance-based restricted stock units. These nonvested performance-based restricted shares and units include 19,200 shares and 56,700 units for which the performance period has lapsed and the performance threshold has been met.

Compensation and related costs includes expenses for restricted shares and restricted stock units of \$19.2 million in 2011, \$29.6 million in 2012, and \$50.4 million in 2013.

At December 31, 2013, non-employee directors held 35,470 vested stock units that will convert to common shares upon their separation from the Board.

FUTURE STOCK-BASED COMPENSATION EXPENSE.

The following table presents the compensation expense (in millions) to be recognized over the remaining vesting periods of the stock-based compensation awards outstanding at December 31, 2013. Estimated future compensation expense will change to reflect future option grants, including future awards of unrestricted shares, restricted shares, and restricted stock units; changes in estimated forfeitures; changes in the probability of performance thresholds being met; and adjustments for actual forfeitures.

| | |
|---------------------|---------|
| First quarter 2014 | \$27.6 |
| Second quarter 2014 | 27.4 |
| Third quarter 2014 | 27.5 |
| Fourth quarter 2014 | 23.5 |
| Total 2014 | 106.0 |
| 2015 through 2018 | 110.5 |
| Total | \$216.5 |

Table of Contents

NOTE 11 – EARNINGS PER SHARE CALCULATIONS.

The following table presents the reconciliation (in millions) of our net income to net income allocated to our common stockholders and the weighted-average shares (in millions) that are used in calculating the basic and diluted earnings per share on our common stock. Weighted-average common shares outstanding assuming dilution reflects the potential dilution, determined using the treasury stock method that could occur if outstanding stock options were exercised and non-participating stock awards vested.

| | | | |
|---|---------|---------|-----------|
| | 2011 | 2012 | 2013 |
| Net income | \$773.2 | \$883.6 | \$1,047.7 |
| Less: net income allocated to outstanding restricted share and stock unit holders | (3.5 |) (5.5 |) (9.3 |
| Net income allocated to common stockholders | \$769.7 | \$878.1 | \$1,038.4 |
| Weighted-average common shares | | | |
| Outstanding | 255.6 | 253.4 | 258.3 |
| Outstanding assuming dilution | 263.3 | 261.0 | 266.3 |

The following table shows the weighted-average outstanding stock options (in millions) that are excluded from the calculation of diluted earnings per common share as the inclusion of such shares would be anti-dilutive.

| | | | |
|---|------|------|------|
| | 2011 | 2012 | 2013 |
| Weighted-average outstanding stock options excluded | 7.2 | 5.4 | 3.1 |

NOTE 12 – OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME.

The following table presents the deferred tax benefits (income taxes) impact of the components (in millions) of other comprehensive income.

| | | | |
|---|--------|---------|-----------|
| | 2011 | 2012 | 2013 |
| Net deferred tax benefits (income taxes) on | | | |
| Net unrealized holding gains or losses | \$16.1 | \$(39.7 |) \$(57.8 |
| Reclassification adjustment related to capital gain distributions | 2.1 | 1.8 | 6.0 |
| Reclassification adjustment on net gains or losses realized on dispositions in non-operating investment income | — | 13.6 | 5.3 |
| Reclassification adjustment for net unrealized holding gains derecognized upon the sale of savings bank subsidiary | — | — | .6 |
| Net deferred tax benefits (income taxes) on net unrealized holding gains or losses recognized in other comprehensive income | 18.2 | (24.3 |) (45.9 |
| Deferred tax benefits on currency translation adjustments | 5.0 | 3.7 | 8.3 |
| Total deferred tax benefits (income taxes) | \$23.2 | \$(20.6 |) \$(37.6 |

Table of Contents

The changes in accumulated other comprehensive income (in millions), by component, for each year ended December 31 are presented below.

| | 2010 | Other comprehensive loss, net of tax | 2011 | Other comprehensive income, net of tax | 2012 | Other comprehensive income, net of tax | 2013 |
|---|---------|---|---------|---|---------|---|----------|
| Net unrealized holding gains on Investments in sponsored funds | \$217.7 | \$ (45.5) | \$172.2 | \$ 60.1 | \$232.3 | \$ 120.9 | \$353.2 |
| Debt securities held by savings bank subsidiary | 3.3 | (.2) | 3.1 | .1 | 3.2 | (3.2) | — |
| Proportionate share of investments held by UTI | — | .4 | .4 | .2 | .6 | — | .6 |
| | 221.0 | (45.3) | 175.7 | 60.4 | 236.1 | 117.7 | 353.8 |
| Deferred income taxes | (85.5) | 18.2 | (67.3) | (24.3) | (91.6) | (45.9) | (137.5) |
| Net unrealized holding gains, net of taxes | 135.5 | (27.1) | 108.4 | 36.1 | 144.5 | 71.8 | 216.3 |
| Currency translation adjustment, net of taxes | 3.6 | (9.2) | (5.6) | (7.0) | (12.6) | (15.4) | (28.0) |
| Accumulated other comprehensive income | \$139.1 | \$ (36.3) | \$102.8 | \$ 29.1 | \$131.9 | \$ 56.4 | \$188.3 |

Other comprehensive income, net of tax, attributable to the net unrealized holding gains on our sponsored fund investments reflects net gains of \$5.3 million in 2011, \$39.8 million in 2012 and \$28.8 million in 2013 that were reclassified to non-operating investment income upon the receipt of capital gain distributions as well as upon the sale of individual securities in 2012 and 2013. The income taxes related to these reclassifications were \$2.1 million in 2011, \$15.4 million in 2012 and \$11.3 million in 2013 and were reclassified from accumulated other comprehensive income into our provision for income taxes. In 2013, following the sale of our savings bank subsidiary, we derecognized and reclassified \$1.0 million in unrealized holding gains, including deferred taxes of \$.6 million, related to the bank's debt security portfolio to non-operating investment income.

NOTE 13 – OTHER DISCLOSURES.

CONTINGENCIES.

From time to time, various claims against us arise in the ordinary course of business, including employment-related claims. In the opinion of management, after consultation with counsel, the likelihood that an adverse determination in one or more pending claims would have a material adverse effect on our financial position or results of operations is remote.

RETIREMENT PLANS.

Compensation and related costs includes expense recognized for our defined contribution retirement plans of \$54.5 million in 2011, \$58.2 million in 2012, and \$61.8 million in 2013.

NOTE 14 – SUPPLEMENTARY QUARTERLY FINANCIAL DATA (Unaudited).

| | Net revenues (in millions) | Net income | Basic earnings on common stock (per-share) | Diluted earnings on common stock |
|------|-------------------------------|------------|--|-------------------------------------|
| 2012 | | | | |

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| | | | | |
|-------------|---------|---------|--------|--------|
| 1st quarter | \$728.7 | \$197.5 | \$.78 | \$.75 |
| 2nd quarter | \$736.8 | \$206.8 | \$.81 | \$.79 |
| 3rd quarter | \$769.7 | \$247.3 | \$.97 | \$.94 |
| 4th quarter | \$787.3 | \$232.0 | \$.90 | \$.88 |
| 2013 | | | | |
| 1st quarter | \$815.7 | \$241.9 | \$.93 | \$.91 |
| 2nd quarter | \$854.3 | \$247.8 | \$.95 | \$.92 |
| 3rd quarter | \$884.4 | \$270.3 | \$1.03 | \$1.00 |
| 4th quarter | \$929.8 | \$287.7 | \$1.10 | \$1.06 |

The sums of quarterly earnings per share do not equal annual earnings per share because the computations are done independently.

Page 51

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
T. Rowe Price Group, Inc.:

We have audited the accompanying consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries (“the Company”) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 4, 2014, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

Baltimore, Maryland
February 4, 2014

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Our management, including our principal executive and principal financial officers, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures as of December 31, 2013, are effective at the reasonable assurance level to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, including our Form 10-K annual report, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive and principal financial officers, has evaluated any change in our internal control over financial reporting that occurred during the fourth quarter of 2013, and has concluded that there was no change during the fourth quarter of 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's report on our internal control over financial reporting and the attestation report of KPMG LLP follow after Item 9B.

Item 9B. Other Information.

None.

Page 53

Table of Contents

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Stockholders of T. Rowe Price Group, Inc.:

We, together with other members of management of T. Rowe Price Group, Inc., are responsible for establishing and maintaining adequate internal control over the company's financial reporting. Internal control over financial reporting is the process designed under our supervision, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2013, in relation to criteria described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, we believe that the company's internal control over financial reporting was effective as of December 31, 2013.

KPMG LLP, an independent registered public accounting firm, has audited our financial statements that are included in this annual report and expressed an unqualified opinion thereon. KPMG has also expressed an unqualified opinion on the effective operation of our internal control over financial reporting as of December 31, 2013.

February 4, 2014

/s/ James A.C. Kennedy
Chief Executive Officer and President

/s/ Kenneth V. Moreland
Vice President, Chief Financial Officer and Treasurer

Page 54

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
T. Rowe Price Group, Inc.:

We have audited T. Rowe Price Group, Inc. and subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, T. Rowe Price Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of T. Rowe Price Group, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated February 4, 2014, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Baltimore, Maryland
February 4, 2014

Page 55

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item as to the identification of our executive officers is furnished in a separate item at the end of Part I of this Report. Other information required by this item is incorporated by reference from the definitive proxy statement required to be filed pursuant to Regulation 14A for the 2014 Annual Meeting of our stockholders.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Item 14. Principal Accountant Fees and Services.

Information required by these items are incorporated by reference from the definitive proxy statement required to be filed pursuant to Regulation 14A for the 2014 Annual Meeting of our stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report.

(1) Financial Statements: See Item 8 of Part II of this report.

(2) Financial Statement Schedules: None.

(3) The following exhibits required by Item 601 of Regulation S-K are filed herewith, except for Exhibit 32 that is furnished herewith. Management contracts and compensatory plans and arrangements are filed as Exhibits 10.07 through 10.18.4.

3(i) Charter of T. Rowe Price Group, Inc., as Amended by Articles of Amendment dated April 10, 2008. (Incorporated by reference from Form 10-Q Report for the quarterly period ended March 31, 2008 filed on April 24, 2008; File No. 033-07012-99.)

3(ii) Amended and Restated By-Laws of T. Rowe Price Group, Inc. as of February 12, 2009. (Incorporated by reference from Form 8-K Current Report as of February 17, 2009; File No. 033-07012-99.)

10.01.1 Representative Investment Management Agreement for the T. Rowe Price mutual funds that pay a management fee consisting of two components - a group management fee and individual management fee. (Incorporated by reference from Form N-1A filed on August 22, 2008; File No. 333-153130.)

10.01.2 Representative Investment Management Agreement for the T. Rowe Price mutual funds that pay an individual management fee. (Incorporated by reference from Form 485APOS filed on August 11, 2010; File No. 033-29697.)

- 10.01.3 Representative Investment Management Agreement for the T. Rowe Price mutual funds that pay an all-inclusive fee (i.e., a single fee that covers investment management and ordinary recurring operating expenses). (Incorporated by reference from Form 485APOS filed on March 15, 2007; File No. 033-29697.)
- 10.02 Representative Underwriting Agreement between a T. Rowe Price mutual fund and T. Rowe Price Investment Services, Inc. (Incorporated by reference from Form N-1A/A filed on August 29, 2006; File No. 333-136805.)
- 10.03 Transfer Agency and Service Agreement as of January 1, 2013, between T. Rowe Price Services, Inc. and the T. Rowe Price Funds. (Incorporated by reference from Form 485BPOS filed on April 26, 2013; File No. 033-38791.)
- 10.04 Agreement as of January 1, 2013, between T. Rowe Price Retirement Plan Services, Inc. and certain of the T. Rowe Price Funds. (Incorporated by reference from Form 485BPOS filed on April 26, 2013; File No. 033-38791.)

Table of Contents

- 10.05 Fund Accounting Services Agreement as of January 1, 2013, between T. Rowe Price Associates, Inc. and the T. Rowe Price Funds. (Incorporated by reference from Form 485BPOS filed on April 26, 2013; File No. 033-38791.)
- 10.07 1998 Director Stock Option Plan, as Amended and Restated effective December 16, 2004, including forms of option agreements. (Incorporated by reference from Form 10-K for 2004 filed on March 1, 2005; File No. 033-07012-99.)
- 10.08 Statements of additional terms and conditions for awards granted under the Amended and Restated 2007 Non-Employee Director Equity Plans after February 12, 2009. (Incorporated by reference from Form 10-Q for the quarterly period ended March 31, 2009 filed on April 22, 2009; File No. 033-07012-99.)
- 10.08.1 Amended and Restated 2007 Non-Employee Director Equity Plan. (Incorporated by reference from Form 10-K for 2012 filed on February 4, 2013; File No. 000-32191.)
- 10.10 T. Rowe Price Group, Inc. Outside Directors Deferred Compensation Plan. (Incorporated by reference from Form 10-K for 2004 filed on March 1, 2005; File No. 033-07012-99.)
- 10.13.1 2001 Stock Incentive Plan. (Incorporated by reference from Form DEF 14A filed on February 26, 2001; File No. 033-07012-99.)
- 10.13.2 First Amendment to 2001 Stock Incentive Plan dated April 8, 2004. (Incorporated by reference from Form DEF 14A filed on February 27, 2004; File No. 033-07012-99.)
- 10.13.3 Second Amendment to 2001 Stock Incentive Plan dated December 12, 2008. (Incorporated by reference from Form 10-Q for the quarterly period ended March 31, 2009 filed on April 22, 2009; File No. 033-07012-99.)
- 10.14.1 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-K for 2007 filed on February 7, 2008; File No. 033-07012-99.)
- 10.14.2 HM Revenue and Customs Approved Sub-Plan for UK Employees under the 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2010 filed on July 23, 2010; File No. 033-07012-99.)
- 10.14.3 First Amendment to 2004 Stock Incentive Plan dated December 12, 2008. (Incorporated by reference from Form 10-Q for the quarterly period ended March 31, 2009 filed on April 22, 2009; File No. 033-07012-99.)
- 10.15 Forms of agreements available for stock-based awards issued under the 2001 and 2004 Stock Incentive Plans. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2010 filed on July 23, 2010; File No. 033-07012-99.)
- 10.15.1 Forms of agreement for stock options issued under the HM Revenue and Customs Approved Sub-Plan for UK Employees under the 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2010 filed on July 23, 2010; File No. 033-07012-99.)

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- 10.15.2 Forms of agreement for stock options issued after February 2, 2012 under the 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 033-07012-99.)
- 10.15.3 Forms of agreement for restricted stock units issued after February 2, 2012 under the 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 033-07012-99.)
- 10.15.4 Forms of agreement for restricted stock awards issued after February 2, 2012 under the 2004 Stock Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 033-07012-99.)
- 10.16 Annual Incentive Compensation Pool. (Incorporated by reference from Form DEF 14A filed on March 3, 2003; File No. 033-07012-99.)
- 10.17 Policy for Recoupment of Incentive Compensation. (Incorporated by reference from Form 8-K Current Report as of April 14, 2010 filed on April 16, 2010; File No. 033-07012-99.)
- 10.18.1 2012 Long-term Incentive Plan. (Incorporated by reference from Form 10-K for 2012 filed on February 4, 2013; File No. 000-32191.)
- 10.18.2 Forms of agreement for restricted stock awards issued under the 2012 Long-term Incentive Plan. (Incorporated by reference from Form 10-Q Report for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 000-32191.)

Table of Contents

| | |
|---------|---|
| 10.18.3 | Forms of agreement for restricted stock units issued under the 2012 Long-term Incentive Plan. (Incorporated by reference from Form 10-Q Report for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 000-32191.) |
| 10.18.4 | Forms of agreement of stock options issued under the 2012 Long-term Incentive Plan. (Incorporated by reference from Form 10-Q Report for the quarterly period ended June 30, 2012 filed on July 25, 2012; File No. 000-32191.) |
| 10.18.5 | HM Revenue and Customs Approved Sub-Plan for UK Employees under the 2012 Long-Term Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended March 31, 2013 filed on April 24, 2013; File No. 033-07012-99.) |
| 10.18.6 | Forms of Agreement for Stock Options issued under the HM Revenue and Customs Approved Sub-Plan for UK Employees under the 2012 Long-Term Incentive Plan. (Incorporated by reference from Form 10-Q for the quarterly period ended March 31, 2013 filed on April 24, 2013; File No. 033-07012-99.) |
| 21 | Subsidiaries of T. Rowe Price Group, Inc. |
| 23 | Consent of Independent Registered Public Accounting Firm, KPMG LLP. |
| 31(i).1 | Rule 13a-14(a) Certification of Principal Executive Officer. |
| 31(i).2 | Rule 13a-14(a) Certification of Principal Financial Officer. |
| 32 | Section 1350 Certifications. |
| 101 | The following series of unaudited XBRL-formatted documents are collectively included herewith as Exhibit 101. The financial information is extracted from T. Rowe Price Group's consolidated financial statements and notes that are included in this Form 10-K Report. |
| | 101.INS XBRL Instance Document (File name: trow-20131231.xml) |
| | 101.SCH XBRL Taxonomy Extension Schema Document (File name: trow-20131231.xsd) |
| | 101.CAL XBRL Taxonomy Calculation Linkbase Document (File name: trow-20131231_cal.xml) |
| | 101.DEF XBRL Taxonomy Definition Linkbase Document (File name: trow-20131231_def.xml) |
| | 101.LAB XBRL Taxonomy Label Linkbase Document (File name: trow-20131231_lab.xml) |
| | 101.PRE XBRL Taxonomy Presentation Linkbase Document (File name: trow-20131231_pre.xml) |

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 4, 2014.

T. Rowe Price Group, Inc.

By: /s/ James A.C. Kennedy, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 4, 2014.

/s/ Brian C. Rogers, Chairman of the Board of Directors

/s/ Edward C. Bernard, Vice Chairman of the Board of Directors

/s/ James A.C. Kennedy, Chief Executive Officer and President, Director

/s/ Mark S. Bartlett, Director

/s/ James T. Brady, Director

/s/ Mary K. Bush, Director

/s/ Donald B. Hebb, Jr., Director

/s/ Freeman A. Hrabowski III, Director

/s/ Robert F. MacLellan, Director

/s/ Alfred Sommer, Director

/s/ Olympia J. Snowe, Director

/s/ Dwight S. Taylor, Director

/s/ Anne Marie Whittemore, Director

/s/ Kenneth V. Moreland, Vice President, Chief Financial Officer and Treasurer

/s/ Jessica M. Hiebler, Vice President and Principal Accounting Officer