

Rathbone Brothers Plc  
Report and accounts 2018

# Creating value *together*



**Rathbones**  
Look forward

# Contents

## Strategic report

- 1 Our investment case
- 2 Chairman's statement
- 4 Rathbones at a glance
- 6 Speirs & Jeffery acquisition
- 8 Our business model

### Our strategy

- 11 Chief executive's review
- 14 Market review
- 16 Our journey
- 17 Five years of strategic progress

### Our performance

- 19 Key performance indicators
- 22 Financial performance
- 25 Segmental review
- 30 Financial position
- 34 Liquidity and cash flow
- 35 Risk management and control
- 41 Corporate responsibility report

### Governance

- 56 Corporate governance report
- 66 Group risk committee report
- 69 Audit committee report
- 74 Nomination committee report
- 76 Group executive committee report
- 78 Remuneration committee report
- 92 Directors' report
- 95 Statement of directors' responsibilities in respect of the report and accounts

### Financial statements

- 97 Independent auditor's report to the members of Rathbone Brothers Plc
- 104 Consolidated financial statements
- 108 Notes to the consolidated financial statements
- 169 Company financial statements
- 172 Notes to the company financial statements

### Further information

- 191 Five year record
- 191 Corporate information
- 192 Our offices

Rathbone Brothers Plc, through its subsidiaries, is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. Our services include discretionary investment management, unit trusts, financial planning, banking and loan services, unitised portfolio services, and UK trust, legal, estate and tax advice.

As at 31 December, Rathbone Brothers Plc managed £44.1 billion of client funds, of which £38.5 billion were managed by our Investment Management business.

## 2018 financial highlights

Profit before tax	Underlying <sup>1</sup> profit before tax
<b>£61.3m</b> (2017: £58.9m)	<b>£91.6m</b> (2017: £87.5m)
Basic earnings per share	Underlying <sup>1</sup> earnings per share
<b>88.7p</b> (2017: 92.7p)	<b>142.5p</b> (2017: 138.8p)
Dividends paid and proposed per share	Return on capital employed (ROCE) <sup>2</sup>
<b>66.0p</b> (2017: 61.0p)	<b>16.9%</b> (2017: 19.5%)

For a full five year record, please see page 191

- 1. A reconciliation between underlying profit before tax and profit before tax is shown on page 23
- 2. Underlying profit after tax as a percentage of average equity of each quarter end

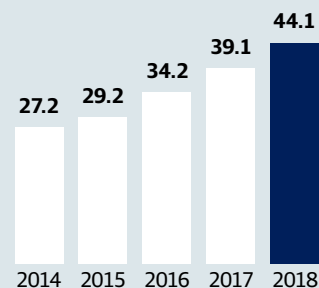
# Rathbones – a sector leader

## A face-to-face approach and consistent growth in funds under management and administration

- An established brand and reputation
- A face-to-face approach, which supports clients and advisers by providing the flexibility to meet their investment needs across different economic and lifestyle conditions
- A range of complementary services that enhance client engagement
- Longevity of client and adviser relationships
- Branches in major wealth centres across the UK and an offshore presence in Jersey
- An investment process which uses a whole of market approach to access both direct and collective investments
- An in-house research team that pools intellectual investment talent

Total funds under management and administration (£bn)

**£44.1bn**

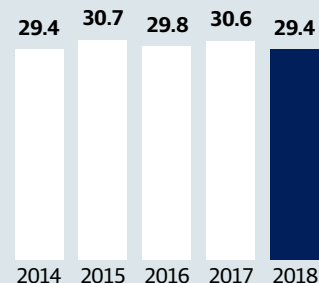


## A strong operating margin

- Measured investment in initiatives that support organic and acquired growth
- An ongoing cost discipline across market cycles
- Consistent investment in technology and infrastructure to keep abreast of regulatory and industry changes
- Employee remuneration that is closely linked to investor outcomes

Underlying operating margin (%)

**29.4%**

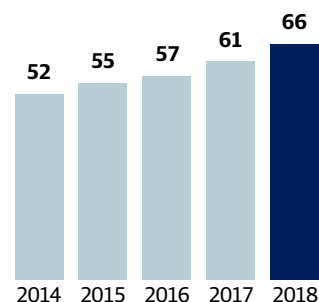


## Consistent returns for shareholders

- A progressive dividend policy
- A high return on capital employed
- An ability to execute accretive acquisitions that fit our culture
- A commitment to high standards of corporate governance, stewardship and transparency

Dividend per share (p)

**66p**





# Chairman's statement



**Mark Nicholls**  
Chairman

## A review of 2018

Despite weaker investment markets in the final quarter of the year, 2018 was a good year financially for Rathbones. During the year we also implemented considerable regulatory changes associated with MiFID II, the Asset Management Market Study and the General Data Protection Regulation successfully. These changes had a significant impact on our clients and across the business.

Rathbones continues to grow organically, but our growth in 2018 was dominated by the completion of the Speirs & Jeffrey acquisition in August. The business is a strong cultural fit, adding £6.7 billion of funds under management and administration at the time of acquisition, and creating a leading presence in Scotland. We are enjoying working with the Speirs & Jeffrey team and look forward to welcoming their clients on to our systems in mid-2019.

Our financial results reflected the relatively strong investment markets that featured for most of the year but the final quarter of 2018 was a poor one for investors and asset managers alike. Despite weak markets at the end of the year, our funds under management and administration reached £44.1 billion at 31 December 2018, up 12.8% from £39.1 billion last year. Profit before tax for the year of £61.3 million increased 4.1% year on year (2017: £58.9 million) and reflected the impact of a number of non-underlying items, including costs associated with the acquisition of Speirs & Jeffrey. Basic earnings per share of 88.7p represented a decrease of 4.3% from 92.7p in 2017. A full analysis of all non-underlying items impacting profit before tax can be found on page 23.

Our overall growth helped deliver underlying profit before tax of £91.6m (2017: £87.5 million), resulting in an underlying operating margin of 29.4% for the year (2017: 30.6%). Underlying earnings per share of 142.5p represented an increase of 2.7% from 138.8p in 2017. In line with our progressive dividend policy, the board is recommending a final dividend of 42p per share. This brings the total dividend for the year to 66p per share, an increase of 8.2% over last year.

## Governance and culture

Rathbones' culture (based on professionalism, putting clients first, a collegiate approach and integrity) remains a priority of

the board and at the heart of our success. We have ongoing discussions at board level about how we measure and monitor our culture. As our business grows, the board recognises the continued importance of good communication and will ensure that the strong client-centric behaviours that are embedded within the business continue to thrive. Throughout 2018, the board had particular focus on the impact of growth on our culture. Outside of board meetings, non-executive directors have held a number of constructive meetings, both individually and as a whole, with groups of employees across the business to share experiences more directly.

Corporate governance and stewardship continue to be important in Rathbones and the report on pages 56 to 65 outlines how we have taken this important agenda forward in 2018. We believe that the active approach we take on corporate governance and stewardship issues arising in the companies we invest in is in the best interests of our clients. It also helps us strive for high standards in our own corporate governance and disclosure, and we are supportive of the 2018 UK Corporate Governance Code changes, which we plan to adopt in full by the end of 2019.

## Risk and regulation

The past year has involved considerable work to implement changes driven by continued regulatory developments. The effects of these changes will be felt for some time. Our risk management processes continue to play an important role in decision-making and managing the business. The report from the new chairman of the group risk committee, Terri Duhon, is set out on page 66. In 2018, we paid particular attention to the risks associated with cybercrime and business resilience, and the operational risks of implementing the GDPR and MiFID II. Non-executive members of the board have also participated in a number of training and operational exercises associated with these risks. We will continue to see the impacts of regulatory change in 2019.

At the beginning of June, we significantly reduced our exposure to property risk when we successfully assigned all legacy Curzon Street leases to a third party. This has resulted in a net write-back of non-underlying head office relocation costs of £2.8 million (2017: net costs of £16.2 million) in the year.

The board also recognises the additional operational risks associated with the integration of Speirs & Jeffrey and will ensure these are managed to within a sensible risk appetite.

## Brexit

Brexit is likely to be one of the most significant political and economic events to impact the United Kingdom in our lifetimes. The lack of consensus on the United Kingdom's strategy for the future creates unprecedented levels of uncertainty and the longer term implications will not be clear for some time.

For these reasons we continue to monitor Brexit-related developments closely. As a UK business with no operations in other European Union countries, no material dependencies on goods or people from other European Union countries and a predominantly UK client base, we anticipate that the operational impacts on our business will be relatively small.

In particular, Brexit will bring no changes to the basis or nature of the services we provide to the vast majority of our clients and investors, who are based in the UK. However, we recognise that the impact of Brexit more generally could affect the value of our funds under management and administration.

Investors in the Luxembourg SICAV funds managed by Rathbone Unit Trust Management will see some changes to the basis on which these funds are delivered. It is also possible that there may be some implications for our private clients based in other EEA countries depending on the exact nature of the services they receive and regulatory framework agreed in the transitional period or in the event of an exit from the EU without agreement.

We continue to devote considerable resources to the investment implications of Brexit for client portfolios and our range of funds, and regularly communicate our views through formal and informal briefings from our research team to clients and advisers.

## Board changes and succession

As part of our normal succession planning, the board continues to monitor its capabilities and assesses what new skills are necessary to strengthen both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity. This year, we have implemented a number of changes in accordance with our succession plans which place us in a strong position to lead the business successfully in the future.

Taking these in order, in July 2018 we welcomed Terri Duhon to the board. Terri has wide experience in the financial services industry and was appointed chair of the risk committee on the departure of Kathryn Matthews after nine years of excellent service. We were also delighted to welcome Colin Clark to the board in October 2018. Colin's considerable experience in the investment management industry will be of great value to Rathbones in the years ahead.

Following a rigorous recruitment process, we announced the appointment of Jennifer Mathias to the group finance director role in October 2018. Jennifer's knowledge and experience in the wealth management and private banking sectors will be welcome and she will join us on 1 April 2019.

Finally, in November 2018, we announced that Philip Howell would be retiring from his role as chief executive by our Annual General Meeting on 9 May 2019 having achieved a successful period of considerable growth. Under Philip's leadership, Rathbones has firmly established itself as the leading independent UK wealth manager and, on behalf of the board, I would like to thank him for the strong direction, unfailing commitment and dedication he has provided to Rathbones during his tenure.

Philip is to be succeeded by Paul Stockton, currently group finance director and managing director of Rathbone Investment Management. Having worked with Paul for many years, I am delighted with his promotion to the role of chief executive. Paul has both considerable experience and a deep knowledge of Rathbones, its values and culture. I wish him every success as he takes on his new responsibilities.

## Strategy

When we set our five-year strategy in 2014, we had the ambition to reach £40 billion of funds under management by the end of 2018. A combination of organic growth, earnings-enhancing acquisitions, positive investment performance and favourable markets has helped us to realise this ambition and we now manage £44.1 billion (2014 opening funds: £22.0 billion). Further detail on our journey over the last five years can be found on page 17. We expect to update the market on the next phase of our growth during the second half of 2019.

## Supporting our employees

We support the broader initiatives in the 2018 Corporate Governance Code, which include workforce engagement, diversity and cultural issues. We believe that these require separate but related initiatives and we are actively considering how best to give them impetus. The board holds a strong desire for Rathbones to be a business where every employee has the opportunity to build a successful career and find the right balance between work and personal life. This has been our broad goal for some time and, over the past year, we have made specific improvements including signing the Women in Finance Charter and rolling out training programmes covering diversity, inclusion and unconscious bias across the firm.

The board recognises that the securing of true diversity is not an overnight change and will take time, but we are committed to tackling the underlying causes of our gender imbalance in particular. This will involve attracting talented people, enabling their career paths to senior management, removing any unconscious bias in our behaviours and actively creating a culture of inclusion across the company. Further information on the initiatives we offer to support and engage staff can be found in our corporate responsibility report on page 41.

## Engaging with shareholders

We are fortunate to have many supportive long-term shareholders with whom we engage on a regular basis. In 2018 and at the beginning of 2019 we have consulted with them on executive remuneration and we continue to hold an open and constructive dialogue in analyst and investor meetings. Shareholder support was evidenced this year by the success of our £60 million share placing to support the acquisition of Speirs & Jeffrey.

## Outlook

Our priorities for 2019 will be the successful integration of Speirs & Jeffrey, the roll-out of the next phase of our growth and the smooth transition of our executive management team.

Despite political and economic uncertainties, we remain confident in the underlying strength of our business and its longer-term prospects.

**Mark Nicholls**  
Chairman

20 February 2019

# Delivering our services

We employ over

**1,400**  
people

We operate from

**15**  
UK locations<sup>1</sup>  
and Jersey

We manage over

**£44.1bn**  
for our clients

We are a

**FTSE**  
**250**

company listed  
on the London  
Stock Exchange

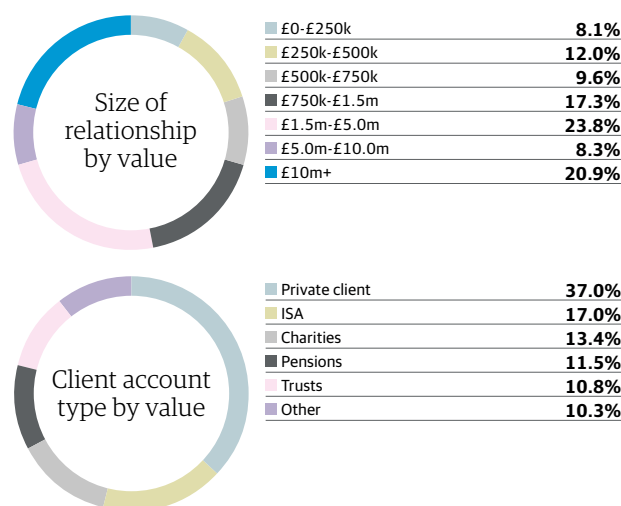
1. Includes Vision Independent  
Financial Planning

## Investment Management

Through Rathbone Investment Management, we provide personal discretionary investment management solutions to private clients with investible assets of £100,000 upwards. Clients of this service can expect:

- Direct access to their investment manager
- An investment manager who understands their requirements and provides a strategy that meets their objectives
- An investment process that aims to provide risk-adjusted returns to meet clients' needs today and in the future

Investment Management funds under management and administration have increased by 90.6% to £38.5bn over the past five years



Within Investment Management, we have several specialist capabilities including:

### Charities

Our charities business manages £5.3 billion of funds and is the fourth largest charity manager in the UK. The team is diverse, in both its expertise and experience, and aims to deliver suitably tailored investment portfolios to meet the specific needs of charity clients and trustees.

### Rathbone Greenbank Investments

As one of the pioneers in the field of ethically-focused investments, Rathbone Greenbank Investments manages over £1.2 billion in ethical and socially-responsible investment portfolios for private clients, charities and trusts. The team is highly proactive on ethical and sustainability issues, engaging directly with companies and government to improve business practices.

### Rathbone Investment Management International

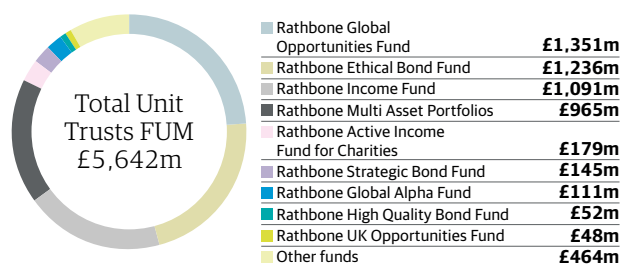
Based in Jersey, Rathbone Investment Management International caters for the investment needs of individuals and families, charities and professional advisers who are looking for offshore investment management. The services are delivered by an experienced team of investment professionals.

## Unit Trusts

Rathbone Unit Trust Management is an active UK fund manager with £5.6 billion under management, providing a range of specialist and multi asset funds that are designed to meet core investment needs in the retail client market. These funds are distributed primarily through financial advisers in the UK.

Funds can also be accessed by international clients through our Rathbone Luxembourg Funds SICAV (Société d'Investissement à Capital Variable) which allows access to a similar range of actively managed funds.

**Unit Trusts funds under management have increased by 211.1% to £5.6bn over the past five years**



## Complementary services<sup>2</sup>

### Banking and loan services

We offer loans to our existing clients secured against their investment portfolios and, in some cases, other assets. As a licensed deposit taker, we are also able to offer our clients a range of banking services including currency and payment services, and fixed interest term deposits. These additional services are valued by our clients and are an important point of differentiation from many of our peers.

### Financial planning

We offer in-house financial planning, which provides whole of market advice to clients. Our in-house financial planners are highly qualified and work closely with investment managers to help clients create a bespoke financial plan. We have long-standing experience of advising individuals, couples and families, companies and trusts and can act on a one-off basis or as part of an ongoing service.

### Unitised Portfolio Service

Using Rathbone Multi Asset Portfolio Funds, we offer clients with investible assets of £25,000 or more our model-based discretionary investment management services. This is designed for clients who do not require a fully bespoke investment solution, but still want access to an investment manager to ensure investment needs are selected and monitored to suit their individual circumstance, as well as ensuring that their investments are managed in a tax-efficient manner.

### Managed Portfolio Service

A simple and straightforward execution-only investment service which gives clients with £15,000 or more the ability to access high-quality investments. The service is delivered at a price that reflects the competitive nature of our sector, but to a standard that clients have come to expect from Rathbones.

**We also operate the following additional entities:**

### Rathbone Trust Company

Rathbone Trust Company provides UK trust and some legal, estate and tax advice to larger clients.

### Vision Independent Financial Planning

Vision Independent Financial Planning is an independent IFA network providing financial advisory solutions to UK private clients.

Since it was fully acquired in 2015, it has grown from £845 million of assets on its discretionary fund management panel and 81 advisers to £1.5 billion and 125 independent financial advisers.

<sup>2</sup> All complementary services are reported on as part of our Investment Management segment

# Combining businesses with a cultural and strategic fit

On 31 August 2018, Rathbones completed the acquisition of Speirs & Jeffrey. Founded in 1906, Speirs & Jeffrey is one of the largest independent private client investment managers in Scotland with a total of £6.7 billion of funds under management and administration (FUMA) at the time of acquisition.

Like Rathbones, Speirs & Jeffrey has a long-standing heritage and client-centric philosophy, making the two businesses an excellent fit.

## Building scale in an increasingly fragmented marketplace

Together, we now manage

# £44.1bn

in assets, making us one of the largest wealth managers in the UK.

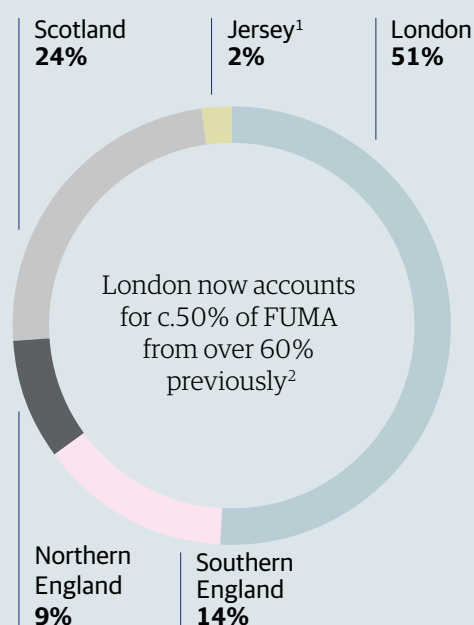
Scale gives us additional reach and strength and enables greater financial and organisational capacity to invest in our people, technology and processes, and to manage regulatory change.

### An enhanced presence in Scotland

	Funds under management and administration	Investment professionals
Speirs & Jeffrey	£6.4bn	38
Existing Rathbones presence in Edinburgh, Glasgow and Aberdeen	£2.9bn	36



## A reduced dependency on the London office



Glasgow is now the second-largest Rathbones office with £6.8 billion of funds under management and administration. Our Scottish offices now manage £9.3 billion (2017: £3.3 billion).

1. Jersey funds under management and administration excludes assets managed on a delegated basis
2. Based on funds under management and administration

## Clear benefits for our stakeholders

### Benefits our shareholders

The increased scale firmly establishes our regional credentials and offers earnings per share accretion, cost and revenue synergies.

### Benefits our clients

The increased operational capacity allows further investment in client-facing technology, central processes and research capability, which supports a better service for clients.

### Benefits employees

The ability to invest in front office systems allows employees to work with more effective and efficient tools, improving team capacity.

# Building value

Through a personalised approach to investment management, we offer a compelling and attractive way to build value.

### What we do

We are a leading independently-owned provider of investment and wealth management services to private clients, charities and trustees.

We have two main areas of operation as well as several complementary services:

- Rathbone Investment Management, which offers personal discretionary investment management solutions
- Rathbone Unit Trust Management, which provides single strategy and multi asset fund products
- Complementary services including:
  - banking and loan services
  - in-house financial planning advice
  - a unitised portfolio service
  - a managed portfolio service
  - UK trust, legal, estate and tax advice
  - Vision Independent Financial Planning

### What makes us different

#### A sound investment case

- A relationship-based approach
- A whole of market approach to investment
- Leading margins

#### Scale and expertise

- 341 trained investment professionals
- £44.1 billion of funds under management and administration
- A broad range of investment solutions

#### Brand and reputation

- An established brand with local presence
- Reliable systems and infrastructure
- Accredited performance reporting

#### Independent ownership

- Listed on the London Stock Exchange and a constituent of the FTSE 250
- High standards of corporate governance

### How we do it

Individual relationships with clients and advisers

An informed investment process

Working flexibly with clients and advisers

Supported by in-house operations

## How we create long-term value

- Our service is delivered directly through investment managers who make portfolio decisions
- Our aim is to build lasting and trusted relationships
- We access investments across the whole market, with no bias towards in-house funds, but have a suite of fund solutions through Rathbone Unit Trust Management for clients who do not require a fully bespoke investment service
- Our Jersey office can cater for offshore investment needs
- Our online presence complements our service

- We have a bespoke approach to portfolio construction supported by a central research team
- Our firm-wide processes allow us to pool intellectual capital and provide strategic asset allocation methodologies
- We operate a range of specialist mandates including specialist investment teams who provide services to charities and ethical investors
- Our internal quality assurance and performance measurement capabilities provide a sound control framework

- Clients have the ability to join Rathbones either directly or through their own financial intermediary
- Our dedicated intermediary sales team provide our discretionary and unit trust services to national adviser networks and strategic partners
- Direct client and adviser referrals remain the most important source of organic growth
- Our Vision Independent Financial Planning business operates independently but maintains a close relationship with Rathbone Investment Management

- We have dedicated in-house custody and settlement services
- Our operations team is highly experienced
- We outsource selected services, where cost-effective, to reliable and carefully chosen partners
- We invest incrementally in IT to ensure that our infrastructure keeps pace with change

### For investors

- A track record of strong operating margins
- Successful acquisition capability for people and firms that fit our culture
- Stable dividend growth
- Consistent returns on capital employed



Read more on our aim to provide earnings growth on pages 17 and 20

### For clients

- Active management of portfolios through changing market conditions
- A valued and quality service that builds trust
- Specialist mandate capability in charity and sustainable investing
- High-quality adviser services



Read more on our aim to provide quality service on pages 17 and 19

### For employees

- Empowered to make individual investment decisions
- Performance-based remuneration
- Investment in training, support and development
- Graduate and apprenticeship programmes
- Low staff turnover



Read more on our aim to provide employee value on pages 17 and 21



# Our strategy







**Philip Howell**  
Chief Executive

## A resilient year

The wealth management industry continues to grow, with sector assets reaching close to £1 trillion according to a recent Compeer study. The case for independent wealth managers providing discretionary investment management through a personalised client relationship model continues to be compelling. A discretionary service can respond dynamically to volatile market conditions and deliver a quality outcome. Capitalising on the market opportunity requires continuous investment in technology and professional talent, which in turn calls for the advantages of scale. In this environment, Rathbones is well-positioned.

Markets during the first half of 2018 were slow to react to the growing economic and political uncertainties that were widely reported. They did however begin to reflect sentiment more closely during the second half of the year when we saw the considerable falls in asset levels that have perhaps reset expectations for 2019. Our own funds under management and administration grew to £44.1 billion at 31 December 2018 (2017: £39.1 billion).

The year was characterised by some additional demands placed upon the business. On the one hand, we needed to adapt to new regulatory regimes and navigate increasingly complex investment conditions. On the other, we continued to progress our five-year strategic initiatives and completed the most significant acquisition in our history. Our positive financial results despite this significant level of activity demonstrate the resilience of our business.

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**“The case for independent wealth managers providing discretionary investment management through a personalised client relationship model continues to be compelling. A discretionary service can respond dynamically to volatile market conditions and deliver a quality outcome.”**

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## A strong 2018 financial performance and the completion of the acquisition of Speirs & Jeffrey

The 12.8% growth in our total funds under management and administration in 2018 reflected continued net organic growth and the completion of our acquisition of Speirs & Jeffrey in August 2018, which added funds of £6.7 billion at the time of completion. Total funds in our Investment Management business were £38.5 billion (2017: £33.8 billion), whilst our Unit Trusts business totalled £5.6 billion (2017: £5.3 billion). This growth helped deliver underlying profit before tax of £91.6 million (2017: £87.5 million), resulting in an underlying operating margin of 29.4% for the year (2017: 30.6%). Underlying earnings per share of 142.5p, increased 2.7% from 138.8p in 2017. Profit before tax of £61.3 million (2017: 58.9 million) reflected a number of non-underlying items including costs associated with the acquisition of Speirs & Jeffrey.

Net new organic inflows totalled £1.1 billion in 2018, representing a growth rate of 3.4% (2017: 3.0%). This was a relatively steady performance compared to last year. Outflows reflected the ongoing use of funds for lifestyle and property, as well as the departure of a small number of investment managers over the past year.

Net flows into Unit Trusts totalled £543 million in the year (2017: £883 million) representing 10.1% of opening funds under management. Encouragingly, this meant Rathbones funds ranked 11th overall for net retail sales in 2018, according to numbers published in the February 2019 Pridham report.

As reported on page 30, our balance sheet remains stable with a consolidated Common Equity Tier 1 ratio at 31 December 2018 of 20.6% compared with 20.7% at 31 December 2017. We remain very lightly geared with a consolidated leverage ratio at 31 December 2018 of 8.9% compared with 7.8% at 31 December 2017. Our underlying return on capital employed was lower at 16.9% as a result of the £60 million share placing to part-fund the acquisition of Speirs & Jeffrey (2017: 19.5%). A detailed analysis of our regulatory capital position at 31 December 2018 can be found on page 30.

### Performance against our strategy

Our aim to build trusted relationships with our clients and be accountable for the outcome of their portfolios is as relevant today as it was five years ago.

The combination of organic growth, earnings-enhancing acquisitions, positive investment performance and effective cost management has helped Rathbones create and maintain value for shareholders and employees alike. In an environment of continued growth and favourable markets, we have delivered underlying operating profit margins at around the 30% mark over a period of significant change. This has been achieved while investing in our infrastructure, managing regulatory developments and pursuing a number of growth initiatives.

Market growth has not been particularly strong over the last five years, with the FTSE 100 Index average of 7269 for 2018 representing only a 13.2% increase over the average in 2014 of 6419. In spite of this, our underlying profits over that period have grown 81.4% to £91.6 million in the year ended 31 December 2018 (31 December 2013: £50.5m).

Funds under management and administration in the Investment Management business have grown 90.6% to £38.5 billion at 31 December 2018 from £20.2 billion five years ago. While our average net organic growth of 3.3% did not meet the 5% we aimed for, it does reflect somewhat the headwinds of a sustained period of low yields and a continuing client appetite to invest away from public investment markets and into property.

Our strategic focus on distribution of our discretionary fund management services through UK IFA networks continues to positively contribute to organic growth.

Our charity and Greenbank specialist mandate businesses have continued to perform strongly. Rathbones is the fourth largest charity investment manager in the UK, with £5.3 billion of charity-related funds at 31 December 2018, and now competes for some of the largest charity business in the country. Our specialist ethical investment business, Rathbone Greenbank Investments, has also benefited from momentum in this period, growing funds to £1.2 billion at 31 December 2018.

The Unit Trusts business in particular has gained considerable momentum and is now a £5.6 billion business (funds under management at 31 December 2018) in its own right and importantly does not rely on internal funds for growth. We now manage three funds of over £1 billion and have launched several new funds and strategies to keep up with growing demand and the ever-changing investment market.

Some other growth initiatives have been slower to bear fruit. Our in-house financial planning business has been restructured recently. It will require investment in the short term to ensure that all of our key offices have an appropriate level of access to financial advisers to support business development. We will continue to invest selectively in financial planning talent in 2019. The Rathbone Private Office has also recently been restructured to simplify its proposition and build closer links with private client discretionary managers. We will continue to leverage the professional network it has established to add to growth.

### Supplementing our growth through acquisitions

Our growth strategy has always been supported by the acquisition of teams and businesses, and our approach here has and will remain opportunistic. Our acquisitions and recruitment have added 137 investment professionals over the past five years. In 2014, we acquired Deutsche Bank's London and Jupiter's private client businesses (£2.6 billion) and in 2018 we acquired Speirs & Jeffrey (£6.7 billion). This was in addition to the acquisition of Vision Independent Financial Planning in 2015.

Our acquisition of Speirs & Jeffrey makes Rathbones the largest independent discretionary wealth manager in Scotland and further reinforces our long-held commitment to the region. Like Rathbones, Speirs & Jeffrey has a long-standing heritage and client-centric philosophy and our combined scale enables greater financial and organisational capacity to invest in our people, technology and processes. Work to bring the business into Rathbones is progressing well and the migration to our systems is intended to complete by mid-2019. Our commitment to keeping clients at the forefront of what we do will remain as we bring our two businesses together.

We will continue to focus on our key competencies to take advantage of industry trends and drive organic growth, while also seeking out acquisition opportunities that fit our culture.

### Steady investment in our infrastructure

Capital expenditure excluding property costs was relatively stable at £9.7 million in 2018 (£9.3 million in 2017) but as an overall trend it has been increasing in recent years. Our investment systems remain market-leading and these have been enhanced, offering the ability to deal more efficiently, better manage asset allocation and measure investment performance. The roll-out of our asset allocation modelling software across Rathbone Investment Management five years ago was an exciting step for us and enabled each of our investment managers to better manage client portfolios through the ability to actively compare them to model strategies. This tool is now a critical part of our infrastructure. Over the same period, we have steadily grown our research skills and capability, which now represents a strong backbone to our investment process and a considerable source of investment intellectual property.

Like many other businesses, we continue to strive to make all our desired improvements to our client relationship management systems and will continue to work diligently this year to achieve our goals. Our other operational systems remain well controlled, supported by a technology infrastructure that is considerably more resilient than it was five years ago.

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**“The combination of organic growth, earnings-enhancing acquisitions, positive investment performance and effective cost management has helped Rathbones create and maintain value for shareholders and employees alike.”**

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## Managing the impacts of greater regulation

2018 was a year in which significant new regulation was implemented, adding to both capital and operating costs and involving some considerable internal resource. We were not alone as many industry participants wrestled with MiFID II and GDPR implementation projects whilst continuing to pursue a busy change agenda. Notwithstanding a sustained period of heavy regulatory change in 2018, we expect the impact to continue to be felt in 2019. Income in 2018 for example continued to benefit from the generation of ‘risk-free’ managers’ box dealing profits (£3.4 million in the year ended 31 December 2018 and £3.1 million in 2017) in our Unit Trust business, but such profits will not recur in 2019. Alongside the wider asset management industry, we also expect to face greater public scrutiny of costs and charges following the implementation of MiFID II. We remain confident in our value proposition but will continue to improve our services to clients.

## Employees

Our employees remain the most valuable part of our business and without them we would not be the leading wealth manager we are today. We explained last year that current employee share ownership had been falling and we are pleased to have addressed this during the year with our new Staff Equity Plan. From May 2018, this adds £4.5 million per annum over five years to operating expenses. We also continue to support the Share Incentive Plan (SIP) and it is encouraging to see that 1,055 (nearly 80%) of employees now actively participate in that plan. The increased employee share ownership provided by all of these plans ensures employees are directly incentivised by, and motivated to ensure, the positive performance of the group and its continuing long-term success.

Training and career development is important to us and we strive to provide a high-quality learning and development experience for all of our employees to ensure they are well-informed and to help them achieve both their professional and personal potential. In 2019, we also expect our emphasis to move away from the considerable amount of regulatory training completed in recent years to pay greater attention to other areas such as leadership development and succession planning.

## Outlook and succession

We have made some significant progress over the last five years, but there is still work to do to develop our services and strive for greater operational efficiency. This year will be a busy one, with strategic investment decisions being made amid the heightened uncertainties in investment markets. During 2019, we will not only focus on ensuring that the transfer of Speirs & Jeffrey clients to our platform is successful, but we will also improve our customer relationship management systems and client reporting tools, while continuing to develop other systems and processes as we progress our digital agenda and continue to grow. We will continue to maintain our cost discipline, investing as market conditions allow and ensuring that our infrastructure supports the business and manages operational risks appropriately.

On 27 November 2018, we announced that I will be retiring from my role as chief executive by the Annual General Meeting in May 2019. When I joined Rathbones in 2013, we were a business with £22.0 billion of funds under management, 41,000 clients and around 800 people. Back then, I could not have imagined the opportunities and challenges that we would face along the way but, five years later, at the end of 2018, we have emerged as the largest independent discretionary fund management provider in the UK, with £44.1 billion of funds under management and administration, some 60,000 clients and over 1,400 people. These achievements are down to the many talented employees who compose Rathbones.

Paul Stockton will take on the role of chief executive and, having worked closely with him for several years, I believe he is the right person to lead the company into the next chapter of its history.

I leave Rathbones with great confidence that the business is well-positioned for the next phase of growth, which will be announced in the second half of 2019. It has been my privilege to lead Rathbones and I thank you all for your support over the last five years.

**Philip Howell**  
Chief Executive

20 February 2019

# Our market and opportunities

### Enduring demand for face-to-face advice

An ageing population with increased life expectancy along with greater pension freedoms increases the need to save for retirement and finance lifestyles over a longer period of time. Clients and advisers value face-to-face delivery of services.

### How we respond

- Focus on a discretionary model, which promotes regular client and adviser contact
- A strong investment process to support a wide variety of differing client needs
- Specialist services such as our charities business and Rathbone Greenbank Investments to cater to differing investment requirements
- A suite of fund solutions through Rathbone Unit Trust Management for clients who do not require a fully bespoke investment service
- Complementary services such as loans and financial planning

### Leveraging technology

The industry continues to change with all business models looking for technological advantage. Keeping pace with this change is fundamental to sustaining a quality service.

### How we respond

- Leading investment management systems and a stable core platform
- A desire to enhance the digital client experience
- Investment in client relationship management systems

### Taking advantage of scale economies

Many businesses in the marketplace are unable to keep up with the pace of regulatory and technological change. This has led to an increased need for consolidation.

### How we respond

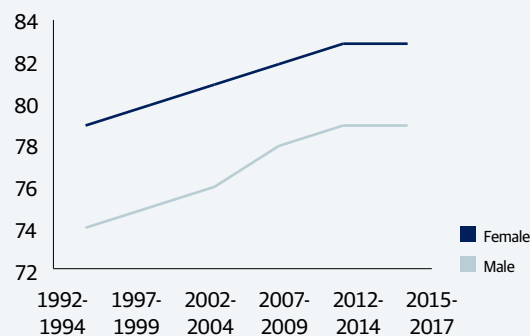
- Selectively added 137 investment managers over the last five years
- Opened new regional offices in Newcastle and Glasgow
- Successfully acquired the Deutsche Bank's London and Jupiter's private client businesses in 2015 (£2.6 billion funds under management and administration), Vision Independent Financial Planning in 2015 and Speirs & Jeffrey in 2018 (£6.7 billion funds under management and administration)
- Further developed our distribution channels



### How we will develop

- Continue to improve the delivery of our discretionary service offering
- Widen breadth and depth of investment and research capability
- Leverage our existing environmental, social and governance capability to make this form of investing more mainstream
- Selectively add to the funds provided by Rathbone Unit Trust Management in response to client and adviser needs
- Fully embed our financial planning capability in all offices
- Continue to grow the Vision Independent Financial Planning adviser network

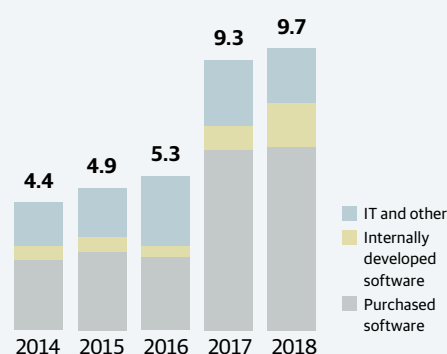
### Average life expectancy continues to increase in the UK<sup>1</sup> (years)



### How we will develop

- Continue to invest in systems that will reduce time spent on administrative tasks
- Enhance the use of data to reduce costs and improve profitability
- Further develop and expand our digital client experience
- Continue to upgrade relationship management tools and risk management processes

### Capital expenditure (excluding property) (£m)



### How we will develop

- Continue to look for consolidation opportunities that fit our culture but maintain strict acquisition criteria
- Support business development activity to improve organic growth with direct clients, intermediaries and advisers
- Continue to selectively recruit individuals and teams to the business

The market is fragmented and there are several firms that have less than £5bn of funds under management, making the consolidation argument strong<sup>2</sup>

1. Data from the Office for National Statistics  
2. Data from the 2018 Private Asset Managers (PAM) Directory

# Our journey

Our objective in 2014 was to be the UK's leading independently-owned provider of investment management services to private clients, charities and trustees. From a starting point of £22.0 billion, we have grown to manage £44.1 billion today. The combination of organic growth, earnings-enhancing acquisitions, positive investment performance, favourable markets and effective cost management has also helped Rathbones create and maintain value for shareholders and employees alike.

**Earnings-enhancing acquisitions**

- 2014: Deutsche Bank's London and Jupiter's private client businesses (£2.6 billion)
- 2015: Vision Independent Financial Planning to help expand distribution channels
- 2018: Speirs & Jeffrey (£6.7 billion)

2018  
Closing funds under management and administration

**£44.1bn**

2017

**£39.1bn**

2016

**£34.2bn**

2015

**£29.2bn**

2014

**£27.2bn**

2014

Opening funds under management and administration

**£22.0bn**

2014

2015

2016

2017

2018



# Five years of strategic progress



## Quality service

We aim to provide our clients with the highest quality of service to maintain our brand reputation and competitive positioning.

- Upgraded investment process to facilitate more efficient management of portfolios
- Invested in in-house research, adding intellectual capacity, improving both written outputs and their timely communication to clients
- Improved ability to demonstrate performance by attaining GPS accreditation
- Invested in front office tools and automation of operational processes, allowing teams to manage client bases more effectively
- Continued the development of our customer relationship management platform
- Began a technology upgrade programme, which will improve data management capabilities, and introduced additional security measures to combat the growing cyber threat
- Managed investment management team capacity to support growth and ongoing client service
- Developed reporting tools to support client meetings and client engagement
- Implemented a new brand identity and marketing communications suite that appeals to a broader range of clients

**Principal risks:**

Suitability and advice (see page 38)  
Regulatory (see page 39)



## Earnings growth

Our aim is to build high-quality revenues that support ongoing investment and provide a growing stream of dividend income for shareholders over each economic cycle.

- Added new funds to broaden our Unit Trusts offering, with three funds now managing over £1 billion
- Widened specialist mandate capability, building on our dedicated charity capability to grow Rathbone Greenbank Investments and offer more mainstream sustainable investment options
- Enhanced management information tools to improve support for commercial decision-making
- Selectively added 137 investment managers over the last five years
- Opened offices in Newcastle in 2013 and Glasgow in 2015
- Created a combined dedicated intermediary sales team to focus on strategic partners
- Established dedicated support teams for IFA networks

**Principal risks:**

Suitability and advice (see page 38)  
Regulatory (see page 39)



## Employee value

Our ability to achieve growth and deliver a quality service is dependent on the ability of our people. We are committed to rewarding our staff in line with business objectives and providing them with an interesting and stimulating career environment.

- Redefined remuneration structures and created opportunities for more employees to build a larger element of equity ownership
- Continued to monitor succession and development plans for critical roles and functions
- Established ongoing development and monitoring of culture
- Expanded graduate and apprenticeship schemes
- Increased average annual training investment per employee each year for the last five years
- Rolled out training programmes covering diversity, inclusion and unconscious bias
- Signed the Women in Finance Charter and made significant improvements to both maternity and paternity policies

**Principal risks:**

Regulatory (see page 39)  
People (see page 39)

Read more on our KPIs on pages 19 to 21.

# Our performance



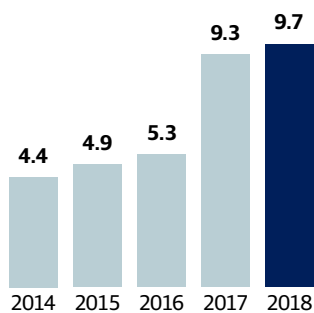


# Monitoring our performance

## Quality service

Capital expenditure excluding property (£m)

**£9.7m**



**Definition**

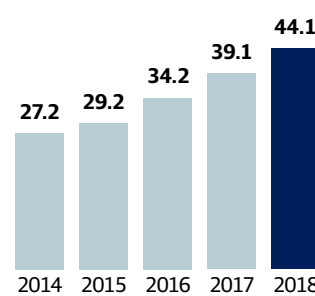
Funds used to acquire, upgrade and maintain physical and technological assets (mostly intangible), with the exception of property.

**Relevance**

Reflects how much we are investing back into the business as well as on undertaking new projects or investments to maintain or increase the scope and efficiency of our operations.

Total funds under management and administration (£bn)

**£44.1bn**



**Definition**

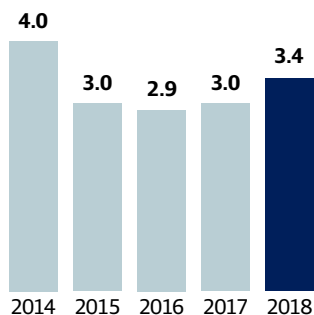
Total funds under management and administration at the end of the year.

**Relevance**

The amount of funds that we manage directly impacts the level of income we receive.

Investment Management net organic growth rates (%)

**3.4%**



**Definition**

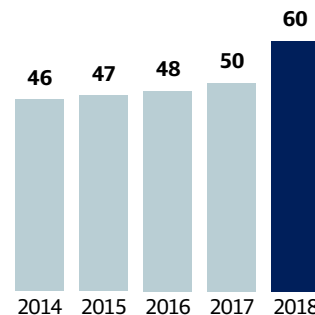
The value of annual net inflows from Investment Management as a percentage of opening funds under management and administration.

**Relevance**

Measures the ability of the firm to grow business in the absence of acquisitions.

Number of Investment Management clients ('000)

**60,000**



**Definition**

The number of clients who use our services.

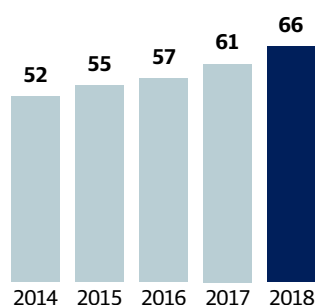
**Relevance**

In an industry where scale is important, the size of our client base helps to determine market share.

## Earnings growth

### Dividend per share (p)

66p



#### Definition

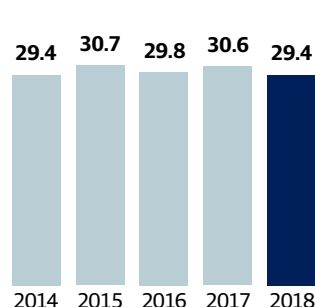
Total annual dividend per share (interim and final).

#### Relevance

Dividends represent an important part of the returns to shareholders.

### Underlying operating margin (%)

29.4%



#### Definition

Underlying profit before tax as a percentage of underlying operating income.

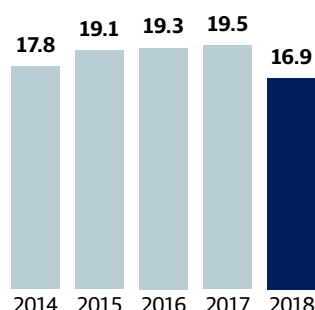
#### Relevance

This measure enables the group's operational and segmental performance to be understood, accurately reflecting key drivers of long-term profitability.

Refer to page 22 for a full definition of adjusted measures.

### Return on capital employed (%)

16.9%



#### Definition

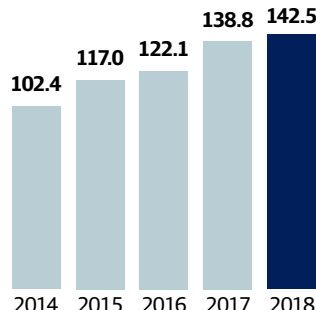
Underlying profit after tax as a percentage of the quarterly average total of equity.

#### Relevance

A useful measure of financial efficiency as it measures profitability after factoring in the amount of capital employed by the business.

### Underlying earnings per share (p)

142.5p



#### Definition

Underlying profit after tax divided by the weighted average number of ordinary shares.

#### Relevance

An important measure of performance as it shows profitability reflecting the effects of any new share issuance.

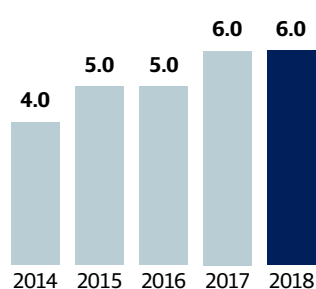
Refer to page 22 for a full definition of adjusted measures.



## Employee value

### Staff turnover (%)

6.0%



#### Definition

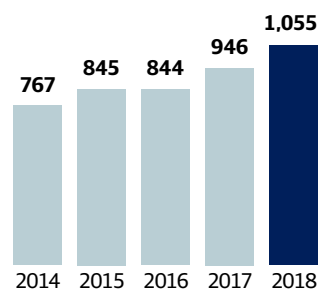
Number of permanent employees who have left during the year, excluding retirements and redundancies, as a percentage of opening headcount.

#### Relevance

A measure of staff retention, which can be a reflection of the work environment and commitment to the organisation.

### Number of participants with SIP partnership shares

1,055



#### Definition

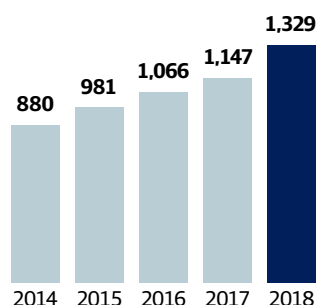
The number of staff who make a direct contribution to purchase shares in the business.

#### Relevance

A measure of commitment to the organisation and belief in the future financial success of the company.

### Average full-time equivalent employees

1,329



#### Definition

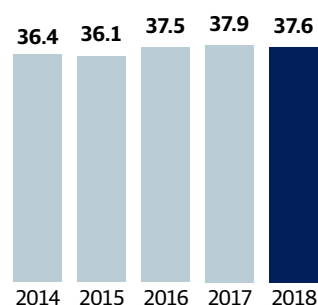
Monthly average number of full-time equivalent staff during the year.

#### Relevance

A fundamental measure for cost growth and operational efficiency.

### Variable staff costs as a % of underlying profit before tax and before variable staff costs

37.6%



#### Definition

Variable staff costs divided by underlying profit before tax and before variable staff costs.

#### Relevance

Shows the extent to which reward is aligned to the performance of the company.

# Financial performance



Paul Stockton  
Finance Director

Table 1. Group's overall performance

	2018 £m (unless stated)	2017 £m (unless stated)
Underlying operating income	<b>312.0</b>	286.0
Underlying operating expenses	<b>(220.4)</b>	(198.5)
Underlying profit before tax <sup>1</sup>	<b>91.6</b>	87.5
Underlying operating margin <sup>2</sup>	<b>29.4%</b>	30.6%
Profit before tax	<b>61.3</b>	58.9
Effective tax rate	<b>24.6%</b>	20.5%
Taxation	<b>(15.1)</b>	(12.1)
Profit after tax	<b>46.2</b>	46.8
Underlying earnings per share	<b>142.5p</b>	138.8p
Earnings per share	<b>88.7p</b>	92.7p
Dividend per share <sup>3</sup>	<b>66.0p</b>	61.0p
Return on capital employed <sup>4</sup>	<b>16.9%</b>	19.5%

1. A reconciliation between underlying profit before tax and profit before tax is shown in table 2
2. Underlying profit before tax as a % of underlying operating income
3. The total interim and final dividend proposed for the financial year
4. Underlying profit after tax (note 14) as a % of average equity at each quarter end

## Overview of financial performance

Our financial results in 2018 were reasonably strong, as underlying profit before tax grew by 4.7% to £91.6 million. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 29.4% for the year and thus in line with our target of 30% over the cycle (2017: 30.6%). Profit before tax increased by 4.1% to £61.3 million.

Profits from Speirs & Jeffrey are included for the four-month period since completion of the acquisition on 31 August 2018, together with all of the associated acquisition-related profit and loss charges.

## Underlying operating income

Fee income of £233.4 million in 2018 increased 7.3% compared to £217.5 million in 2017, reflecting organic and acquired new business over the period. Fees represented 74.8% of total underlying operating income in 2018, lower than the 76.0% in 2017, largely reflecting a higher proportion of commissions in Speirs & Jeffrey and increased interest margins. Net commission income increased 7.0% to £41.4 million (2017: £38.7 million) in 2018. Net interest income increased 31.9% to £15.3 million, reflecting higher interest rates and a longer average duration in treasury assets.

A full reconciliation between underlying operating income and reported operating income is provided on page 122.

## Underlying operating expenses

Underlying operating expenses increased by 11.0%, not only reflecting £5.9 million of Speirs & Jeffrey operating costs, but also underlying growth in the business as well as additional research costs totalling £2.3 million, which are now borne by the company rather than our investment funds following the adoption of MiFID II.

Planned additions to headcount increased fixed staff costs by 5.5% to £92.6 million, with Speirs & Jeffrey adding a further £3.3 million of fixed staff costs and 156 heads. In total, average headcount increased by 15.9% to 1,329 in 2018.

Total variable staff costs increased by 3.4% to £55.1 million, reflecting improved performance pay levels and the additional cost of share incentives to staff. Variable staff costs in 2018 represented 17.7% of underlying operating income (2017: 18.6%) and 37.6% of underlying profit before variable staff costs and tax (2017: 37.9%).



## Group underlying profit before tax/operating margin

Underlying profit before tax and earnings per share are considered by the board to be a better reflection of true business performance than reviewing results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude income and expenditure falling into the four categories explained below.

Table 2. Reconciliation of underlying profit before tax to profit before tax

	2018 £m	2017 £m
Underlying profit before tax	<b>91.6</b>	87.5
Gain on plan amendment of defined benefit pension schemes	-	5.5
Charges in relation to client relationships and goodwill	<b>(13.2)</b>	(11.7)
Acquisition-related costs	<b>(19.9)</b>	(6.2)
Head office relocation costs	<b>2.8</b>	(16.2)
Profit before tax	<b>61.3</b>	58.9

### Charges in relation to client relationships and goodwill (note 22)

As explained in notes 1.14 and 3.1, client relationship intangible assets are created when we acquire a business or a team of investment managers. The charges associated with these assets represent a significant non-cash item and they have, therefore, been excluded from underlying profit, which represents largely cash-based earnings more directly relates to the financial reporting period. Charges for amortisation of client relationship intangibles in the year ended 31 December 2018 were £13.2 million (2017: £11.7 million), reflecting the Speirs & Jeffrey and other acquisitions.

### Acquisition-related costs (note 9)

Acquisition-related costs are significant costs which arise from strategic investments to grow the business rather than from its trading performance and are therefore excluded from underlying results.

Net costs of £18.4 million were incurred in 2018 in relation to the acquisition of Speirs & Jeffrey. These amounts are largely capital in nature but, in accordance with IFRS 3, any deferred consideration payments to shareholders of the acquired business who remain in employment with the group must be treated as remuneration. During 2018, £14.7 million of deferred consideration payments were expensed to the income statement and are considered separately for executive remuneration purposes (see page 78).

Deferred costs of £1.5 million (2017: £1.3 million) were incurred in relation to the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions, which were completed on 31 December 2015. These amounts include the cost of payments to vendors of the business who remain in employment with the group. The final payment for this acquisition of £7.0 million is due at the end of 2019.

As announced on 31 August 2017, we incurred professional services costs of £4.9 million in relation to the merger discussions with Smith & Williamson during 2017.

### Head office relocation costs (note 10)

During February 2017, we relocated our London head office to new premises following a nine-month fit-out period. Charges incurred in relation to the double running of the two London premises and the relocation amounted to £16.2 million in 2017. This included the recognition of a provision for the cost of the surplus property until the end of the existing lease, net of any expected rental income from sub-letting the space.

On 6 June 2018, our legacy lease was assigned, several months earlier than anticipated, triggering a release of the unused element of the provision. Professional costs were also incurred in 2018 and, consequently, a net credit of £2.8 million has been recognised in the result for 2018.

These items represent an investment to expand our operating capacity in a key location and are not expected to recur in the short to medium term; they have therefore been excluded from underlying results.

### Gain on plan amendment of defined benefit pension schemes (note 28)

All defined benefit schemes were closed with effect from 30 June 2017, ceasing all future accrual and breaking the link to salaries. These changes resulted in a plan amendment gain of £5.5 million, which was recognised in operating income in 2017. This gain was a significant one-off item which does not directly relate to the trading performance of the business and it has, therefore, been excluded from underlying results.

### Taxation

The corporation tax charge for 2018 was £15.1 million (2017: £12.1 million) and represents an effective tax rate of 24.6% (2017: 20.5%). The effective tax rate in 2018 reflects the disallowable costs of the deferred consideration payments in relation to the acquisition of Speirs & Jeffrey. The effective tax rate in 2019 and 2020 is expected to remain elevated as the group continues to recognise these costs. Thereafter, the group expects it to return to 1-2% above the statutory rate.

A full reconciliation of the income tax expense is provided in note 12 to the financial statements.

The Finance Bill 2016, which included provisions for the UK corporation tax rate to be reduced to 17% in April 2020, from 19% in April 2017, gained royal assent in September 2016. Deferred tax balances have therefore been calculated based on these reduced rates where timing differences are forecast to unwind in future years.

### Basic earnings per share

Basic earnings per share for the year ended 31 December 2018 were 88.7p compared to 92.7p in 2017. This reflects the full impact of non-underlying income and charges as well as the issue of 3.9 million shares to partially finance the acquisition of Speirs & Jeffrey and to satisfy share-based remuneration scheme awards. On an underlying basis, earnings per share increased by 2.7% to 142.5p in 2018 (see note 14 to the financial statements).

### Dividends

We operate a generally progressive dividend policy, as set out in the directors' report on page 92.

In determining the level of any proposed dividend, the board has regard to current and forecast financial performance. Any proposal to pay a dividend is subject to compliance with the Companies Act, which requires that the company must have sufficient distributable reserves from which to pay the dividend. The company's distributable reserves are primarily dependent on:

- compliance with regulatory capital requirements for the minimum level of own funds
- the level of profits earned by the company, including distributions received from trading subsidiaries (some of which are subject to minimum regulatory capital requirements themselves)
- actuarial changes in the value of the pension schemes that are recognised in the company's other comprehensive income, net of deferred tax.

At 31 December 2018 the company's distributable reserves were £68.9 million (2017: £63.9 million).

In light of the results for the year, the board has proposed a final dividend for 2018 of 42.0p. This results in a full-year dividend of 66.0p, an increase of 5.0p on 2017 (8.2%). The proposed full-year dividend is covered 1.3 times by basic earnings and 2.2 times by underlying earnings.

### Capital expenditure

Overall, capital expenditure of £11.0 million in 2018 was down £0.3 million compared to 2017, a fall of 2.7%. As planned, expenditure on software increased by £0.7 million as we continued with the IT change programme announced in 2017. These activities are expected to continue into 2019 with a similar level of capital expenditure.

Premises-related capital expenditure fell by £1.0 million following the completion of our head office relocation in 2017.

### Return on capital employed

The board monitors the return on capital employed (ROCE) as a key performance measure, which forms part of the assessment of management's performance for remuneration purposes as described in the remuneration report on page 81. For monitoring purposes, ROCE is defined as underlying profit after tax expressed as a percentage of quarterly average total equity across the year.

Consideration of the return on capital is a key consideration of all investment decisions, particularly in relation to acquired growth.

In 2018, ROCE was 16.9%, a decrease of 2.6% on 2017. Quarterly average total equity increased by £73 million in 2018 compared to 2017, reflecting the issue of £60 million of new share capital in 2018 and the impact of retained earnings.

### Outlook

The group's profitability remains closely linked with the performance in investment markets, which are expected to be more volatile in 2019. In 2019, the group's results will reflect a full year of profits from Speirs & Jeffrey, together with the associated costs of acquisition and integration. Client migration to Rathbones' systems is expected to complete towards the middle of 2019.

Staff costs in 2019 will reflect the full impact of hiring activity in 2018 in addition to salary inflation of 3.6% and the cost of five-year share-based awards made in May 2018, which will be spread on a straight line basis over five years from launch. Following the announcement of Philip Howell's planned retirement from the role of chief executive in May 2019, the cost of his outstanding deferred awards are being accelerated to recognise the full cost over the shorter service period.

Following publication of the final rules associated with the FCA's Asset Management Market Study, we have converted our unit trust funds to single priced units from 21 January 2019. The £3.4 million of associated managers' box dealing profits earned in 2018 (2017: £3.1 million) are not expected to recur in 2019.

We will continue to maintain our cost discipline, investing as market conditions allow to support our growth strategy and ensure that our infrastructure supports the business and manages operational risks appropriately.

### Other financial impacts

The group is required to adopt IFRS 16, a new accounting standard for leases, with effect from 1 January 2019. As described in note 1 to the financial statements, IFRS 16 requires a change in the accounting requirements for operating leases which accelerates the charge to profit or loss associated with the leases. In 2019, we expect this change will add approximately £0.3 million to the group's net charge for leases.

Deferred consideration payments to former shareholders of Speirs & Jeffrey will be made in 2019 to 2022. The ultimate amounts payable are conditional on performance against certain operational targets. The final payment to the sellers of Vision Independent Financial Planning and Castle Investment Solutions will be made at the end of 2019. We currently expect to recognise a non-underlying charge of approximately £31 million in 2019 in relation to these deferred payments.

The group is managed through two key operating segments, Investment Management and Unit Trusts.

## Investment Management

The activities of the group are described in detail on pages 4 to 9. The Investment Management segment comprises those activities described under the headings 'Investment Management' and 'complementary services' on pages 4 and 5. The results of the Investment Management segment described below include the trading results of Speirs & Jeffrey for the last four months of the year, following its acquisition on 31 August 2018.

Investment Management income is largely driven by revenue margins earned from funds under management and administration. Revenue margins are expressed as a basis point return, which depends on a mix of tiered fee rates, commissions charged for transactions undertaken on behalf of clients and the interest margin earned on cash in client portfolios and client loans.

Year-on-year changes in the key performance indicators for Investment Management are shown in table 3.

Table 3. Investment Management - key performance indicators

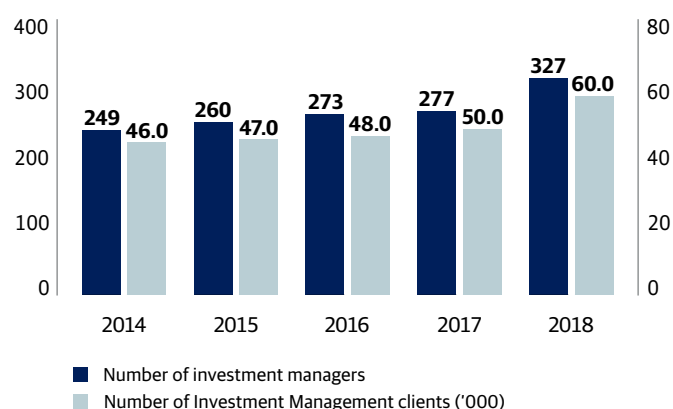
	2018	2017
Funds under management and administration at 31 December <sup>1</sup>	<b>£38.5bn</b>	£33.8bn
Underlying rate of net organic growth in Investment Management funds under management and administration <sup>1</sup>	<b>3.4%</b>	3.0%
Underlying rate of total net growth in Investing Management funds under management and administration <sup>1</sup>	<b>23.5%</b>	3.9%
Average net operating basis point return <sup>2</sup>	<b>71.4 bps</b>	72.7 bps
Number of Investment Management clients	<b>60,000</b>	50,000
Number of investment managers	<b>327</b>	277

1. See table 4

2. See table 7

During 2018, Investment Management has continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 50,000 in 2017 to approximately 60,000 during the year. During 2018, the total number of investment managers increased to 327 at 31 December 2018 from 277 at the end of 2017. Of these, approximately 8,500 clients and 38 investment managers joined the group with the acquisition of Speirs & Jeffrey on 31 August 2018.

Chart 1. Investment Management - number of clients and investment managers



## Funds under management and administration

Investment Management funds under management and administration increased by 13.9% to £38.5 billion at 31 December 2018 from £33.8 billion at the start of the year. This increase is analysed in table 4.

Table 4. Investment Management - funds under management and administration

	2018 £bn	2017 £bn
As at 1 January	<b>33.8</b>	30.2
Inflows	<b>10.6</b>	3.4
- organic <sup>1</sup>	<b>3.8</b>	3.1
- acquired <sup>2</sup>	<b>6.8</b>	0.3
Outflows <sup>1</sup>	<b>(2.7)</b>	(2.2)
Market adjustment <sup>3</sup>	<b>(3.2)</b>	2.4
As at 31 December	<b>38.5</b>	33.8
Net organic new business <sup>4</sup>	<b>1.1</b>	0.9
Underlying rate of net organic growth <sup>5</sup>	<b>3.4%</b>	3.0%
Underlying rate of total net growth <sup>6</sup>	<b>23.5%</b>	3.9%

1. Value at the date of transfer in/(out)

2. Value at date of acquisition

3. Represents the impact of market movements and investment performance

4. Organic inflows less outflows

5. Net organic new business as a % of opening funds under management and administration

6. Net organic new business and acquired inflows as a % of opening funds under management and administration

Net organic growth in our Investment Management business was 3.4% (2017: 3.0%). Total gross organic inflows grew 22.6% to £3.8 billion, with approximately half coming from existing client relationships.

## Segmental review continued

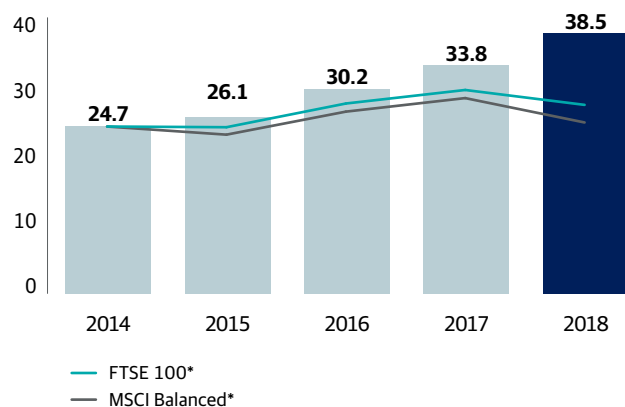
Charity funds under management and administration continued to grow strongly and reached £5.3 billion at 31 December 2018, up 12.8% from £4.7 billion at the start of the year.

Funds under management and administration in accounts linked to independent financial advisers and provider panel relationships increased by £0.1 billion during 2018, ending the year at £7.8 billion.

The acquisition of Speirs & Jeffrey on 31 August 2018 added £6.7 billion to funds under management and administration.

Outflows of funds under management and administration during the year were 8% of the opening balance (2017: 7%) largely reflecting some recent losses of investment managers.

**Chart 2. Investment Management – funds under management and administration five-year growth (£bn)**



\* Index figures show how funds under management and administration would have changed between 2014 and 2018 if they had tracked each index

In total, net organic and acquired growth added £7.9 billion to Investment Management funds under management and administration in 2018 (2017: £1.2 billion), representing 23.5% of opening funds under management and administration (2017: 3.9%).

As at 31 December 2018, Vision Independent Financial Planning advised on client assets of £1.54 billion, up 10.0% from 2017.

2018 was an extremely testing year for UK investors, beset by Brexit concerns. This was exacerbated in the final quarter as investors worried about the impact on global growth of the US Federal Reserve raising interest rates more quickly. The ongoing trade dispute between the US and China also hit sentiment later in the year. Reflecting these factors, the MSCI WMA Balanced index finished the year down 7.18%.

Against this backdrop, the average investment return across all Investment Management client portfolios slightly outperformed the WMA index by 0.2%. This outperformance was largely driven by UK equities, which have benefited from the weakness in sterling, and more defensive alternative asset classes, as well as UK property and gold. Overall performance against other competitor indices, such as the Private Client Indices published by ARC, was robust.

## Financial performance

**Table 5. Investment Management – financial performance**

	2018 £m	2017 £m
Net investment management fee income <sup>1</sup>	<b>200.5</b>	189.5
Net commission income	<b>41.4</b>	38.7
Net interest income	<b>15.3</b>	11.6
Fees from advisory services <sup>2</sup> and other income	<b>18.1</b>	14.8
Underlying operating income	<b>275.3</b>	254.6
Underlying operating expenses <sup>3</sup>	<b>(196.5)</b>	(177.8)
Underlying profit before tax	<b>78.8</b>	76.8
Underlying operating margin <sup>4</sup>	<b>28.6%</b>	30.2%

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers

2. Fees from advisory services includes income from trust, tax and financial planning services (including Vision)

3. See table 8

4. Underlying profit before tax as a % of underlying operating income

Net investment management fee income increased by 5.8% to £200.5 million in 2018, benefiting from positive markets for most of the year as well as organic and acquired growth in funds under management and administration. Fee income in Speirs & Jeffrey in the period post acquisition totalled £4.3 million.

Fees are applied to the value of funds on quarterly charging dates. Average funds under management and administration on these billing dates in 2018 were £36.6 billion, up 8.3% from 2017 (see table 6).

**Table 6. Investment Management – average funds under management and administration**

	2018 £bn	2017 £bn
Valuation dates for billing		
– 5 April	<b>32.4</b>	31.5
– 30 June	<b>34.1</b>	32.0
– 30 September <sup>1</sup>	<b>41.3</b>	32.5
– 31 December	<b>38.5</b>	33.8
Average	<b>36.6</b>	32.4
Average FTSE 100 level <sup>2</sup>	<b>7269</b>	7426

1. Funds under management and administration at 30 September 2018 included £6.7 billion in Speirs & Jeffrey, for which only one month's fees accrued to the group post-acquisition

2. Based on the corresponding valuation dates for billing

In 2018, net commission income was £41.4 million, an increase of 7.0% on 2017, including £4.2 million earned by Speirs & Jeffrey during the last four months of the year. Excluding the acquisition, commission levels were £1.5 million lower than 2017, reflecting the continued trend towards our fee-only tariff as well as challenging investment markets.

Net interest income increased 32.1% to £15.3 million in 2018 as a result of higher interest rates during 2018, coupled with an increase in both the average maturity of the treasury book and the level of exposure to higher yielding asset classes. Cash held at the Bank of England reduced from £1.4 billion at 31 December 2017 to £1.2 billion at the end of 2018.

The investment management loan book grew to £131.7 million by the end of the year and contributed £3.5 million to net interest income in 2018 (2017: £3.1 million). Also included in net interest income is £1.3 million (2017: £1.3 million) of interest payable on the Tier 2 notes which are callable in August 2020.

As shown in table 7, the average net operating basis point return on funds under management and administration has decreased by 1.3 bps to 71.4 bps in 2018.

Table 7. Investment Management - revenue margin

	2018 bps	2017 bps
Basis point return <sup>1</sup> from:		
- fee income	56.5	58.4
- commission	11.7	11.9
- interest	3.2	2.4
Basis point return on funds under management and administration	71.4	72.7

1. Underlying operating income (see table 5), excluding interest on own reserves, interest payable on Tier 2 notes issued, fees from advisory services and other income, divided by the average funds under management and administration on the quarterly billing dates (see table 6). Speirs & Jeffrey funds under management and administration have been included pro-rata for the period of ownership

Fees from advisory services and other income increased 22.3% to £18.1 million. This largely reflects a higher level of retained advisory fees earned by Vision Independent Financial Planning and growth in trust administration revenues.

Underlying operating expenses in Investment Management for 2018 were £196.5 million, compared to £177.8 million in 2017, an increase of 10.5%. This is highlighted in table 8.

Table 8. Investment Management - underlying operating expenses

	2018 £m	2017 £m
Staff costs <sup>1</sup>		
- fixed	66.5	59.5
- variable	37.7	40.2
Total staff costs	104.2	99.7
Other operating expenses	92.3	78.1
Underlying operating expenses	196.5	177.8
Underlying cost/income ratio <sup>2</sup>	71.4%	69.8%

1. Represents the costs of investment managers and teams directly involved in client-facing activities

2. Underlying operating expenses as a % of underlying operating income (see table 5)

Fixed staff costs of £66.5 million increased by 11.8% year on year, principally reflecting an 11% increase in average headcount, including c. 1% from Speirs & Jeffrey, and salary inflation.

Variable staff costs of £40.2 million in 2017 include £5.1 million for the cost of variable awards for new teams who had been in situ for longer than 12 months. Following the adoption of IFRS 15, such costs are now capitalised (see note 2 to the financial statements). Excluding these costs from 2017, variable staff costs increased by 7.4% to £37.7 million in 2018, reflecting both the higher profitability in the period and the introduction of the Staff Equity Plan in May 2018 (note 31).

Other operating expenses of £92.3 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £14.2 million (18.2%) reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.



## Unit Trusts

Table 9. Unit Trusts – funds

	2018 £m	2017 £m
Rathbone Global Opportunities Fund	1,351	1,168
Rathbone Ethical Bond Fund	1,236	1,100
Rathbone Income Fund	1,091	1,433
Rathbone Multi Asset Portfolios	965	736
Rathbone Active Income Fund for Charities	179	173
Rathbone Strategic Bond Fund	145	108
Rathbone Global Alpha Fund	111	127
Rathbone High Quality Bond Fund	52	-
Rathbone UK Opportunities Fund	48	61
Rathbone Blue Chip Income and Growth Fund <sup>1</sup>	-	78
Other funds	464	383
	<b>5,642</b>	<b>5,367</b>

1. The Rathbone Blue Chip Income and Growth Fund was merged into the Rathbone Income Fund on 5 October 2018

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Unit Trusts are shown in table 10.

Table 10. Unit Trusts – key performance indicators

	2018	2017
Funds under management at 31 December <sup>1</sup>	5.6	5.3
Underlying rate of net growth in Unit Trusts funds under management <sup>1</sup>	10.1%	21.8%
Underlying profit before tax <sup>2</sup>	12.7	10.7

1. See table 11  
2. See table 13

## Funds under management

Net retail sales in the asset management industry totalled approximately £7 billion in 2018, as reported by the Investment Association (IA), down around £41 billion on 2017. Fixed income funds saw significant outflows in the final quarter, as did UK equity funds throughout the year, reflecting signs of faster US interest rate hikes and the potential for a disorderly Brexit. Global equity was the best-selling sector overall during 2018 and mixed asset funds were also strong sellers, attracting net sales in every month during 2018.

Industry-wide funds under management dropped 6.5% to £1.15 trillion at the end of the year. In total, the IA sectors in which we manage funds saw net inflows of £0.8 billion, down 93% from £11.9 billion in 2017. However, gross sales in those sectors were up 28.7% at £128.4 billion in 2018.

Against this backdrop, overall positive momentum in sales of our funds continued through 2018, with gross sales up 11.8% in the year to £1.9 billion. However, redemptions also increased markedly to £1.4 billion (2017: £0.8 billion), reflecting experience across the industry.

Net inflows of £0.5 billion (2017: £0.9 billion) continued to be spread across the range of funds. The multi asset portfolios, Global Opportunities Fund and Ethical Bond Fund attracted particularly strong net flows in the year, the latter notably contrasting with the industry trend in its sector. This level of net retail sales ranked as the 11th highest in the UK, according to the Pridham Sales Report for 2018.

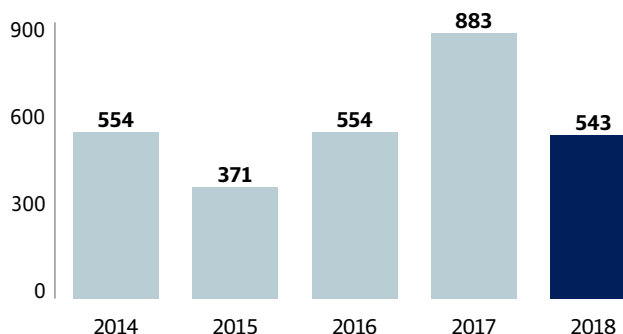
Unit Trusts funds under management closed the year up 5.7% at £5.6 billion (see table 11). Included within this was £464 million managed through Luxembourg-based feeder funds; up 8.4% from £428 million at the end of 2017.

Table 11. Unit Trusts – funds under management

	2018 £bn	2017 £bn
As at 1 January	5.3	4.0
Net inflows	0.5	0.9
– inflows <sup>1</sup>	1.9	1.7
– outflows <sup>1</sup>	(1.4)	(0.8)
Market adjustments <sup>2</sup>	(0.2)	0.4
As at 31 December	5.6	5.3
Underlying rate of net growth <sup>3</sup>	10.1%	21.8%

1. Valued at the date of transfer in/(out)  
2. Impact of market movements and relative performance  
3. Net inflows as a % of opening funds under management

Chart 3. Unit Trusts – annual net flows (£m)



Reflecting the general market trends, the Ethical Bond and UK Opportunities Funds underperformed their peers during the year. The more defensive positioning of the Income and Strategic Bond funds helped relative performance and the funds outperformed their peers over the year. The Global Opportunities Fund's overweight position in the US equity market helped it to generate top quartile performance for the year, despite a weaker performance in the final quarter. Long-term performance for most of our retail funds remains strong and the funds are performing in line with expectations given their investment mandates.

Our multi asset funds posted negative overall returns in 2018, although risk-adjusted returns remained relatively strong compared to peers. Longer-term performance of the multi asset funds remains ahead of benchmark.

**Table 12. Unit Trusts – performance<sup>1,2</sup>**

2018/(2017) Quartile ranking <sup>3</sup> over	1 year	3 years	5 years
Rathbone Ethical Bond Fund	4 (1)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	1 (1)	1 (1)	1 (1)
Rathbone Income Fund	2 (4)	3 (3)	1 (3)
Rathbone UK Opportunities Fund	4 (1)	4 (1)	4 (2)
Rathbone Strategic Bond Fund	1 (2)	1 (2)	2 (2)

1. Quartile ranking data is sourced from FE Trustnet

2. Excludes multi-asset funds (for which quartile rankings are prohibited by the IA), non-publicly marketed funds and segregated mandates. Funds included in the above table account for 72% of the total FUM of the Unit Trusts business

3. Ranking of institutional share classes at 31 December 2018 and 2017 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)

As at 31 December 2018, 92% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2017: 88%).

During 2018, the total number of investment professionals in Unit Trusts increased to 14 at 31 December 2018 from 13 at the end of 2017.

## Financial performance

Unit Trusts income is primarily derived from:

- annual management charges, which are calculated on the daily value of funds under management, net of rebates and trail commission payable to intermediaries
- net dealing profits, which are earned on the bid-offer spread from sales and redemptions of units and market movements on the stock of units that are held on our books overnight.

Net annual management charges increased 17.5% to £32.9 million in 2018, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 58 bps (2017: 60 bps) reflecting the increased proportion of holdings in institutional units and the continued growth in the fixed income mandate funds, which levy a lower rate of annual management charges.

**Table 13. Unit Trusts – financial performance**

	2018 £m	2017 £m
Net annual management charges	<b>32.9</b>	28.0
Net dealing profits	<b>3.4</b>	3.1
Interest and other income	<b>0.4</b>	0.3
Underlying operating income	<b>36.7</b>	31.4
Underlying operating expenses <sup>1</sup>	<b>(24.0)</b>	(20.7)
Underlying profit before tax	<b>12.7</b>	10.7
Operating % margin <sup>2</sup>	<b>34.6%</b>	34.1%

1. See table 14

2. Underlying profit before tax divided by underlying operating income

Net dealing profits of £3.4 million were marginally higher than the previous year (2017: £3.1 million). These revenues will no longer be earned following the conversion of all funds to single-priced units, with effect from 21 January 2019, in compliance with the final rules published by the FCA following its Asset Management Market Study.

Underlying operating income as a percentage of average funds under management fell to 65 bps in 2018 from 67 bps in 2017, reflecting reduced revenue margins.

**Table 14. Unit Trusts – underlying operating expenses**

	2018 £m	2017 £m
Staff costs <sup>1</sup>		
– Fixed	<b>3.3</b>	3.0
– Variable	<b>7.6</b>	7.2
Total staff costs	<b>10.9</b>	10.2
Other operating expenses	<b>13.1</b>	10.5
Underlying operating expenses	<b>24.0</b>	20.7
Underlying cost/income ratio <sup>1</sup>	<b>65.4%</b>	65.9%

1. Underlying operating expenses as a % of underlying operating income (see table 13)

Fixed staff costs of £3.3 million for the year ended 31 December 2018 were 10% higher than in 2017, reflecting salary inflation and growth in headcount in response to regulatory changes.

Variable staff costs of £7.6 million were 5.6% higher than £7.2 million in 2017 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 24.8% to £13.1 million, reflecting an increase in third-party administration costs in line with growth in the business, the absorption of £0.9 million of research costs, which were previously charged to the funds, and project costs related to the high level of regulatory change during the year.

# Financial position

Table 15. Group financial position Please fix the leading on this table.

	2018 £m (unless stated)	2017 £m (unless stated)
<b>Capital resources:</b>		
Common Equity Tier 1 ratio <sup>1</sup>	<b>20.6%</b>	20.7%
Total own funds ratio <sup>2</sup>	<b>22.0%</b>	22.2%
Total equity	<b>464.1</b>	363.3
Tier 2 subordinated loan notes	<b>19.8</b>	19.7
– Risk-weighted assets	<b>1,141.8</b>	977.2
Return on assets <sup>3</sup>	<b>1.6%</b>	1.8%
Leverage ratio <sup>4</sup>	<b>8.9%</b>	7.8%
<b>Other resources:</b>		
Total assets	<b>2,867.7</b>	2,738.9
Treasury assets <sup>5</sup>	<b>2,351.7</b>	2,303.9
Investment management loan book <sup>6</sup>	<b>131.7</b>	120.5
Intangible assets from acquired growth <sup>7</sup>	<b>160.1</b>	151.7
Tangible assets and software <sup>8</sup>	<b>30.2</b>	26.7
<b>Liabilities:</b>		
Due to customers <sup>9</sup>	<b>2,225.5</b>	2,170.5
Net defined benefit pension liability	<b>11.2</b>	15.6

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 16) as a proportion of total risk exposure amount
3. Profit after tax divided by average total assets
4. Common Equity Tier 1 capital as a % of total assets, excluding intangible assets, plus certain off-balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. See note 17 to the financial statements
7. Net book value of acquired client relationships and goodwill (note 22)
8. Net book value of property, plant and equipment and computer software (notes 20 and 22)
9. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank (note 24)

## Capital resources

Rathbones is classified as a banking group for regulatory capital purposes and is therefore required to operate within the restrictions on capital resources and banking exposures prescribed by the Capital Requirements Regulation, as applied in the UK by the Prudential Regulation Authority (PRA).

At 31 December 2018, the group's regulatory capital resources (including verified profits for the year) were £251.4 million (2017: £216.8 million).

Table 16. Regulatory capital resources

	2018 £m	2017 £m
Share capital and share premium	<b>233.0</b>	145.7
Reserves	<b>263.9</b>	222.5
Less:		
– Own shares	<b>(32.7)</b>	(4.9)
Intangible assets <sup>1</sup>	<b>(229.3)</b>	(161.3)
<b>Total Common Equity Tier 1 capital resources</b>	<b>234.9</b>	202.0
<b>Tier 2 capital resources</b>	<b>16.5</b>	14.8
<b>Total own funds</b>	<b>251.4</b>	216.8

1. Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources, less any related deferred tax

Common Equity Tier 1 capital (CET1) resources increased by £32.9 million during 2018, largely due to the inclusion of verified profits for the 2018 financial year and the capital raised from the placing of 2.4 million shares on 18 June 2018, net of dividends paid in the year and the intangible assets acquired through the acquisition of Speirs & Jeffrey.

The CET1 ratio was 20.6%, in line with 20.7% at the previous year end. Our consolidated CET1 ratio remains higher than the banking industry norm, reflecting the low-risk nature of our banking activity.

The leverage ratio was 8.9% at 31 December 2018, up from 7.8% at 31 December 2017. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures.

The business is primarily funded by equity, but also supported by £20 million of 10-year Tier 2 subordinated loan notes. The notes introduce a small amount of gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six-month LIBOR thereafter (note 27).

The consolidated balance sheet total equity was £464.1 million at 31 December 2018, up 27.7% from £363.3 million at the end of 2017, primarily reflecting the issue of new share capital and retained profits for the year.

## Own funds and liquidity requirements

As required under PRA rules, we perform an Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) annually, which include performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that we need to hold. In addition, we monitor a wide range of capital and liquidity statistics on a daily, monthly or less frequent basis as required. Surplus capital levels are forecast on a monthly basis, taking account of proposed dividends and investment requirements, to ensure that appropriate buffers are maintained. Investment of proprietary funds is controlled by our treasury department.

We are required to hold capital to cover a range of own funds requirements, classified as Pillar 1 and Pillar 2.

The group's own funds requirements were as follows:

Table 17. Group's own funds requirements<sup>1</sup>

	2018 £m	2017 £m
Credit risk requirement	<b>44.6</b>	39.5
Market risk requirement	<b>0.4</b>	0.4
Operational risk requirement	<b>46.3</b>	38.4
Pillar 1 own funds requirement	<b>91.3</b>	78.3
Pillar 2A own funds requirement	<b>48.4</b>	46.1
Total Pillar 1 and 2A own funds requirements	<b>139.7</b>	124.4
CRD IV buffers:		
capital conservation buffer (CCB)	<b>28.5</b>	18.3
- countercyclical buffer (CCyB)	<b>8.9</b>	0.1
Total Pillar 1 and 2A own funds requirements and CRD IV buffers	<b>177.1</b>	142.8

1. Own funds requirements stated above include the impact of trading results and changes to requirements and buffers that were known as at 31 December and which became effective prior to the publication of the preliminary results

## Pillar 1 – minimum requirement for capital

Pillar 1 focuses on the determination of a total risk exposure amount (also known as 'risk-weighted assets') and expected losses in respect of the group's exposure to credit, counterparty credit, market and operational risks, and sets a minimum requirement for capital.

At 31 December 2018, the group's total risk exposure amount was £1,142.7 million (2017: £977.2 million).

## Pillar 2 – supervisory review process

Pillar 2 supplements the Pillar 1 minimum requirement with a firm-specific Individual Capital Guidance (Pillar 2A) and a framework of regulatory capital buffers (Pillar 2B).

The Pillar 2A own funds requirement (which is set by the PRA) reflects those risks, specific to the firm, which are not fully captured under the Pillar 1 own funds requirement.

Our Pillar 2A own funds requirement was reviewed by the PRA during 2017.

## Pension obligation risk

The potential for additional unplanned capital strain or costs that the group would incur in the event of a significant deterioration in the funding position of the group's defined benefit pension schemes.

## Interest rate risk in the banking book

The potential losses in the non-trading book resulting from interest rate changes or widening of the spread between Bank of England base rates and LIBOR rates.

## Concentration risk

Greater loss volatility arising from a higher level of loan default correlation than is assumed by the Pillar 1 assessment.

The group is also required to maintain a number of Pillar 2B regulatory capital buffers, all of which must be met with CET1 capital.

## Financial position continued

### Capital conservation buffer (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress and was phased in from 1 January 2016 to 1 January 2019. As at 31 December 2017, the buffer rate was 1.25% of risk-weighted assets. On 1 January 2018, it increased to 1.875% of risk-weighted assets and it finally increased to 2.5% of risk weighted assets from 1 January 2019.

### Countercyclical capital buffer (CCyB)

The CCyB is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the Financial Policy Committee from time to time, depending on prevailing market conditions, for individual countries where the group has credit risk exposures.

The buffer rate is currently set at 1.0% for the UK. The group also has some small, relevant credit exposures in Canada and Australia, both of which have applicable buffer rates of 0%, resulting in a weighted buffer rate of 0.78% of the group's total risk exposure amount as at 31 December 2018.

### PRA buffer

The PRA also determines whether any incremental firm-specific buffer is required, in addition to the CCB and the CCyB. The PRA requires any such buffer to remain confidential between the group and the PRA.

The surplus of own funds (including verified profits for the full year) over total Pillar 1 and 2A own funds requirements and CRD IV buffers was £74.1 million, up from £74.0 million at the end of 2017.

In managing the group's regulatory capital position over the next few years, we will continue to be mindful of:

- future volatility in pension scheme valuations which affect both the level of CET1 own funds and the value of the Pillar 2A requirement for pension risk;
- regulatory developments; and
- the demands of future acquisitions which generate intangible assets and, therefore, directly reduce CET1 resources.

We keep these issues under constant review to ensure that any necessary capital-raising activities are carried out in a planned and controlled manner.

The group's Pillar 3 disclosures are published annually on our website ([rathbones.com/investor-relations/results-and-presentations](http://rathbones.com/investor-relations/results-and-presentations)) and provide further details about regulatory capital resources and requirements.

### Total assets

Total assets at 31 December 2018 were £2.9 billion (2017: £2.7 billion), of which £2.2 billion (2017: £2.2 billion) represents the investment in the money markets of the cash element of client portfolios that is held as a banking deposit.

### Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.2 billion (2017: £2.2 billion) represented 5.8% of total Investment Management funds at 31 December 2018 compared to 6.4% at the end of 2017. Cash held in client money accounts was £3.0 million (2017: £4.5 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk as described in note 32 to the financial statements. It invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be single 'A'-rated or higher by Fitch and are regularly reviewed by the banking committee.

During the year, we reduced the share of treasury assets held with the Bank of England to £1.2 billion from £1.4 billion at 31 December 2017 and increased the balance invested in certificates of deposit with maturities of up to one year. Interest rates paid by those assets had increased during the year, enabling us to increase the interest margin earned whilst maintaining a consistent appetite for credit risk.

### Loans to clients

Loans are provided as a service to Investment Management clients who have short- to medium-term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in our nominee name, requiring two times cover, and are usually advanced for up to one year (see note 17 to the financial statements). In addition, charges may be taken on property held by the client to meet security cover requirements.

All loans (and any extensions to the initial loan period) are subject to review by the banking committee. Our ability to provide such loans is a valuable additional service, for example, to clients who require bridging finance when moving home.

Loans advanced to clients totalled £131.7 million at the end of 2018 (2017: £120.5 million).



## Intangible assets

Intangible assets arise principally from acquired growth in funds under management and administration and are categorised as goodwill and client relationships. Intangible assets reported on the balance sheet also include purchased and developed software.

At 31 December 2018, the total carrying value of intangible assets arising from acquired growth was £225.6 million (2017: £151.7 million). On 31 August 2018, the group completed the purchase of Speirs & Jeffrey, which resulted in the acquisition of £28.1 million of goodwill and £54.3 million of client relationship intangible assets.

During the year, further client relationship intangible assets of £1.3 million were capitalised (2017: £2.7 million) in relation to awards to newly joined investment teams for new client relationships introduced. As described in note 2 to the financial statements, the adoption of IFRS 15 in the year required us to change the accounting policy for these awards. Historically, the cost of awards for funds introduced by investment managers who have been in situ for more than 12 months were charged to profit or loss (2017: £5.1 million). Under the new accounting standard, these amounts are also capitalised. Consequently, the opening balance of client relationship intangible assets was increased by £8.3 million.

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2018, including the impact of any lost relationships, was £12.9 million (2017: £11.4 million).

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.3 million was recognised in relation to this element of goodwill (2017: £0.3 million). Further detail is provided in note 22 to the financial statements.

## Capital expenditure

During 2018, we have broadly maintained the level of investment in the development of our premises and systems, with capital expenditure for the year totalling £11.0 million (2017: £11.3 million). Capital expenditure in 2017 included £2.8 million for the completion of the fit out of our London head office. In 2018, property-related spend of £3.2 million included the cost of moving to a new office in Birmingham and the fit out of additional space in Liverpool.

The level of spend on our systems has increased slightly in 2018, as we have continued with the IT change programme announced in 2017. Total costs for the purchase and development of software were £7.7 million in the year (2017: £7.1 million). Key areas of investment during the year included continuing the development of our new client relationship management system and work to streamline the client journey.

Overall, new investment accounted for approximately 77% of total capital expenditure in 2018, broadly consistent with 79% in 2017. The balance of total spend has been incurred for the maintenance and replacement of existing software and equipment.

## Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years. With effect from 30 June 2017, we closed both schemes, ceasing all future benefit accrual and breaking the link to salary. The closure of the schemes resulted in a £5.5 million improvement in the reported position of the schemes in 2017.

At 31 December 2018 the combined schemes' liabilities, measured on an accounting basis, had fallen to £146.5 million, down 10.7% from £164.1 million at the end of 2017. Reflecting the performance of the schemes' assets over the course of the year, the reported position of the schemes at 31 December 2018 was a deficit of £11.2 million (2017: deficit of £15.6 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. During 2018, funding valuations of the schemes as at 31 December 2016 were finalised, resulting in committed annual contributions to the schemes totalling £12.0 million, paid at a rate of £3.1 million per year until 2022.

# Liquidity and cash flow

Table 18. Extract from the consolidated statement of cash flows

	2018 £m	2017 £m
Cash and cash equivalents at the end of the year	<b>1,408.5</b>	1,567.8
Net cash inflows from operating activities	<b>111.1</b>	351.5
Net change in cash and cash equivalents	<b>(159.2)</b>	304.7

Fees and commissions are largely collected directly from client portfolios and expenses, by and large, are predictable; consequently, we operate with a modest amount of working capital. Larger cash flows are principally generated from banking and treasury operations when investment managers make asset allocation decisions about the amount of cash to be held in client portfolios.

As a bank, we are subject to the PRA's ILAAP regime, which requires us to hold a suitable liquid assets buffer to ensure that short-term liquidity requirements can be met under certain stressed scenarios. Liquidity risks are actively managed on a daily basis and depend on operational and investment transaction activity.

Cash and balances at central banks was £1.2 billion at 31 December 2018 (2017: £1.4 billion).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits, which had an original maturity of less than three months (see note 38 to the financial statements). Consequently, cash flows, as reported in the financial statements, include the impact of capital flows in treasury assets.

Net cash flows from operating activities include the effect of a £54.2 million increase in banking client deposits (2017: £282.6 million increase) and a £11.4 million increase in the component of treasury assets placed in term deposits for more than three months or lent to clients (2017: £16.6 million increase).

Cash flows from investing activities also included a net outflow of £203.8 million from the purchase of longer dated certificates of deposit (2017: £4.0 million).

The most significant non-operating cash flows during the year were as follows:

- Net outflows of £72.9 million in relation to the acquisition of Speirs & Jeffrey, being cash consideration of £88.4 million less cash balances of £15.5 million in the acquired entity;
- Net cash inflows of £57.4 million from the issue of shares during the year to partially finance the acquisition of Speirs & Jeffrey;
- Outflows relating to the payment of dividends of £32.7 million (2017: £29.4 million);
- Outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £15.1 million (2017: £11.9 million); and
- £3.2 million of capital expenditure on property, plant and equipment (2017: £4.2 million).

# Risk management and control

## Managing our risks

In 2018, we have continued to evolve our risk management framework in support of our ‘three lines of defence’ model. Our approach to risk governance, risk processes and risk infrastructure ensures that the management of risk across the group considers existing and emerging challenges to our values and strategy. Going forward into 2019, we will continue our approach to ensure that effective risk management is in place to protect our stakeholders.

### Risk culture

We believe an embedded risk culture enhances the effectiveness of risk management and decision making across the group. The board is responsible for setting the right tone, which supports a strong risk culture and, through our senior management team, encouraging appropriate behaviours and collaboration on managing risk across the business. Risk management is accepted as being part of everyone’s day-to-day responsibilities and activities; it is linked to performance and development, as well as to the group’s remuneration and reward schemes. Our approach through this is to create an open and transparent working environment, encouraging employees to engage positively in risk management and support the effective achievement of our strategic objectives.

### Risk appetite

We define risk appetite as both the amount and type of risk the group is prepared to accept or retain in pursuit of our strategy.

Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. Our risk appetite framework contains some overarching parameters, alongside specific primary and secondary measures for each principal risk. At least annually, the board, executive committee and group risk committee will formally review and approve the group’s risk appetite statement and at each meeting, risks are reported which have triggered key risk indicators or risk appetite measures so that risk mitigation can be reviewed and strengthened if appropriate.

Notwithstanding the continued expectations for business growth, along with a strategic and regulatory change programme for 2018, the board remains committed to having a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels. The board recognises that the business is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time-to-time, either as reductions in income or increases in operating costs.

### Managing risk

The board is ultimately accountable for risk management and regularly considers the most significant risks and emerging threats to the group’s strategy. The board, audit and group risk committees exercise further oversight and challenge of risk management and internal control. Day-to-day, the group chief executive and executive committee are responsible for managing risk and the regular review of key risks facing the group.

In 2018, we merged our conduct and operational risk management committees to form a new executive risk committee, which complements the banking committee that oversees financial risk management.

Throughout the group, all employees have a responsibility for managing risk and adhering to our control framework.

### Three lines of defence

Our three lines of defence model supports the risk management framework and the expectations of all employees, with responsibility and accountability for risk management broken down as follows.

**First line:** Senior management, business operations and support are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

**Second line:** The risk, compliance and anti-money laundering functions maintain a level of independence from the first line. They are responsible for providing oversight and challenge of the first line’s day-to-day management, monitoring and reporting of risks to both senior management and governing bodies.

**Third line:** The internal audit function is responsible for providing independent assurance to both senior management and governing bodies as to the effectiveness of the group’s governance, risk management and internal controls.

### Three lines of defence

#### Overview

External independent assurance

Third line: Internal independent assurance

Second line: Oversight and challenge functions

First line: Business operations and support

Executive risk committee

Executive committee

Audit and group risk committee

### Identification and profiling of principal risks

Our risks are classified using a hierarchical approach, which is regularly reviewed to ensure we identify all known material risks to the business and consider emerging risks, which may impact future performance. Our highest level of risk analysis (Level 1) comprises financial, conduct and operational risks. This year we have made some adjustments to our next level (Level 2), which contains 17 risk categories, each allocated to a Level 1 risk. The changes reflect the future risk landscape and profile of the group. Detailed risks (Level 3) continue to be identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register, which is the principal tool for monitoring risks. We recognise that some Level 2 and Level 3 risks have features, which need to be considered under more than one Level 1 risk, and this is facilitated in our framework through a system of primary and secondary considerations.

Our risk exposures and overall risk profile are reviewed and monitored regularly, considering the potential impact, existing internal controls and management actions required to mitigate the impact of emerging issues and likelihood of future events. To ensure we identify and manage our principal risks, reviews take place with risk owners, senior management and business units across the group. The risk function conducts these reviews and risk workshops regularly during the year.

A watch list is maintained to record any current, emerging or future issues, threats, business developments and regulatory or legislative change, which will or could have the potential to impact the firm's current or future risk profile and therefore may require active risk management, usually through process changes, systems development or regulatory changes. The group's risk profile, risk register and watch list are regularly reviewed by the executive committee, senior management, board and group risk committee.

This year, we have reviewed our risk assessment approach and adjusted our scoring system. Each Level 3 risk is assessed for the inherent likelihood of its occurrence in a three-year period (a reduction from five years) and against a number of different impact criteria, including financial, client, operations, reputation, strategy and regulation indicators. A residual risk exposure and overall risk profile rating of high, medium, low or very low is then derived for the three-year period by taking into account an assessment of the internal control environment or insurance mitigation. The assessment of our control environment, undertaken by senior management within the firm, includes contributions from first, second and third line people, data, monitoring and/or assurance activity.

### Risk assessment process

The board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) work, which assesses the principal risks facing the group.

Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

Day-to-day, our risk assessment process considers both the impact and likelihood of risk events which could materialise, affecting the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of key risks is challenged and reviewed on a regular basis. The board, executive committee and executive risk committee receive regular reports and information from senior management, operational business units, risk oversight functions and specific risk committees.

The executive risk committee, executive committee, group risk committee and other key risk-focused committees consider the risk assessments and provide challenge, which is reported through the governance framework and ultimately considered by the board.

### Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 17 Level 2 risks and 47 Level 3 risks, all of which form the basis of the group's risk register. Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time. The underlying risk profile and ratings for the majority of Level 2 risks have remained reasonably stable during 2018. However, there have been some changes to risk ratings and the following table summarises the most important of these.

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group, which could impact the delivery of our strategic objectives, have been identified below. These reflect the impact of the acquisition of Speirs & Jeffrey, the increased and evolving cyber threat landscape, increasing political risk including Brexit and global trends impacting market volatility, and continuing focus on client suitability. 2018 also saw two material regulatory changes come into effect, MiFID II and the General Data Protection Regulation, which remain areas of focus for the firm. The board remains vigilant to the risks associated with the pension schemes' deficit. The other key risks are operational risks that arise from growth and regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

Our overall risk profile and control environment for principal risks are described below. The board receives assurance from first line senior management that the systems of internal control are operating effectively and from the activities of the second line and third line that there are no material control issues which would affect the board's view of its principal risks and uncertainties.

In line with current and developing guidance, we also include in the tables the potential impacts (I) the firm might face and our assessment of the likelihood (L) of each principal risk crystallising in the event it materialises. These assessments take into account the controls in place to mitigate the risks. However, as is always the case, should a risk materialise, a range of outcomes (both in scale and type) might be experienced. This is particularly relevant for firms such as Rathbones where the outcome of a risk event can be influenced by market conditions as well as internal control factors.

We have used ratings of high, medium, low and very low in this risk assessment. We perceive as high-risk items those which have the potential to impact the delivery of strategic objectives, with medium-, low- and very low-rated items having proportionately less impact on the firm. Likelihood is similarly based on a qualitative assessment.

## Emerging risks and threats

Emerging risks, including legislative and regulatory change, have the potential to impact the group and its strategy. These risk factors are monitored through our watch list. During the year, the executive committee continued to recognise a number of emerging risks and threats to the financial services sector as a whole and to our business. We also recognise that the risk profile associated with outsourced activities can change over time and this will be an area of continued focus in 2019.

The group's view is that we can reasonably expect current market conditions and uncertainties to remain throughout 2019, given the implications of Brexit and the UK political environment. Other developing risks include, for example, cyber threats, regulatory change and further scenarios potentially arising from geopolitical developments and increasing tensions around global trade.

We are continuing to monitor the potential consequences of Brexit very closely. Our current assessment is that the direct impacts of Brexit as currently proposed are manageable given our largely UK-based business model. However, we are conscious that the position is uncertain, has the potential to change and may raise unexpected challenges and implications for the firm, possibly extending to our supply chain. The firm's income is correlated to market levels, which are expected to be impacted by Brexit and other areas of political uncertainty.

## Key changes to risk profile

Risk	Description of change	Risk change in 2018
<b>Business model (including Brexit)</b>	This risk includes the impacts arising from changing market conditions, which are impacted in turn by political uncertainty and the global economy.  Although the firm does not have operations in other European Union countries, or material dependencies on goods or people from other European Union countries and has a predominantly UK client base, any impact of Brexit on investment markets will also affect the value of our funds under management and administration.	↑
<b>Suitability and advice</b>	Our forward-looking risk assessment increased during the year, largely reflecting regulatory drivers. In addition to changes delivered in 2017/18, we plan to improve our processes further in 2019 through systems enhancements designed to simplify the workflows involved for our clients and employees.	↑
<b>Change</b>	We increased our risk assessment to reflect the firm's change plans, including the integration programme for Speirs & Jeffrey.	↑
<b>Data integrity and security</b>	We have increased our risk rating in this area based on our assessment of the increasing external threat profile, despite continuing investment in technology improvements.	↑
<b>People</b>	Our forward-looking risk assessment increased further during the year, reflecting industry-wide trends. We also recognise the importance of addressing the drivers behind our gender pay gap over the coming years.	↑
<b>Pension</b>	The funding deficit decreased materially due to the closure of the schemes in 2017, with a significant number of members transferring benefits out of the schemes. However, this remains an important risk for the firm to manage.	↓



## Principal risks

The most significant risks which could impact the delivery of our strategy and annual business plans are detailed below.

Level 2 risk	How the risk arises	Residual rating		Control environment
		I	L	
<p><b>Credit</b></p> <p>The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement</p>	<p>This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients</p>	High	Very low	<ul style="list-style-type: none"> <li>- Banking committee oversight</li> <li>- Counterparty limits and credit reviews</li> <li>- Treasury policy and procedures</li> <li>- Active monitoring of exposures</li> <li>- Client loan policy and procedures</li> <li>- Annual ICAAP</li> </ul>
<p><b>Pension</b></p> <p>The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and capital</p>	<p>This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit, including increased life expectancy, falling interest rates and falling asset values</p>	High	Med	<ul style="list-style-type: none"> <li>- Board, senior management and trustee oversight</li> <li>- Monthly valuation estimates</li> <li>- Triennial independent actuarial valuations</li> <li>- Investment policy</li> <li>- Senior management review and defined management actions</li> <li>- Annual ICAAP</li> </ul>
<p><b>Business model</b></p> <p>The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected</p>	<p>This risk can arise from strategic decisions, which fail to consider the current operating environment, or can be influenced by external factors such as material changes in regulation or legislation within the financial services sector</p>	High	Med	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- A documented strategy</li> <li>- Annual business targets, subject to regular review and challenge</li> <li>- Regular reviews of pricing structure</li> <li>- Continued investment in the investment process, service standards and marketing</li> <li>- Trade body participation</li> <li>- Regular competitor benchmarking and analysis</li> </ul>
<p><b>Suitability and advice</b></p> <p>The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios</p>	<p>This risk can arise through failure to appropriately understand the wealth management needs of our clients, or failure to apply suitable advice or investment strategies</p>	High	Med	<ul style="list-style-type: none"> <li>- Investment governance and structured committee oversight</li> <li>- Management oversight and segregated quality assurance and performance teams</li> <li>- Performance measurement and attribution analysis</li> <li>- Know your client (KYC) suitability processes</li> <li>- Weekly investment management meetings</li> <li>- Investment manager reviews through supervisor sampling</li> <li>- Compliance monitoring</li> </ul>

Level 2 risk	How the risk arises	Residual rating		Control environment
		I	L	
<p><b>Regulatory</b></p> <p>The risk of failure by the group or a subsidiary to fulfil regulatory requirements and comply with the introduction of new, or changes to existing, regulation</p>	<p>This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change</p>	High	Med	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- Active involvement with industry bodies</li> <li>- Compliance monitoring programme to examine the control of key regulatory risks</li> <li>- Separate anti-money laundering function with specific responsibility</li> <li>- Oversight of industry and regulatory developments</li> <li>- Documented policies and procedures</li> <li>- Staff training and development</li> </ul>
<p><b>Change</b></p> <p>The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes, the impact of which may lead to unmitigated financial exposures</p>	<p>This risk can arise if the business is too aggressive and unstructured in its change programme to manage project risks, or fails to make available the capacity and capabilities to deliver business benefits</p>	High	Med	<ul style="list-style-type: none"> <li>- Executive and board oversight of material change programmes</li> <li>- Dedicated change delivery function, use of internal and, where required, external subject matter experts</li> <li>- Documented business plans and IT strategy</li> <li>- Two-stage assessment, challenge and approval of project plans</li> <li>- Documented project and change procedures</li> </ul>
<p><b>Data integrity and security</b></p> <p>The risk of a lack of integrity of, inappropriate access to, or disclosure of, client or company-sensitive information</p>	<p>This risk can arise from the firm failing to maintain and keep secure sensitive and confidential data through its operating infrastructure, including the activities of employees, and through the management of cyber threats</p>	High	Med	<ul style="list-style-type: none"> <li>- Data security committee oversight</li> <li>- Data protection policy and procedures</li> <li>- System access controls and encryption</li> <li>- Penetration testing and multi-layer network security</li> <li>- Training and employee awareness programmes</li> <li>- Physical security</li> </ul>
<p><b>People</b></p> <p>The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives, or to behaviour leading to complaints, regulatory action or litigation</p>	<p>This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation</p>	High	Med	<ul style="list-style-type: none"> <li>- Executive oversight</li> <li>- Succession and contingency planning</li> <li>- Transparent, consistent and competitive remuneration schemes</li> <li>- Contractual clauses with restrictive covenants</li> <li>- Continual investment in staff training and development</li> <li>- Employee engagement survey</li> <li>- Appropriate balanced performance measurement system</li> </ul>

Further detailed discussion of the group's exposures to financial risks is included in note 32 to the financial statements.

### Assessment of the company's prospects

The board prepares or reviews its strategic plan annually, completing the ICAAP and ILAAP work, which form the basis for capital planning and regular discussion with the Prudential Regulation Authority (PRA).

During the year, the board has considered a number of stress tests and scenarios which focus on material or severe but plausible events that could impact the business and the company's financial position. The board also considers the plans and procedures in place in the event that contingency funding is required to replenish regulatory capital. On a monthly basis, critical capital projections and sensitivities have been refreshed and reviewed, taking into account current or expected market movements and business developments.

The board's assessment considers all the principal risks identified by the group and assesses the sufficiency of our response to all Pillar 1 risks (credit, market and operational risks) to the required regulatory standards. In addition, the following risks were focused on for enhanced stress testing: equity market risk, interest rate risk, a loss of business/competition risk, business expansion risk and pension obligation risk.

The group considers the possible impacts of serious business interruption as part of its operational risk assessment process and remains mindful of the importance of maintaining its reputation. Although the business is almost wholly UK-situated, it does not suffer from any material client, geographical or counterparty concentrations.

While this review does not consider all of the risks that the group may face, the directors consider that this stress testing-based assessment of the group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

### Viability statement

In accordance with the UK Corporate Governance Code, the board has assessed the prospects and viability of the group over a three-year period taking into account the risk assessments. The directors have taken into account the firm's current position and the potential impact of the principal risks and uncertainties set out above. As part of the viability statement, the directors confirm that they have carried out a robust assessment of both the principal risks facing the group, and stress tests and scenarios that would threaten the sustainability of its business model, future performance, solvency or liquidity.

The board considers five-year projections as part of its annual regulatory reporting cycle, which includes strategic and investment plans and its opinion of the likelihood of risks materialising. However, given the uncertainties associated with predicting the future impact of investment markets on the business over this longer period, the directors have determined that a three-year period to 31 December 2021 continues to constitute an appropriate period over which to provide its viability statement. This is more closely aligned to its detailed capital planning activity.

Stress testing analysis shows that under scenarios such as a 45% fall in FTSE 100 levels or a 0% interest rate environment for two years, the group would remain profitable and is able to withstand the impact of such scenarios. We see this scenario as also incorporating the potential adverse indirect impact of Brexit on the firm. An example of a mitigating action in such scenarios would be a reduction in dividend.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.



**Philip Howell**  
Chief Executive

## Chief executive's annual statement on corporate responsibility

Rathbones' corporate responsibility strategy aims to ensure that social, environmental and ethical considerations are taken into account throughout the business. With regard to environmental, social and governance (ESG) matters as they affect our business, the executive committee has identified and assessed the significant risks to the company as well as focusing not only on potential risks but also on opportunities for the company to play its part as a good employer and as a contributor to the environment and communities in which we work and our clients live. This report provides an overview of our activities - more information can be found on our website.

In 2018, we concluded a review to assess the alignment of our environmental and sustainability objectives with the broader commercial goals of the business. The objective of this review was to set the framework for the firm's sustainability strategy for the long term and develop key initiatives to ensure the sustainability of the firm. You will find further details below.

## Responsible investing

The objective of stewardship and responsible investment (SRI) is to ensure that in discharging our responsibilities to our clients, we ensure that their interests are prioritised and that we adopt an active approach to the management of their investments in securities on their behalf. Implementing effective stewardship is integral to our investment process as a means of protecting and enhancing value for clients, often through encouraging high standards of corporate governance. During 2018, we reviewed and updated our policies in this area and are pleased to report on our progress below. We also remain a constituent company of the FTSE4Good Index series and a signatory to the UN-backed Principles for Responsible Investment (PRI).

## Our employees

Our business success is dependent upon delivering a highly professional and personal service to our clients and we believe this can only be achieved by having engaged and motivated employees with a diverse range of skills and experience. Our employee strategy, policies and investment plans are

all designed to achieve these goals. Members of staff have access to management and leadership courses, continuous professional development (CPD) programmes to achieve continuous learning and agreed career development programmes to enable progression within the firm.

## Charities and communities

The Rathbone Brothers Foundations have continued to support small local charities where donations can make a real difference. The overall charitable objective of the firm is to support small, local charities that help to improve the lives of young people. We also support our staff's involvement in charities and their communities through the two and a half volunteering days we offer, which will increase to three days in 2019. Further information on our various initiatives can be found below.

Through our sponsorship of the Rathbones Folio Prize, we were also involved in the establishment of a mentoring programme for young writers.

## Environmental reporting

This year, we are pleased to report significant reductions in both total emissions and the emissions intensity of our business. Though our core business grew considerably, with increases in total headcount (+8.3%), funds under management and administration (+12.8%) and operating income (+7.0%), our total emissions were reduced to 2,214 tCO<sub>2</sub>e (down 343 tCO<sub>2</sub>e). Across all business activities, total emissions are therefore 13.4% lower than 2017 and 23.1% below our baseline year.

These reductions are primarily attributable to reduced energy consumption across our buildings and the continued trend of UK grid decarbonisation. Across all buildings, our total energy consumption fell by 0.4%, with our Building Research Establishment Environmental Assessment Method (BREEAM) excellent-rated head office at Finsbury Circus proving to be significantly less energy-intensive than our previous Curzon Street location. Across the UK, the increasing share of electricity from renewables and declining generation from coal resulted in a 19.5% reduction in emissions intensity - a significant driver of reduced emissions from our operations.

Despite an 8.3% increase in headcount, business travel emissions rose at a lower rate of 3.7%, with higher emissions from flights (+12.6%) offset by reduced emissions from rail (-8.7%) and employee-owned car use (-3.5%). Other reported emissions from paper and waste also fell considerably (down 31.2%) primarily due to a reduction in paper consumption.

We are committed to reducing the environmental impacts of our business and to improving our environmental management and reporting processes in line with our sustainability strategy.

For further details of our carbon footprint, please read the environmental impact section of this report.

**Philip Howell**  
Chief Executive

20 February 2019

## Our approach

Rathbones' corporate responsibility approach can be summarised as follows:

- Investing for clients
- Considering corporate responsibility and governance issues in the companies in which we invest on behalf of our clients
- Developing our employees
- Motivating and rewarding our employees appropriately, encouraging their development
- Engaging with the communities in which we operate
- Being aware of our environment
- Managing our environmental impact and reducing our carbon footprint by the efficient use of resources

## Responsible investment

Rathbones specialises in discretionary private client investment management. We manage assets for clients based on their goals. Central processes provide guidance on equity analysis and strategic asset allocation advice and are shared by the group. It is essential to our business model that investment managers retain their independence to buy and sell securities for clients. Therefore, a top-down responsible investment framework is provided, while maintaining investment flexibility for investment managers.

Nonetheless, we are long-term investors and ESG factors form a key part of our equity analysis. Since 2016, our approach in this area has been governed by the group stewardship policy. The concept of our stewardship policy means taking a client first, active approach to the ownership of securities. Implementing effective stewardship is integral to our investment process as a means of protecting and enhancing value for clients.

### Core principles

The core principles that we follow are:

#### 1. Materiality

We recognise that governance and stewardship risks can be material to the performance and valuation of companies.

#### 2. Active voting

We actively consider proxy votes for client holdings.

#### 3. Engagement

Active engagement with companies on governance issues is an important adjunct to voting activities.

#### 4. Transparency

We report annually on our stewardship activities.

In addition, the issue of governance as a risk factor is covered by the work of our stewardship committee, recognising that governance issues can be material in the companies in which we invest on behalf of our clients. As well as conducting our own in-house analysis, we subscribe to specialist providers of ESG research as part of our research budget. Governance risk scoring is now integrated into the work of various investment committees. Social, environmental and ethical considerations are also taken into account for specific mandates throughout the group, particularly those managed by our specialist ethical investment unit, Rathbone Greenbank Investments, and a number managed by our charities team.

Through Rathbone Greenbank Investments and Rathbone Unit Trust Management's specialist funds, the company is able to provide investment services tailored to clients' interests in the area of socially responsible or sustainable investment. In addition to the well established Rathbone Greenbank Investments service and the Rathbone Unit Trust Management Ethical Bond Fund, in 2018 we launched the Rathbone Global Sustainability Fund, an investment vehicle which fully integrates sustainability analysis into its approach. Where appropriate, the company is also able to participate in new share issues offered by companies that provide environmentally or socially beneficial products or services. As at 31 December 2018, Rathbone Greenbank Investments had £1.2 billion of funds equivalent to 3.12% of Rathbone Investment Management's funds under management and administration.

## Affiliations

The firm has the following affiliations and accreditations:

- CDP (Carbon Disclosure Project), as well as being a signatory to the CDP sister programmes on water disclosure and forestry. In 2018, we improved our score to a 'C' reflecting our continued focus on environmental performance management and climate-related issues.
- UN-backed PRI. We also play an active role in the PRI Collaboration Platform. 2019 marks our tenth year of membership, a milestone which we will mark with the publication of a special report on our activities later in the year. In 2018, we were ranked in the highest tier for our approach to the management and governance of responsible investment, reflecting expanding resources applied to this area.
- UK Sustainable and Investment Finance Association (UKSIF) and the Ecumenical Council for Corporate Responsibility. Rathbone Greenbank Investments is also a leading member of the Institutional Investors Group on Climate Change (IIGCC).



## Voting

The cornerstone of all responsible investment is an active and considered approach to proxy voting. Since 2010, the group's voting activity has been coordinated by a dedicated committee, established in line with Rathbones' obligations under the PRI, and pays heed to the Financial Reporting Council's (FRC) UK Stewardship Code. Composed of investment managers and other representatives from across the business, and supported by a permanent stewardship director, the committee maintains general group policy on corporate governance. Advice and research received by the committee supplements the analysis carried out internally as part of the investment process. The committee issues voting recommendations based on best practice which establishes a baseline for consideration by the major holders of the companies in question. Our investment managers retain the ability to vote independently of this advice if appropriate.

Rathbone Investment Management exercises the voting rights attached to its largest holdings, covering the most widely-held stocks across the business. Voting is also undertaken on any company if requested by an underlying shareholder.

Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code and was classified as a Tier 2 signatory by the FRC in 2016. In addition to expanding the scope of proxy voting in 2015, and now employing Institutional Shareholder Services (ISS) to vote actively on all of its holdings, Rathbone Unit Trust Management has recently clarified its policy on stewardship and company engagement in line with the demand of regulators. It also applies a more detailed sustainability-themed voting policy in the relevant funds.

Votes are entered in line with UK corporate governance best practice, overseen by the stewardship director, fund managers and investment managers. During 2018, the committee oversaw active proxy voting on 5,232 resolutions at 395 company meetings. Voting on these resolutions includes consideration of such issues as executive remuneration, auditor independence, appointment of directors and non-financial reporting.

## Engagement

Engagement with companies on ESG matters is largely undertaken by Rathbone Greenbank Investments' ethical research team and the stewardship director on behalf of the stewardship committee. Engagement may occur as a result of fundamental analysis of companies' ESG reporting or through collaborative efforts initiated by interest groups such as CDP, UKSIF or the PRI Collaboration Platform. It covers a wide range of themes spanning the whole of the ESG spectrum. In 2018, we joined the steering committee for the PRI-coordinated engagement on responsible sourcing of cobalt and fuelling water disclosure for oil and gas companies. We continued our work on responsible tax, cyber security and combating deforestation.

## Employees

### Our approach

We are firmly committed to evolving our people policies and practices and having continued high levels of employee engagement in line with our corporate values. Our goal continues to be the delivery of the highest possible quality of service to our clients through talented and professional employees. Rathbones has over 1,400 staff in 16 locations in the UK and Jersey. We promote a culture where we recruit and retain individuals whose values match those of the business. To promote engagement with our values, we actively encourage employees to become involved in the financial performance of the group through our all employee SIPs (UK Share Incentive Plan and International Share Incentive Plan) and SAYE (Save As You Earn share option plan). We have offered share ownership plans to our employees since 1996 and now have 55% participation in our SAYE and 91% participation in our SIP plans.

We also encourage our employees to become financially aware and offer discounted independent financial advice.

#### Employee statistics

Percentage of female employees	47%
Percentage of employees working part-time	11%
Resignation rate	6.6%

### Unilever case study

The contentious decision announced by Unilever's management to simplify its dual legal structure and re-locate its HQ to the Netherlands was a good example of how our engagement approach can see results.

We were made aware of the plans by senior management as part of our regular cycle of company meetings. We expressed concerns, less over the decision to simplify the dual structure, and more over the process which had been followed, and the apparent lack of sufficient justification. Having failed to receive sufficient assurances from senior management, we began to work with other concerned investors through the Investor Forum, a membership group established to help investors coordinate engagements on difficult issues.

Following several interactions with senior management through formal and informal channels, it became clear that the company had failed to make the case that relocating the business to the Netherlands was the best option for all shareholders. This was in no small part owing to a lack of clarity regarding tax arrangements, which could have negatively affected our clients. We spoke directly to the finance director and chairman on several occasions, and were pleased when the managers decided to put their plans on hold.

### Learning

We continue to support the development of all our employees and have maintained our average investment per person at a significant level of £710 (2017: £783) and an average of two days' training per year. These figures are a very conservative estimate because there is much more employee development that has no direct cost and is conducted at the desk.

Our aim when delivering high-quality programmes is to ensure that employees have the best opportunity to put their learning into practice. We do this by engaging with line managers and other stakeholders in the business to ensure that the opportunity and support are in place for employees to use new skills. We regularly implement new initiatives across the group to ensure that all employees have access to the development they need for their current and possible future roles. Also, during the year, we implemented online learning for regulatory issues such as anti-money laundering and courses to provide additional support on key client issues.

### Leadership and management development

We deploy a comprehensive suite of management and leadership courses. These are designed to enable the business to support high-potential employees and progress them through key stages of learning from being highly effective team members to ultimately growing into senior leadership roles. The leadership programme continued successfully throughout the year and the programme again involved senior managers focusing on how to lead their teams to achieve corporate goals. The programme culminates in a presentation about leadership changes and the value of the learning. This format will continue to roll out through the firm during 2019 to build leadership and management skills across the group.

We have aligned some of our management development to formal qualifications. A number of managers have successfully achieved a level five qualification awarded by the Chartered Management Institute. This included a module on managing operational risk which was tailored to the specific issues in Rathbones. We will continue to support this type of development where the formal recognition of learning is appropriate.

### Continuing professional development (CPD)

Our client-facing employees continue to meet and mostly exceed the required CPD targets set by our regulators. Investment managers have the opportunity to further improve their technical and management skills to ensure that the highest levels of client service are maintained.

### Talent development

Rathbones is keen to develop a pipeline of high-calibre talent to ensure appropriate skills and succession planning for the future. Our fourth apprenticeship programme in Liverpool is well underway with eight participants and, in light of the ongoing success of this programme, a further group will be recruited in 2019. Our continued commitment to developing younger talent means that a new graduate development programme will start in September 2019. The programme sees the trainees participate in a variety of placements around the firm to gain a broad range of experience.

### Career development and performance management

The introduction of a more comprehensive performance appraisal regime is helping to identify individual training needs and provides a framework to help employees see their future pathway for career progression within the organisation. There is further work to be done in this area but the leadership team recognises the benefits both to the individual employees and to the firm of deeper succession planning.

### Diversity and inclusion

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

We have two female directors out of eight and have thus achieved our commitment to meet Lord Davies' target of 25% female board representation. We are working towards achieving the adjusted target of 33% of female board representation for FTSE 350 companies by 2020, which will be achieved once Jenny Mathias joins our board in April 2019. We continue to develop our plans to align with the recommendations published in the Hampton-Alexander review and we will work towards achieving the targets set by the Women in Finance Charter. Historically, women have been less well represented in the investment management industry and addressing this imbalance is a key priority. We are working hard to appoint more women in graduate trainee positions and are also trying to encourage more applications from women to our work experience and financial career programmes.

We continue to target the progression and development of existing female employees with opportunities for leadership and management programmes. In 2017, we implemented significant improvements to our maternity, adoption and paternity policies. We also introduced group coaching and online support for working parents and have put in place a diversity strategy. We will establish a diversity task force with executive representation in early 2019.

We are continuing a training programme covering diversity, inclusion and unconscious bias. Rathbones prides itself on being a 'real Living Wage' employer and pays Living Wage Foundation rates of pay to internal employees and sub-contractor staff.

## Modern slavery

Rathbones is committed to maintaining and improving our practices to tackle slavery and human trafficking violations with respect to our own operations, our supply chain and our services. We welcomed the introduction of the Modern Slavery Act in 2015 and used this as an opportunity to build on our existing policies and develop a focused approach to addressing the risk of modern slavery. Rathbones already has a range of relevant initiatives in place such as our policy on stewardship, being a real Living Wage employer, and our equal opportunities and whistleblowing policies.

Since 2017, Rathbones has been working towards a set of objectives to improve and refine our approach to ensuring that slavery and human trafficking are not taking place in our supply chains. This is a three-year plan and is a key component of the development of our wider sustainability strategy.

To further develop our approach, we set ourselves a set of objectives over the next three years. These include carrying out a third-party risk assessment, developing prioritised actions based on the results, introducing a modern slavery screening process, training our staff and communicating what we are doing.

In 2018, we engaged a third-party sustainability consultancy, Carbon Smart, to carry out a modern slavery risk assessment of our operations and supply chain. This was important to us because, although we are a professional services business in a highly regulated market and therefore low risk, we do know that no supply chain is risk free. Carbon Smart mapped our annual supplier spend based on sector and location to identify areas of elevated risk in our supply chain. The majority of our spend is in the UK with a small proportion in the US and Canada and the majority is with professional services, which is low risk. However, the risk assessment did show that there was an elevated risk, although still below the UK average and well below the global average in the following sectors:

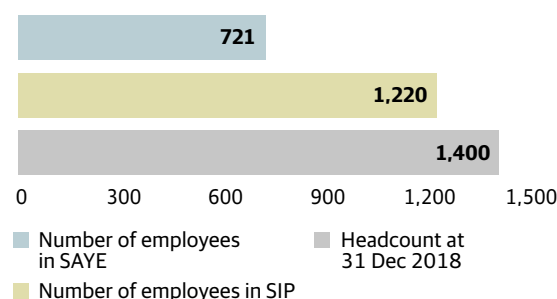
- Paper and paper-based products
- Electrical equipment
- Construction
- Cleaning products and other chemicals

In addition, we have identified two sectors, which have an elevated risk relative to the rest of our supply chain but are themselves low risk. These are hotels and telecommunications.

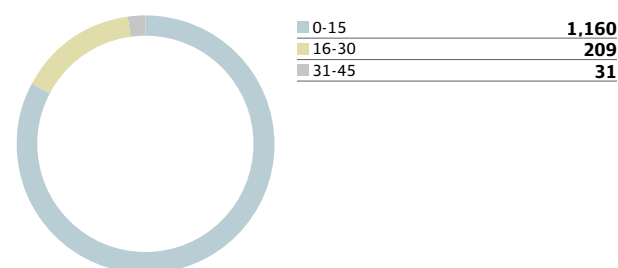
With an understanding of our level of risk and the relevant sectors, we were able to develop a risk-based approach, which allows us to focus our attention and resources where it matters the most. In the event our staff wishing to procure products or services from the above sectors, additional checks must be performed. All new suppliers in the above categories must share with us their modern slavery statements. In addition to this, we have engaged with all our current suppliers to understand the due diligence they have in place to mitigate the risk of modern slavery in their supply chains.

This year, our focus is on embedding the due diligence checks. Our key staff will receive modern slavery training to ensure that they understand how modern slavery may manifest itself and what they can do to mitigate the risk when engaging with suppliers. To raise awareness, we will also communicate more widely to staff what we are doing in this space. At the end of the year, we also plan to review the due diligence checks we have carried out to understand the effectiveness of our approach and update accordingly.

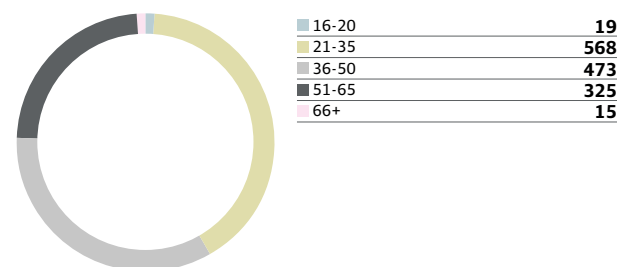
## Employees



## Number of employees by length of service (years)



## Number of employees by age range



### Anti-bribery policy

As a firm we value our reputation for ethical behaviour and upholding the utmost integrity and we comply with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) clients' best interests rule. We understand that in addition to the criminality of bribery and corruption, any such crime would also have an adverse effect on our reputation and integrity. Rathbones has a zero tolerance approach to bribery and corruption and we ensure all our employees and suppliers are adequately trained so as to limit our exposure to bribery by:

- setting out clear anti-bribery and corruption policies
- providing mandatory training to all employees
- encouraging our employees to be vigilant and report breaches or concerns
- reporting suspected cases of bribery in accordance with the specified procedures
- escalating and investigating instances of suspected bribery and assisting the police or other appropriate authorities in their investigations.

### Gender pay reporting

The firm published its gender pay gap data in April 2018 and will do so again before April 2019. The report is available on our website.

We regularly review both fixed and variable remuneration and are confident that men and women are paid equally for performing equivalent roles across our business. Historically, there have been significantly less women in the wealth management sector and as a consequence we have found it harder to hire senior women into the firm. We are committed to taking all steps possible to reduce our gender pay gap and have had some success in increasing representation in more junior professional levels, which will in due course provide better representation at senior levels, albeit over time. We are signatories to the Women in Finance Charter and the firm is committed to achieving 25% female senior management representation by 2023. Also, the firm is mindful of the Hampton-Alexander gender targets for executives and their direct reports and we plan to take further action to achieve these targets.

### Performance and reward

We offer a comprehensive remuneration package, which is regularly reviewed to ensure that our employees are fairly rewarded. This includes annual equal pay audits. This is also supported by challenging objective-setting and appraisal processes to align variable reward to the achievement of corporate goals and individual performance and to motivate and appropriately reward performance.

All employees have the opportunity to participate in a pension arrangement and are eligible to receive at least a 6% contribution from the company (on an employee non-contributory basis) to a group personal pension arrangement, rising to 10% with employee contributions.

We provide a wide range of core benefits such as private medical cover, income protection insurance and life assurance. All employees are eligible for an annual medical examination funded by the company.

Employees are encouraged to identify with and benefit from the financial performance of the group through ownership of shares in the company. Our Share Incentive Plan (SIP) enables employees to benefit from share-matching by the company on a one-to-one basis. Employees are also eligible to receive free shares and join the Save As You Earn (SAYE) share option plan.

We have continued to grow our employee wellbeing offering. Employees have access to a free, independent employee assistance programme (EAP) offering confidential advice and support to them and their families. We have increased the range and number of training, one-to-one and drop-in sessions on wellbeing-related topics and widened this to include mental health awareness and mental health first aid training. We continue to provide support for working parents through targeted seminars and training sessions, as well as a number of physical wellbeing sessions.

Our people can also take advantage of a vast range of voluntary benefits available, such as the cycle to work scheme, flexible holidays, voluntary leave and discounts on products and services through our 'Reward Board' benefits platform.

### Employee relations

Engagement with our employees is crucial to the continuing success of the group. We communicate regularly and openly with them on matters affecting them and on the issues that have an impact on the performance of the group and actively seek their feedback on these matters. After the success of the employee engagement survey run in 2016, we will be running a second in 2019 in order to reassess employee engagement.

Rathbones recognises the importance of an appropriate work-life balance, both to the health and welfare of employees and to the business. Holiday entitlement begins at 25 days per annum for all employees, increasing to 30 days after five years' service, with the opportunity to buy up to five additional days of flexible leave each year. In 2018, we ran a series of flexible working workshops for managers, focusing on how to manage and support flexible working opportunities in the business. We aim to focus more effort on flexible working as part of our diversity and employee engagement efforts.

### Communities

#### Donations and fundraising

During the year, the group made total charitable donations of £355,000, representing 0.5% of group pre-tax profits (2017: £378,000, representing 0.7% of group pre-tax profits). It also included the matching of employee donations made through the tax efficient Give As You Earn (GAYE) payroll giving scheme. In 2018, Rathbones employees made payments totalling £199,000 (2017: £225,000) through this scheme, which is administered by the Charities Aid Foundation. The company matched staff donations of up to £200 per month made through GAYE and, in 2018, donated £166,000 (2017: £161,000) to causes chosen by employees through this method.

During 2018, the Rathbone Brothers Foundations across the country considered many requests for assistance and met a number of charities. Examples of our donations and volunteering support include:

- A team of nine employees from the London research team volunteered in November 2018 for a day at Divine Rescue, which provides meals, clothes, hostel referrals and hospital visits to homeless, vulnerable people, ex-offenders and substance abuse victims in the Borough of Southwark. In 2017, Divine Rescue supported 36,960 people with food, clothes and advice.
- A group of six Rathbones employees from the London office hosted a group of 30 students from Dairy Meadow Primary School in September 2018. The event was organised by Enabling Enterprise, which works with schools and teachers to help students develop essential skills through a range of experiences in British companies. At Rathbones, students were set a challenge to devise and secure a loan for a new business venture before running the initial set-up of the business. The students demonstrated their leadership and presenting skills throughout the challenge.
- In 2018, the Cambridge office undertook a 24-hour rowing relay event to raise funds for the Cambridge Central Aid Society, a charity, which gives funding grants to help needy individuals and families in Cambridge and its environment.
- In May 2018, 10 employees in the Winchester office, along with 200 members of the general public descended upon the gardens of Wolvesey Castle to participate in 'The Big Sleep Out'. The event, organised by the Trinity Winchester charity, intends to draw attention to the estimated 300,000 homeless people in England and raise money in support of the charity.

## Investing in brighter futures

Sport offers the opportunity to teach key life skills to young people, and from 2012 to 2018 Rathbones has been a strong supporter of female sport through our partnerships with Lacrosse Scotland and England Lacrosse. Over that time, more than 3,500 young women competed each year in tournaments that we sponsored and many more were introduced to the sport through community programmes that we supported. 2018 represented our last year of involvement in lacrosse as we feel it is important to focus more on our programmes supporting writing and literacy for young people.

The Rathbones Folio Mentorships programme, which started in 2017, provides talented young writers from state schools the transformational opportunity to be mentored by published authors, one-on-one, for a year. Alongside this, in 2018, Rathbones also piloted a digital reading programme in schools, in association with The Pigeonhole (a digital book club) and Harper Collins Publishers.

The Rathbones Financial Awareness programme is another way in which we invest in the future of young people. Investment managers deliver presentations to 16–25 year olds within our offices and at schools around the UK. The programme aims to equip those attending with the necessary information to take ownership of their finances at a young age. In 2018, the programme was delivered to over 1,500 young people.

## ShelterBox case study

Laura Coleman is head of client marketing and has worked at Rathbones since 2014. Laura is also a ShelterBox response team volunteer. ShelterBox is an international disaster relief charity that provides temporary shelter and life saving supplies to displaced families.

As a response team volunteer, Laura is on call twice a year ready to be deployed, sometimes with only 48 hours notice, to countries affected by natural disaster or conflict. In June 2018, Fuego Volcano in Guatemala erupted killing hundreds, displacing over 12,000 and otherwise affecting hundreds of thousands of people. Laura was part of the second ShelterBox team on the ground to work with the government, aid agencies and local organisations to support those affected.

In August, Laura was deployed to Ethiopia where nearly a million people were displaced as a result of conflict within the country. This was an extremely complex response, but ShelterBox were able to help nearly 2,000 families in some of the greatest need, approximately 10,000 people, with shelter, blankets, water purifiers, kitchen sets and mosquito nets.

"I am humbled and honoured to be a ShelterBox response team volunteer. An estimated 85 million people are displaced across the world right now; I can't even begin

to imagine what that must be like. The resilience of some of the people I have met, in the face of true hardship, is awe-inspiring. This is not something I would be able to do without the support of Rathbones though. Not all companies would allow their staff to disappear for three weeks at short notice, even if it was to help others. I am forever grateful to the company, my line manager and my team for enabling me to do what I do."

For more information about ShelterBox, please visit [shelterbox.org](http://shelterbox.org)





## Environmental impact

Rathbones has been reporting its environmental impacts since 2007. As a responsible investor, we aim to lead by example in our approach to environmental matters, striving to understand the environmental impacts of our business activities and, wherever possible, act to reduce them. Since 2017, we have produced internal reporting of environmental impacts and emissions on a quarterly basis in order to improve our ability to manage year-on-year performance.

### Our 2018 carbon footprint

We are pleased to report a 13.4% reduction in our overall emissions to 2,214 tCO<sub>2</sub>e, down from 2,557 tCO<sub>2</sub>e in 2017. Furthermore, our emissions intensity has also reduced by around 20% despite continued growth in headcount, funds under management and administration, and operating income.

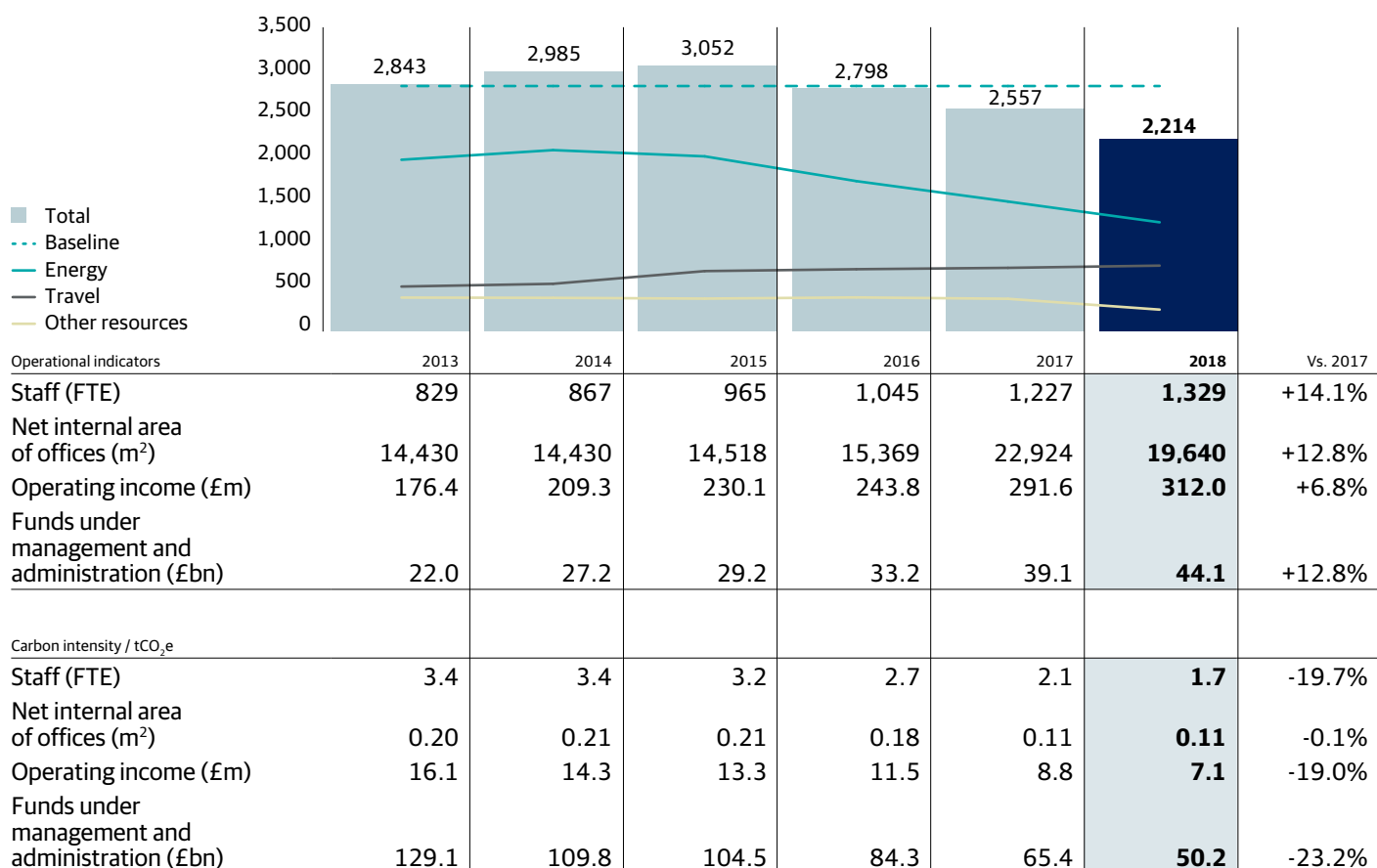
These reductions are primarily attributable to reduced energy consumption across our offices, reduced consumption of natural resources and the continued decarbonisation of the UK's electricity supply. Our BREEAM excellent-rated head office building in Finsbury Circus is considerably more energy-efficient than our previous Curzon Street location, with almost 30% less energy consumed on an annual basis.

Building energy emissions arising from energy consumption at our offices and data centres were 1,248 tCO<sub>2</sub>e in 2018, down 16.2% from 1,490 tCO<sub>2</sub>e in 2017.

Business travel emissions grew by 3.7% to 741 tCO<sub>2</sub>e (up from 715 tCO<sub>2</sub>e last year). Emissions from flights increased by 12.6%, linked to the increase in headcount, whilst emissions from rail and employee-owned car usage fell by 8.7% and 3.5% respectively.

Emissions from other resource consumption, namely paper, waste and refrigerants, fell sharply by 36.1% to 226 tCO<sub>2</sub>e, primarily driven by a significant reduction in paper consumption.

### Total emissions (tCO<sub>2</sub>e) since baseline year



## Key achievements in 2018

Rathbones completed several important initiatives in 2018 to mark the tenth anniversary of our reporting on environmental impacts.

### Office portfolio consolidation

Following the move to our new head office at 8 Finsbury Circus in February 2017, last year saw further changes to consolidate our office portfolio. Our previous head office location at Curzon Street is now sub-let and we moved offices in Birmingham, taking Rathbones' total office space in 2018 to 19,640 m<sup>2</sup> (down from 22,924 m<sup>2</sup> in 2017).

Last year was the first full year of occupancy at 8 Finsbury Circus, thereby enabling a comparison of annual performance with our previous head office location. In 2018, total energy consumption at 8 Finsbury Circus was 1,317,815 kWh against an average annual consumption of 1,810,035 kWh at Curzon Street between 2014 and 2016, representing a reduction of 492,220 kWh (27.2%). Despite a 60% increase in headcount since baseline, changes to our office portfolio have contributed towards a 12.3% reduction in energy consumption (576,693 kWh per annum).

In addition to improvements in energy performance and reduced emissions, our award-winning head office location also provides other environmental benefits including 160 cycle spaces, photovoltaics, and a green roof grey water recycling system.

### Improved performance management and reporting

Rathbones has reported its environmental performance and impacts on an annual basis since 2007. Since 2017, we have increased the frequency of our reporting to provide quarterly performance updates, analysis and trend information throughout the year, thereby creating an improved performance management capability.

This has delivered the following key benefits to management:

- More timely provision of environmental data, enabling the alignment of carbon footprint reporting with Rathbones' financial year.
- Improved data quality and accuracy, reducing the number of estimations required due to unavailable or incomplete data.
- Intra-year visibility of environmental performance, thereby creating capacity for the management team to identify actions during the year that will influence year-end performance.

### Carbon offsetting programme

Alongside the firm's growth, we have succeeded in maintaining a steady carbon footprint and continue to pursue efforts to reduce this year-on-year. As per environmental best practice, since 2011 we have taken action to mitigate this footprint by supporting low carbon projects around the world through a process known as carbon offsetting.

With our partner ClimateCare, specialists in climate and sustainable development, we have to-date supported 14 projects across the world that reduce global carbon emissions and improve lives for local communities. To compensate for our 2017 carbon footprint we have supported two solar projects in India: one delivering solar lighting and heating solutions for households and businesses, another producing electricity at a large scale to supply the Indian grid. Both projects avoid carbon emissions by displacing fossil fuels, and these savings are rigorously measured and certified by internationally accredited third-party bodies.

We work with ClimateCare to ensure our carbon offset programme goes beyond reducing emissions. In line with our support of the UN's Sustainable Development Goals we have selected these two projects on the basis of their delivery of renewable energy infrastructure in India and creation of jobs in the low-carbon sector.

## Orb Energy, India case study

Orb Energy delivers transformational outcomes for households and businesses across India with its solar lighting and heating solutions.

With the support of carbon finance from Rathbones and others, Orb has sold over 130,000 solar units and employs over 500 people across the country.



### Compliance with regulations

Rathbones complies with the regulations for reporting greenhouse gas emissions. Following an operational control approach, our 2018 greenhouse gas emissions from business activities amounted to:

- 328 tCO<sub>2</sub>e resulting from the combustion of fuel and the operation of any facilities (classified as Scope 1 in this report)
- 680 tCO<sub>2</sub>e from the purchase of electricity by the company for its own use (classified as Scope 2 in this report).

In June 2018, we sub-let our previous head office location in Curzon Street and vacated our Birmingham office, thereby reducing our reporting boundary. It has not been practical to gather data on energy use at our Lymington office and we have used typical energy consumption benchmarks to calculate the energy use at this site based on floor area.

Please note that our reported 2018 emissions do not include any data for the newly acquired Speirs & Jeffrey business. In our 2019 report, we will include full-year performance data for the newly-acquired business and will rebase historic emissions to support consistency of comparison.

The methodology used is in accordance with the requirements of the World Resources Institute Greenhouse Gas Protocol (revised version) (WRI GHG). This includes best practice Scope 2 guidance using the market-based method 'Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance' (Defra, October 2013) and ISO 14064 - part 1.

### Carbon Smart opinion statement

This statement provides Rathbones and its stakeholders with a third-party assessment of the quality and reliability of Rathbones' carbon footprint data for the reporting period 1 January 2018 to 31 December 2018. It does not represent an independent third-party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbones for the eleventh consecutive year to calculate Rathbones' carbon footprint for all offices for its 2018 annual report. Through this engagement, Carbon Smart has assured Rathbones that the reported carbon footprint is representative of the business and that the data presented is credible and compliant with the appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 - part 1 standard and verified against the WRI GHG Protocol principles of completeness, consistency and accuracy. Carbon Smart's work has included interviews with key Rathbones personnel, a review of internal and external documentation and interrogation of source data and data collection systems, including comparison with the previous years' data. Carbon Smart has concluded the following:

#### Relevance

We have ensured the GHG inventory appropriately reflects the GHG emissions of the company and serves the decision-making needs of users, both internal and external to the company.

#### Completeness

Rathbones continues to use the operational control approach to define its organisational boundary. Rathbones calculates total direct Scope 1, 2 and major Scope 3 emissions. Reported environmental data covers all employees and all entities that meet the criteria of being subject to control or significant influence of the reporting organisation.

#### Consistency

To ensure comparability, we have used the same calculation methodologies and assumptions as for the previous year. In 2017, previous years' emissions have been rebaselined to align with Rathbones' financial year.

#### Transparency

Where relevant, we have included appropriate references to the accounting and calculation methodologies, assumptions and recalculations performed.

#### Accuracy

To our knowledge, data is considered accurate within the limits of the quality and completeness of the data provided.

## Carbon footprint by scope (tCO<sub>2</sub>e)

Rathbones' reporting period for greenhouse gas emissions is 1 January to 31 December, aligned to our financial year.

Location-based emissions <sup>1</sup>	2018	2017	2016	2015	2014	2013 (baseline)
<b>Scope 1</b>	<b>328</b>	327	404	317	310	306
Natural gas	328	302	404	315	272	276
Refrigerant	0	25	-	2	39	30
Company cars	-	-	-	0.02	0.01	
<b>Scope 2</b>	<b>680</b>	852	947	1,282	1,443	1,424
Purchased electricity	680	852	947	1,282	1,443	1,424
<b>Scope 3</b>	<b>1,206</b>	1,378	1,447	1,453	1,232	1,113
Data centres <sup>2</sup>	182	257	294	317	252	150
Business travel	741	715	699	677	528	496
Paper	219	319	342	328	310	328
Waste	7	9	27	26	15	9
Electricity T&D <sup>3</sup>	58	80	86	106	126	130
<b>Total location-based<sup>4</sup></b>	<b>2,214</b>	2,558	2,798	3,052	2,985	2,843
<b>Market-based emissions</b>	<b>2018</b>	2017	2016	2015		
Purchased electricity	807	909	1,061	1,282		
Data centres	217	285	294	317		

- In accordance with best practice introduced in 2015, we report two numbers to reflect emissions from electricity. Location-based emissions are based on average emissions intensity of the UK grid and market-based emissions to reflect emissions from our specific suppliers and tariffs
- Data centre emissions are reported as Scope 3, as per the Greenhouse Gas Protocol. However, where figures are stated in this report for overall buildings electricity consumption, we have included data centres to ensure transparency of electricity use
- Emissions from line losses associated with electricity transmission and distribution
- Previously reported as 2,553 tCO<sub>2</sub>e in 2017. For some data sources sites, we have to estimate the full-year consumption based on part-year data when aligning the emissions reporting period to our financial year. These estimates have now been replaced with actual data resulting in a net difference of 5 tCO<sub>2</sub>e

## Carbon intensity

The table below shows the emissions intensity of Rathbones in relation to the number of staff, office space, operating income and funds under management and administration.

	Operational indicators						Carbon intensity (tCO <sub>2</sub> e) <sup>1</sup>					
	2018	2017	2016	2015	2014	2013	2018	2017	2016	2015	2014	2013
Staff (FTE)	<b>1,329</b>	1,227	1,045	965	867	829	<b>1.7</b>	2.1	2.7	3.2	3.4	3.4
Net internal area of offices (m <sup>2</sup> )	<b>19,460</b>	22,924	15,369	14,518	14,430	14,430	<b>0.11</b>	0.11	0.18	0.21	0.20	0.20
Operating income (£m)	<b>312</b>	291.6	243.8	230.1	209.3	176.4	<b>7.10</b>	8.8	11.54	13.39	13.89	16.34
Funds under management and administration (£bn)	<b>44.1</b>	39.1	34.2	29.2	27.2	22.0	<b>50.2</b>	64.4	84.3	104.5	109.8	129.2

- Carbon intensity is the total all scopes tCO<sub>2</sub>e per: FTE; m<sup>2</sup>; £m of operating income; £bn of funds under management and administration

## 10 years of corporate social responsibility at Rathbones

Rathbones has a long-standing commitment to action on CSR matters. Here is a selection of our achievements over the last 10 years.



CDP respondent since 2006



Over £2.3 million in charitable donations since 2007



UN PRI signatory since 2009



PwC Building Public Trust Award 2011: Best People Reporting in a FTSE 250



2013 FTSE4Good ranking: 98th percentile



2014 ICSA Excellence in Governance Award: Best sustainability and stakeholder disclosure in a FTSE 250



CDP investor member since 2015



One of the top 20 most active and influential members of the UN PRI Collaboration Platform (2015 and 2016)



Over 5,000 16-to 24-year-olds engaged in Rathbones Financial Awareness Programme



Moved head office to award-winning BREEAM 'Excellent' rated building in 2017





## CSR strategy review

In 2018, we concluded an in-depth review of CSR with the aim of developing a framework for promoting sustainability across the business and ensuring good corporate citizenship. Through consultation with key stakeholders, we considered material sustainability issues alongside key drivers for our business. This review was an important first step towards the definition of a longer-term roadmap to sustainability and identified the following four 'pillars' as most relevant to our business.

### Employees

Rathbones began life as a socially conscientious family business and is proud to have carried those values through to today. Most of our employees are also shareholders with a deep sense of responsibility and care for the good standing of the business within society. The business is determined to respect the rights and wellbeing of both our direct employees and those within our supply chain.

## Governance and stewardship

At Rathbones, we believe in the importance of adopting best practice corporate governance standards and managing companies and investments in the long-term interests of shareholders. As with good governance and responsible stewardship, sustainability, at its heart, is about promoting long-term success.

### Environment

For the last 10 years, Rathbones has reported its environmental impacts and acted to reduce them. Now more than ever, we recognise the importance of tackling environmental issues and that every business, regardless of sector, must act to reduce its ecological footprint.

### Social and community

Rathbones is part of an increasingly interconnected global community. We recognise the importance of acting to promote wellbeing and maximise the positive impacts of our business in the societies and communities within which we operate. By promoting the success of those around us, we can help to generate the conditions for sustainable growth in our business.

## Our sustainability framework

High-level sustainability drivers, themes and stakeholders

### Key drivers

- Responsible investment trends
- Increasing regulations and transparency
- Millennials as employees and clients

### Four pillars of sustainability

#### Employees

- Diversity, transparency, gender pay in financial services
- Employee engagement
- Supply chain workers - action on modern slavery

#### Social and community

- Respect for human rights
- Volunteering, charitable giving
- Support for community initiatives

#### Governance and stewardship

- Responsible investment
- Anti-corruption practices
- Remuneration
- Management structure

#### Environment

- Climate change, low carbon investment
- Air pollution
- Waste
- Paper use/deforestation
- Water

### Stakeholders

- Employees
- Communities
- Clients
- Suppliers

## Looking forward

We recognise that acting on sustainability issues is not only the right thing to do but that it is fundamentally beneficial to the long-term success of the business and welfare of all its stakeholders. Over the next 10 years, we anticipate that our stakeholders will continually raise the bar on the sustainability standards expected of high-profile companies such as Rathbones.

Secondly, we recognise this increasing focus on sustainability issues as one of several leading trends that will impact and define businesses in every sector over the coming years.

Already we see a growth in related regulation and the need for transparency on social and environmental issues. The advent of millennials as employees and clients of our business will serve to accelerate interest both in acting responsibly as a business and in responsible investment opportunities.

For these reasons, Rathbones will continue to increase its focus on sustainability issues. In 2019, we will further develop our programme of action across the four pillars identified above and, by 2022, we will produce a dedicated, standalone report on our CSR performance.

## Non-financial information statement

Reporting requirement	Some of our relevant policies	Where to read more in the report about our impact	Page
<b>Environmental matters</b>	Group sustainability policy	Responsible investing	41
		Environmental reporting	41
		Environmental impact	48
		Carbon offsetting programme	49
<b>Employees</b>	Code of conduct Health and safety policy Compliance framework policy Anti-bribery policy	Leadership and management development	43
		Diversity and inclusion	44
		Gender pay reporting	46
		Investing in brighter futures	47
		Women in Finance Charter	44
<b>Human rights</b>	Modern slavery policy Code of conduct	Modern slavery	45
		Carbon Smart	45
<b>Social matters</b>	Code of conduct	ClimateCare	49
		Communities	46
<b>Anti-corruption and anti-bribery</b>	Anti-bribery policy Conflicts of interest policy		46
<b>Business model</b>	Our business model	Our business model	8-9
		Our market and opportunities	14-15
		Our journey	16
<b>Non-financial key performance indicators</b>		Employee relations	46
		Our 2018 carbon footprint	48

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

Pages 1 to 54 constitute the strategic report, which was approved by the board and signed on its behalf by:

**Philip Howell**  
Chief Executive

**Paul Stockton**  
Finance Director

20 February 2019



# Governance

## Governance

- 56 Corporate governance report
- 56 Introduction from the chairman
- 58 Governance at a glance
- 60 Board of Directors
- 62 Role of the board
- 64 Board and board committee evaluation
- 65 Risk management
- 65 Relations with shareholders
- 66 Group risk committee report
- 69 Audit committee report
- 74 Nomination committee report
- 76 Group executive committee report
- 78 Remuneration committee report
- 78 Remuneration committee chairman's annual statement
- 80 Remuneration outcomes for 2018
- 83 Annual report on remuneration
- 87 Implementation of remuneration policy in 2019
- 92 Directors' report
- 95 Statement of directors' responsibilities in respect of the report and accounts



# Corporate governance report



**Mark Nicholls**  
Chairman

The board strongly believes that robust corporate governance makes a significant contribution to the long-term success of the firm and the achievement of its strategy. A good governance framework creates a solid foundation, which enables us to act in the best interests of our clients, shareholders and other stakeholders. I am pleased to introduce the corporate governance report for 2018, which includes commentaries from me and the other committee chairmen. The report explains how we applied the principles of good governance including the provisions of the 2016 UK Corporate Governance Code<sup>1</sup> ('the Code'). Further details of the firm's approach to corporate governance and how it complies with the Code can be found later in the report.

## Culture

The board places great importance on the firm's culture, which has developed over many years and represents a key competitive advantage. The firm's client focus and integrity are fundamental to achieving the best results for colleagues, clients and shareholders over the long term.

Following a fundamental review of our culture that was completed in 2017, the board has continued to monitor the firm's purpose and values during the year. The board and the executive team devoted significant time and effort to analysing the firm's culture dashboard, which contains data relating to clients, colleagues and other stakeholders. My non-executive director colleagues and I have also continued during the year to assess the firm's culture through direct engagement, both formal and informal, with investment managers and other employees throughout the business.

## Board and executive succession

The nomination committee regularly reviews the composition of the board to ensure it has the appropriate skills, knowledge and experience for the business. Such reviews help shape the firm's succession plans and led to a number of changes to our board during the year.

After a rigorous recruitment process, we were delighted to welcome Terri Duhon and Colin Clark to the board in July and October 2018 respectively. A comprehensive and tailored induction programme was arranged for them to introduce them to the business and provide industry context. More detail of the induction programme is provided later in the report. Also, as indicated in my report last year, the board recognises the importance of planning for the future and ensuring that succession plans are in place. As a result, Terri Duhon was appointed chair of the group risk committee following Kathryn Matthews' retirement from the board in September 2018. Kathryn had served nearly nine years as a director.

In addition, the board discussed and approved the recommendation from the nomination committee to begin to implement our executive succession plans. Accordingly, the firm announced the appointment of Paul Stockton as managing director of Rathbone Investment Management in May 2018. In November 2018, after careful assessment of Paul's performance in this role by the nomination committee it was agreed by the board that he would succeed Philip Howell as chief executive by the 2019 AGM. Also, as announced in October 2018, Jennifer Mathias was appointed as finance director and will be joining the firm on 1 April 2019.

## Board meetings

During the year, the board held seven scheduled meetings and met formally and informally on many occasions. Prior to each scheduled board meeting, I meet with the non-executive directors to discuss any significant matters arising from the board papers and the focus of any challenges. We receive written reports on the development of the business and key performance indicators, together with detailed updates on the progress of agreed strategic initiatives. Each board meeting is attended for relevant items by members of the executive committee so that we can discuss their areas of responsibility in greater depth.

Between board meetings, I maintain frequent contact with the executive team and, in particular, the chief executive and managing director of Rathbone Investment Management, who keep me apprised of progress and key developments. Philip, Paul and I also discuss how to bring issues to the board in the most effective way. Our senior independent director, Jim Pettigrew, and I are in frequent contact and I discuss with him my thinking on significant board issues. Jim and I are also in regular dialogue with our other non-executive director colleagues to ensure that any areas of concern are aired.

1. The Code can be found at [frc.org.uk](http://frc.org.uk)

## Remuneration policy

Our revised remuneration policy was approved at the 2018 annual general meeting (AGM) and I was pleased that it received such strong support from our shareholders. The directors' remuneration report, which includes further detail on the application of the new policy, can be found later in this section.

## Shareholders and stakeholders

Engagement and dialogue with shareholders continue to be very important to the board. Personally, I have been pleased to meet with a number of our shareholders during the year and found these meetings informative. They allowed me to provide useful feedback to the board. Sarah Gentleman, the chairman of the remuneration committee, has also been proactively involved in discussions with shareholders.

The firm's AGM, which will take place on 9 May 2019, is a valuable opportunity for me and my fellow directors to meet with shareholders, and for shareholders to raise questions about the firm. I look forward to discussing our progress and the work of the board with shareholders at this meeting.

The board has other important stakeholders including our clients, employees, our regulators and the wider community. Both I and my non-executive director colleagues use formal and informal opportunities to talk with members of staff across all offices and functions. The board spent considerable time discussing the implications for the employees of both firms when considering the acquisition of Speirs & Jeffrey. We have set up a team visit programme for our non-executive directors. We are also actively considering the provisions of the new Corporate Governance Code on 'workforce engagement'.

## Looking forward

This year saw a busy period for corporate governance reform with the publication of the new Corporate Governance Code, which will apply to the firm in 2019. The board has monitored these developments closely including the provision on workforce engagement, diversity and culture. Due to the firm's strong existing framework, we are well placed to implement these new provisions during 2019. The board and its committees have already spent time assessing the implications for the firm and over the coming months will consider the actions required to ensure compliance with the new Code.

The nomination committee continues to take into consideration the recommendations of the Davies report and the McGregor-Smith review on board diversity. As a board, we acknowledge the importance of board diversity and, looking forward, particular regard will be given to female representation targets during the recruitment process. The firm will ensure that there are no barriers to women succeeding at the highest levels.

**Mark Nicholls**  
Chairman

20 February 2019



# Governance at a glance

## Corporate governance framework



### Remuneration committee

Responsible for the directors' remuneration policy and oversight of the group's remuneration strategy.

Read more on page 78

### Group risk committee

Provides oversight of the firm's risk appetite and framework.

Read more on page 66

### Audit committee

Ensures there is confidence in the integrity of internal financial controls and corporate reporting.

Read more on page 69

### Nomination committee

Responsible for recommending changes to the composition of the board and reviewing succession planning.

Read more on page 74

### Group executive committee

Implements the agreed strategy and oversees the day-to-day management of the group.

Read more on page 76

### Chairman

- Leads the board and sets the agenda for board discussions
- Ensures the board is effective
- Encourages the presentation of accurate, clear and timely information
- Promotes effective and constructive dialogue between non-executive directors, executive directors and the executive team
- Chairs the nomination committee, which considers the composition of the board and succession plans
- Evaluates the performance of the board, its committees and individual directors on an annual basis

### Chief Executive

- Provides executive leadership and management to the business
- Responsible for the effectiveness of the executive committee
- Delivers on strategic objectives set by the board in line with the group's risk appetite
- Oversees the financial position of the group
- Maintains strong relationships with the chairman, the board and key shareholders and stakeholders

### Senior Independent Director

- Acts as a sounding board for the chairman and serves as an intermediary for the other directors if required
- Holds meetings with the non-executive directors (without the chairman present) at least annually
- Leads the board in the ongoing monitoring and annual performance evaluation of the chairman
- Is available to meet with a range of major shareholders to develop a balanced understanding of their issues and concerns and reports the outcome of such meetings to the board

### Non-executive Directors

- Provide constructive challenge to management performance and strategy
- Contribute to the firm's strategy
- Provide independent judgement to the board

## Board activities in 2018

### Strategy

- Held strategy day with group executive team to review and discuss progress
- Reviewed and analysed strategic acquisition opportunities with considerable time spent on the Speirs & Jeffrey transaction
- Focused on delivery of organic growth initiatives

### Risk management

- Monitored the firm's principal risks and compliance programme
- Received detailed reports on significant regulatory risks and management's mitigating actions
- Reviewed the implications of Brexit for the organisation

### Performance review

- Provided oversight of the financial performance of the group
- Reviewed and approved capital requirements of the firm
- Approved 2019 budget

### Governance

- Conducted an internal board evaluation
- Appointment of new board directors and approval of chief executive transition
- Approved the firm's Modern Slavery Act statement
- Assessed and oversaw the firm's culture and how it was reported and monitored

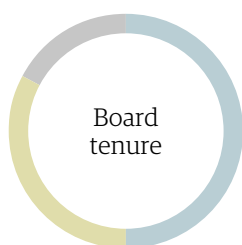
### Operational

- Reviewed an update on the General Data Protection Regulation (GDPR) implementation plan
- Reviewed an update on the IT transformation programme including security enhancements following the review of cyber security
- Held discussions to improve controls and governance around MiFID II requirements
- Reviewed and approved Speirs & Jeffrey work streams and client data migration

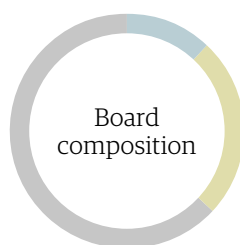


Strategy	30%
Risk management	15%
Performance review	15%
Governance	20%
Operational	20%

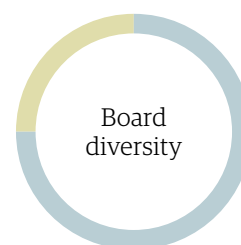
## Board structure



0-2 years	50%
3-6 years	33%
Over 6 years	17%



Chairman	12%
Executive	25%
Independent non-executive	63%



Male	6
Female	2

# Our leadership

## Chairman

Mark Nicholls  
Chairman



Appointment: 01/12/2010

Age: 69

Board committees:  
**N, Re**

### Background and career

Mark is a lawyer and corporate financier and was appointed as chairman at our 2011 AGM. After studying law at Cambridge, he qualified as a solicitor at Linklaters before joining S G Warburg in 1976. He became a director of Warburgs in 1984 and head of investment banking in 1994. In 1996, he joined Royal Bank of Scotland and became head of their private equity group, leaving in 2003 to pursue a plural career. He is currently chairman of the West Bromwich Building Society.

### Current external non-executive director roles

West Bromwich Building Society

### Board committees

- A Audit committee
- E Executive committee
- N Nomination committee
- Re Remuneration committee
- Ri Group risk committee

Bold in biographies indicates committee chairman

## Executive directors

Philip Howell  
Chief Executive



Appointment: 01/12/2013

Age: 63

Board committees:  
**E**

### Background and career

Philip was appointed in 2013. Following an early military career, Philip spent over 30 years in the investment banking and private banking sectors, undertaking a range of leadership roles as well as gaining considerable general management experience. He was with Barclays for 24 years, which included leadership assignments in Asia and South Africa and subsequently as head of strategy and corporate development focused on the international and private banking divisions. He continued his involvement in private wealth management, firstly as chief executive of Fortis Private Banking and subsequently of Williams de Broë.

### Current external non-executive director roles

None

Paul Stockton  
Finance Director and  
Managing Director of  
Rathbone Investment  
Management



Appointment: 24/09/2008

Age: 53

Board committees:  
**E**

### Background and career

Paul was appointed group finance director in 2008 and managing director of Rathbone Investment Management in May 2018. He qualified as a chartered accountant with PriceWaterhouse in 1992. In 1999 he joined Old Mutual Plc as group financial controller, becoming director of finance in 2001 and finance director of Gerrard Limited eight months later. Two years after the sale of Gerrard in 2005 he left to work initially for Euroclear and, subsequently, as a divisional finance director of the Phoenix Group. He was formerly a non-executive director of the Financial Services Compensation Scheme.

### Current external non-executive director roles

None

## Non-executive directors

Jim Pettigrew  
Non-executive Director  
and Senior Independent  
Director (Independent)



Appointment: 06/03/2017

Age: 60

Board committees:  
**A, N, Re, Ri**

### Background and career

Jim was appointed as a non-executive director at our 2017 AGM and was appointed as senior independent director in August 2017.

He is a chartered accountant and was formerly president of ICAS and chief executive officer of CMC Markets plc, chief operating officer of Ashmore Group plc and group finance director of ICAP plc. He was previously a non-executive director of Aberdeen Asset Management plc, AON UK Ltd, Hermes Fund Managers Ltd, Crest Nicholson Plc and Edinburgh Investment Trust Plc.

### Current external non-executive director roles

CYBG Plc

RBC Europe Limited

Miton Group Plc

Scottish Financial Enterprise

**James Dean**  
Non-executive Director  
(Independent)



Appointment: 1/11/2013

Age: 61

Board committees:  
**A, N, Re, Ri**

**Background and career**

James was appointed as a non-executive director in 2013 and is chair of our audit committee.

He is a chartered accountant with over 30 years' experience working in financial services. He has worked in a variety of roles at Ernst & Young over a period of 14 years, including holding the position of managing partner for the UK Financial Services Audit Practice for four years.

**Current external non-executive director roles**

The Stafford Railway  
Building Society

**Sarah Gentleman**  
Non-executive Director  
(Independent)



Appointment: 21/01/2015

Age: 48

Board committees:  
**A, N, Re, Ri**

**Background and career**

Sarah was appointed as a non-executive director in 2015 and is chair of our remuneration committee. She started her career as a consultant at McKinsey & Company and then worked for several years in the telecoms and digital sectors, latterly as chief financial officer of the LCR Telecom Group. In 1999, she joined the internet bank Egg, the internet banking subsidiary of Prudential, where she was responsible for business development and strategy. In 2005, she joined Sanford C. Bernstein & Co, the institutional research and trading arm of Alliance Bernstein as a banking analyst covering the European banking sector.

**Current external non-executive director roles**

None

**Terri Duhon**  
Non-executive Director  
(Independent)



Appointment: 2/07/2018

Age: 46

Board committees:  
**A, N, Re, Ri**

**Background and career**

Terri was appointed as a non-executive director in July 2018 and chair of the risk committee in September 2018.

Terri is currently a non-executive director on the board of Morgan Stanley International where she chairs the risk committee and is also chair of Morgan Stanley Investment Management. She is an Associate Fellow at The Said Business School at Oxford University and on the MIT Corporation Visiting Committee. Previously, Terri sat on the boards of CHAPS Co, Operation Smile and was a founding member of the Women's Leadership Group for the Prince's Trust. As an executive, Terri held a number of senior roles at JP Morgan and ABN AMRO before setting up her own consultancy firm.

**Current external and non-executive director roles**

Morgan Stanley  
International

Morgan Stanley Investment  
Management Ltd

**Colin Clark**  
Non-executive Director  
(Independent)



Appointment: 24/10/2018

Age: 59

Board committees:  
**A, N, Re, Ri**

**Background and career**

Colin was appointed as a non-executive director in October 2018.

He was at Mercury Asset Management and Merrill Lynch Investment Managers for over 20 years and then was appointed a non-executive director at Standard Life Investments in 2004. In 2005, Colin took on non-executive director roles with Alpha Strategic Plc, and with the Royal Marsden NHS Foundation Trust. Colin was appointed an executive director of Standard Life Investments in 2010 and subsequently appointed to the Standard Life Plc board as executive director with responsibility for the Global Client Group. He retired from this position in 2017.

**Current external and non-executive roles**

AXA Investment Managers  
SA

AXA Investment Managers  
UK

## The role of the board

The board provides the leadership and oversight to ensure the long-term success of the company for its stakeholders. To achieve this goal, the board requires a diverse and talented membership with a range of skills and experiences and the ability to challenge and support the executive management. The board has a strong non-executive team, which, currently, comprises former executives with financial, risk management and operational experience drawn from a variety of financial institutions. In addition, the broad experience of the non-executive directors allows them to understand the challenges and opportunities that face the firm and enables them to contribute to discussions and decisions.

## Board meetings

Most scheduled board meetings are preceded by a board dinner, which allows for broader discussions on particular topics. The board dinners also provide an opportunity for the board to meet members of the management team or to receive training. In months where no formal board meeting is scheduled, an informal meeting of the non-executive directors, the chairman and the chief executive is generally held. The non-executive directors also have informal meetings without the chairman or chief executive present. The roles of the chairman, the chief executive, the senior independent director and the non-executive directors have been clearly defined and agreed by the board to ensure a separation of power and authority.

At every board meeting, the chief executive updates the board on the implementation of strategy and recent developments. The finance director reviews the financial performance and forecasts against plan and market expectations. The chief risk officer updates the board on key risk areas and any emerging regulatory issues which impact the business. The board is updated on shareholder sentiment and significant changes in the share register. In addition, members of the executive committee attend meetings as required to present and discuss progress in their individual businesses and functions.

Specific areas of focus and major decisions taken by the board during the year in line with its 'matters reserved' mandate are listed below:

- Reviewed the firm's current short- and long-term strategic initiatives
- Scrutinised the benefits of and monitored progress on the acquisition of Speirs & Jeffrey
- Oversight of the Speirs & Jeffrey integration programme
- Approved the firm's risk framework and appetite
- Reviewed the firm's risk management and internal controls systems
- Oversaw financial performance against plan and market expectations
- Provided oversight of the firm's investment management processes, including suitability
- Scrutinised the firm's approach to and compliance with regulatory investment standards
- Assessed the firm's change management processes and project delivery

- Focused on management's delivery of organic growth initiatives
- Assessed and approved the firm's regulatory returns and annual budgets
- Monitored and assessed the firm's culture
- Considered the firm's approach to a cyber attack and subsequent management actions
- Reviewed and implemented recommendations on the board evaluation exercise
- Reviewed and approved executive management succession plans, including the appointment of the managing director for Rathbone Investment Management and new chief executive
- Approved the appointment of new non-executive directors
- Approved interim and full-year financial statements, interim dividend and recommended final dividend

## Operations of the board

The board has a rolling agenda, which ensures that key matters are addressed. The board held seven scheduled meetings during the year, a strategy day and a number of additional formal and informal meetings. The chairman and the company secretary manage board and committee meetings and ensure that the board (and particularly the non-executive directors) receive appropriate and balanced information. The company secretary manages the timely circulation of information to the board. All board papers are prepared by executives and clearly indicate any action required. As part of the annual board evaluation process, board members provided input on the level and quality of the information that is provided. In addition, the company secretary ensures board procedures are complied with and applicable rules are followed.

The company secretary facilitates the induction process for new directors, assists with their professional development and advises the board on corporate governance matters and on the rules and regulations that affect a UK-listed company. The appointment or removal of the company secretary is a matter for the board.

## Board attendance

Director	Meetings attended (eligible to attend)
<b>M P Nicholls</b>	7(7)
J W Dean	5(7)
S F Gentleman	7(7)
J N Pettigrew	7(7)
P L Howell	7(7)
R P Stockton	7(7)
T L Duhon <sup>1</sup>	3(3)
C M Clark <sup>2</sup>	1(1)
<hr/>	
Former director	
<b>K A Matthews<sup>3</sup></b>	<b>5(5)</b>

1. Terri Duhon joined the board on 2 July 2018

2. Colin Clark joined the board on 24 October 2018

3. Kathryn Matthews stepped down as a director on 12 September 2018



## Independence

The board, on the recommendation of the nomination committee, considers that all of the non-executive directors are independent. All board members are required to disclose any external positions or interests which might conflict with their directorship of Rathbones prior to their appointment so that any potential conflict can be properly assessed. The board has regard to the fact that experienced non-executive directors in financial firms are a valuable resource and may sit on several boards. Conflicts of interest can generally be managed by due process and common sense.

## Board induction

Our non-executive directors are offered a comprehensive and tailored induction programme to introduce them to the business, industry and regulatory context. The programme is based on one-to-one meetings with the executive directors and executive committee members, the heads of group functions and the company secretary and covers the areas of business outlined below:

### Business review

- Strategic direction and priorities
- Business strategy and market analysis
- Risk appetite, principal risks and risk management framework
- Operations

### Performance and market positioning

- Review of financial and market performance
- Recent analyst and media coverage
- Budget review
- Analysis of shareholder base and investor perception
- Shareholder engagement

### Regulatory environment

- Overview of the group's key compliance and regulatory policies
- Recent changes in regulatory landscape and impact of upcoming regulatory developments
- Hot topics and key priorities

### People, culture and values

- Discussion of key business principles and the firm's culture
- Key people and succession plans
- Board procedures and governance framework
- Board structure, processes and relationships
- Board interaction with key business areas
- Overview of listed company obligations, reporting and governance framework
- Directors' duties and responsibilities



**Terri Duhon**  
Non-executive Director

### Board induction

While I joined the Rathbones board with a lot of financial expertise around markets, asset management and risk, I have had less direct exposure to the UK wealth management sector. Thus, the company secretary initially provided me with reading materials, which included analyst reports, recent market analysis on the sector, Rathbones investor reports and minutes of board and committee meetings. This information was a great overview for me of Rathbones and the broader industry. At the same time, meetings were held primarily with the executive team across different areas of the business.

The various induction meetings initially focused on the big picture and slowly meetings became more detailed. As a result, I've requested a number of follow-up meetings with the same person on the same topic. In particular, I have spent a lot of time understanding the structure of the risk and compliance team which included spending time in the Liverpool office.

Throughout the induction process, everyone at Rathbones has been very open and has made themselves available to enable me to understand the inner workings of the firm, the people, processes and the culture. My induction programme will continue during 2019 and I don't expect these meetings and briefings to ever stop.

### Board development

The firm is committed to the training and development of all staff to ensure professional standards are maintained and enhanced. All directors are encouraged to update their skills and any training needs are assessed as part of the board evaluation process. The knowledge and familiarity of non-executive directors with the firm is enhanced by full access to senior management and visits to teams in London and offices across the country.

The company secretary assists with the professional development requirements of the board. In addition, the board receives mandatory annual training on the following areas:

- CASS
- SEC obligations
- ICAAP and ILAAP

During the year, the board received presentations on the impact of the GDPR, cyber security and regulatory investment requirements including the associated change programmes that will be required. Committee members also receive regular updates on technical developments at scheduled meetings.

### Governance of the company

In relation to compliance with the 2016 UK Corporate Governance Code ('the Code'), which applies to the firm, this report together with the directors' report states the position as at 20 February 2019. The directors have considered the contents and recommendations of the Code and confirm that throughout the year the company has applied the main principles and complied with the provisions of the Code.

### Board diversity

Diversity, including ethnic diversity, is a key factor when assessing the board's composition. It ensures there is the correct balance of skills, experience and expertise amongst non-executive directors to contribute to decision-making and assess the performance and strategy of the company.

The board has adopted a board diversity policy to ensure transparency and diversity in making appointments to the board on the recommendation of the nomination committee. This policy expresses our commitment to the principle of non-discrimination and to the promotion of fair participation and equality of opportunity for all.

The gender balance of the board is also taken into consideration when recruiting a new non-executive director. This is reflected in the composition of the board, which will comprise three female and five male members during 2019. The board remains committed to improving diversity at all levels across the firm. As such, it supports and is updated on diversity initiatives in place below the executive level.

### Board and board committee evaluation

Each year, the board undertakes an annual review of its effectiveness. In 2017, an external review was undertaken by an independent third party, Independent Audit Limited. This involved their attendance at board meetings, one-to-one interviews with directors, executive committee members and the company secretary and a review of board and board committee papers and minutes. The key points raised in the 2017 review and associated actions by the board were disclosed in the last year's report and accounts.

The 2018 board effectiveness review was devised internally, as permitted by the Code, and supported by Independent Audit Limited. The board was keen for the evaluation to highlight learnings from the past and build on these for the future.

The review consisted of a focused questionnaire on key topics such as:

- board skills and dynamics
- quality of the board's strategic and operational oversight
- quality of our risk assessment on major decisions
- oversight of culture
- our succession planning
- the effectiveness of the board committees.

Independent Audit Limited provided a report based on responses to this questionnaire, which was discussed in draft with the chairman and then presented in full to the board. The chairman followed up with one-to-one meetings with each director.

Overall, the board effectiveness review was positive about the composition of the board and the way both the board and the board committees operated. Suggestions for improvement included:

- Clearer information on progress on strategic projects and initiatives
- More information on succession and development below board level
- The need for board reports to take a more holistic approach to culture (looking beyond risk culture) to build a better picture of the whole organisation
- The need for more focus on diversity (not just gender) throughout the organisation

The board expects to conduct an internal review again next year and an externally-facilitated evaluation in 2020.

In addition to the board evaluation process, the senior independent director led a separate performance review in respect of the chairman which involved a review with the non-executive directors, excluding the chairman, and separate consultation with the chief executive. The senior independent director subsequently provided feedback to the chairman on his appraisal, which confirmed his effectiveness.

### Succession planning

The nomination committee is responsible for both executive and non-executive director succession planning and recommends new appointments to the board. When making board appointments, the board seeks to ensure that there is a diverse range of skills, backgrounds and experience, including relevant industry experience. Further information is included in the nomination committee report.

### Board committees

Details of the work of the principal board committees are set out in the separate reports for each committee, which follow this report.

### Accountability

The statement of directors' responsibility for preparing the report and accounts is set out at the end of this governance section. Within this, the directors have included a statement that the report and accounts present a fair, balanced and

understandable assessment of the group's position and prospects. To help the board discharge its responsibilities in this area, the board consulted the audit committee, which advised on the key considerations to comply with best practice and the Code's requirements. Following the committee's advice, the board considered and concluded that:

- the business model and strategy were clearly described
- the assessment of performance was balanced
- the language used was concise, with clear linkages to different parts of the document
- an appropriate forward-looking orientation had been adopted.

The directors' report on viability and the going concern basis of accounting, which the directors have determined to be appropriate, can be found in the strategic report, which also describes the group's performance during the year.

## Risk management

In accordance with the Code, the board is required to monitor the firm's risk management and internal control systems on an ongoing basis and carry out a review of their effectiveness and report on this review to shareholders. Details of the company's ongoing process for identifying, assessing and managing the principal risks faced by the firm are contained in the risk management section on pages 35 to 40, together with details of those principal risks and their related mitigating factors. Whilst the board retains overall responsibility for the firm's risk management and internal control systems, it has delegated oversight to the audit and group risk committees.

The group's financial controls framework is designed to provide assurance that proper accounting records are adequately maintained and that financial information used within the business and for external publication is reliable and free from material misstatement, thereby safeguarding the company's assets.

The board receives regular reports from the chairman of the group risk committee and chief risk officer on the key risks facing the firm that impact on operational and financial objectives. This assessment is completed together with assurance that the level of risk retained is consistent with and is being managed in accordance with the board's risk appetite. These reports include current and forward-looking assessments of capital and liquidity adequacy and a summary 'risk dashboard' is presented. Also, during the year, the board reviewed and approved the operational risk assessment process for the 2018 ICAAP document, which includes a capital assessment of financial, conduct and operational risks.

The board assesses the effectiveness of the firm's internal controls on an annual basis and a report is provided for consideration. The report is considered one element of the overall assurance processes, and the board considers other sources that include reports emanating from first line of defence and second line of defence assurance teams, including group compliance, anti-money laundering (AML), as well as investment risk and information security.

A one-year risk-based approach drives internal audit coverage, and, over the course of the year, review work by the function covers all material controls across the firm including compliance, operations and finance.

The observations arising from this work form the basis for the annual internal audit opinion.

Following these reviews, the board concluded that the firm's risk management processes were effective and there were no significant weaknesses or failings in the system of internal controls.

## Relations with shareholders

The board is committed to proactive and constructive engagement with the firm's investors and is keen to develop its understanding of shareholder views.

Effective communication with investors and analysts regarding the firm's strategy and performance is held through regular meetings and roadshows by the chief executive and finance director. The board receives and discusses shareholder and analyst feedback at each board meeting. The chairman and non-executive directors are available to meet with investors at any time including at the AGM.

Investor relations activity in 2018 included the following:

- 2017 year-end results - UK investor roadshow and analyst presentations
- Q1 trading update - analyst call
- AGM - all directors available for questions
- 2017 interim results - UK investor roadshow and analyst presentations

On the initiative of the chairman of the remuneration committee, shareholder consultation letters were issued to our 15 largest shareholders on our proposed new remuneration policy and meetings held with those interested to discuss the proposed changes. We also engaged with Institutional Shareholder Services (ISS) and Institutional Voting Information Service (IVIS) of the Investment Association and Pension & Investment Research Consultants (PIRC) before the 2018 AGM. Also, during 2019, the chairman of the remuneration committee contacted our top 15 shareholders to update them on the proposed adjustments to the 2018 EIP awards for our executive directors. For more information, see pages 78 to 79 of the directors' remuneration report.

During 2018, the key areas which the chief executive and finance director have discussed with investors included:

- progress on strategic initiatives
- Speirs & Jeffrey transaction and share placing
- industry trends including consolidation and the increased use of technology
- upcoming changes to regulation including MiFID II, the FCA Asset Management Review and the GDPR.

## Shareholder meetings

We welcome shareholders to our AGM in May each year. At every AGM our shareholders are given an overview of the progress of the business and outlook for the year. This is followed by the opportunity for shareholders to ask questions about the resolutions before the meeting and about the business more generally. We look forward to meeting shareholders and providing a further business update at our 2019 AGM in May this year.

# Group risk committee report



## Membership and attendance

Director	Meetings attended (eligible to attend)
<b>T L Duhon (chairman)<sup>1</sup></b>	<b>3(3)</b>
C M Clark <sup>2</sup>	1(1)
J W Dean	4(5)
S F Gentleman	5(5)
J N Pettigrew	4(5)
<hr/>	
Former director	
<b>K A Matthews<sup>3</sup></b>	<b>4(4)</b>

1. Terri Duhon joined the committee on 2 July 2018 and was appointed chairman on 13 September 2018
2. Colin Clark joined the committee on 24 October 2018
3. Kathryn Matthews retired from the committee on 12 September 2018

## Roles and responsibilities

The key activities of the committee are to provide oversight on the firm's risk appetite and framework. To do this we:

- Review and discuss reports from the risk team on risk appetite issues including any early warning signals and advise the board accordingly
- Discuss any loss events and near misses, the lessons learned and management action taken
- Review end-to-end process risk assessments undertaken and any resulting internal control enhancements
- Advise the board on the risk aspects of proposed major strategic change
- Review risk weightings on performance objectives for executive remuneration
- Receive focused reports on current business and horizon risks
- Review (prior to board approval) key regulatory submissions including the Group Internal Capital Adequacy Assessment Process (ICAAP) document

Full terms of reference for the committee are reviewed annually and are available on the company's website.

## Group risk committee chairman's annual statement

On behalf of the board, I am pleased to present my first group risk committee report as chairman and would like to thank my predecessor, Kathryn Matthews, for her support throughout my transition to this role.

The identification, management and mitigation or acceptance of risk is essential to the success of the firm. The group risk committee plays a vital part in helping support the firm's governance structure and the ongoing monitoring of the firm's risk management framework. The committee plays a fundamental role in setting the tone and culture that promotes effective risk awareness across the firm. The following sections set out the committee's responsibilities and the principal areas of risk upon which we have focused during the year.

During the year, the macroeconomic environment, political challenges and heavy regulatory agenda, coupled with firm-specific risks, have kept the committee fully occupied. There have been ongoing enhancements to our risk management and risk appetite frameworks and we are constantly assessing our skill sets to ensure that we are upskilling or bringing in expertise as required given the constantly changing risk landscape.

The committee apportions its time between the planned periodic review of key risks and the close scrutiny of topical business risks as they develop. This approach allows us to ensure that emerging risks can be identified and debated. As a result, details of management risk mitigation plans are well understood and appropriate resource is provided.

## Committee meetings

Our current members are the independent non-executive directors, who met on five occasions in 2018 (2017: four). I joined the committee in July 2018 and was appointed chairman in September 2018, and Colin Clark joined the committee in October 2018.

In addition to the members of the committee, standing invitations are extended to the chairman, the executive directors, the chief risk officer and the head of internal audit. All attend committee meetings as a matter of course and inform the committee's discussions. Other executive committee members and risk team members are invited to attend the committee from time-to-time as required to present and advise on reports commissioned.

I regularly meet with the chief risk officer in a combination of formal and informal sessions. I am still going through my induction process, which has included a meeting with the risk and compliance team in Liverpool and meetings with senior management across all divisions of the group. I will continue to meet with the chief risk officer and her team and with senior management as a matter of course throughout the year to discuss the business environment and to gather their views of emerging risks.

The committee has an agreed annual standing agenda to cover key risk events in the year, which are required to be addressed in accordance with the terms of reference. Prior to each meeting, I agree the agenda with the chief risk officer and the company secretary to identify key issues impacting on the firm that may require the committee's attention.

At each meeting, the committee reviews and considers the risk and compliance dashboards, which highlight changes in key risks impacting the firm. These dashboards are designed to enable the committee to monitor and focus on ongoing or emerging risks. In addition, the committee receives reports and presentations on compliance, suitability and anti-money laundering matters, including any regulatory changes impacting the firm.

Finally, the committee conducts 'deep dive' reviews on key risk areas such as internal investment management processes and the Internal Liquidity Adequacy Assessment Process (ILAAP).

### Committee effectiveness

An evaluation of the committee's effectiveness was undertaken during the year as part of the internal board effectiveness review. The review found that the committee operated well and ensured that the firm's risks were sufficiently analysed during the year.

In addition, the committee is satisfied that it has access to sufficient resource to enable it to carry out its duties and continue to perform effectively.

### Committee activity in 2018

Further enhancements were made to the group's risk management framework in 2018, to ensure that it remains aligned to industry and regulatory standards. The committee also reviewed the risk assessment on the firm's various strategic initiatives. In addition, the risk appetite framework continues to be refreshed to include additional measures in order to support the firm's risk management activities. Furthermore, the committee continues to review emerging risks to ensure the firm's readiness for external volatility.

Relative to other UK financial services businesses, the firm's potential exposure and disruption from the potential impact of Brexit is considered low given the firm's geographical footprint, with no material dependencies on goods or services from other EU countries and a predominantly UK client base. However, the firm has continued to develop appropriate contingency plans, which will be reviewed on a regular basis by the committee.

A number of areas of operational risk were stressed as part of the annual ICAAP. Following robust debate and challenge, the committee and board were satisfied that the group's business model and allocated risk appetite remained appropriate. This is an important outcome given the number of change management programmes underway across the group.

On risk culture, the board and committee receive regular updates via a dashboard that sources data and qualitative commentary relating to clients, colleagues, conduct risk and investors. The data for this dashboard is also reviewed annually by the internal audit team. The committee uses this dashboard to assess the firm's risk culture to ensure it is aligned with the values of the firm. The board has recently asked for a broader piece of work around culture, which will tie into the risk culture dashboard.

Our focus on cyber crime has accelerated during the year, as the number of industry attacks continues to increase, which reinforces the importance of strong cyber defences to protect client data and assets. To that end, the firm completed its General Data Protection Regulation programme on time and ensured it met legislative requirements with training provided to members of staff.

To ensure the firm is fully compliant with the ever-changing regulatory landscape, we continue to engage effectively with regulators and industry bodies to ensure that our compliance framework remains relevant for the firm.

Finally, the links between culture, risk and remuneration are fundamental. The risk committee and chief risk officer have provided input to the remuneration committee to ensure behaviours and the management of risk during the year were considered in remuneration committee decisions.



### Committee activity in 2018

The list below summarises the key issues that the committee considered at each of its meetings during the year in addition to standing reports from each control function.

#### February 2018

- Review of ICAAP operational risk factors
- Review of risk register and emerging risks
- Review of the banking committee report
- Review of the recommendations from 2017 audit cycle
- Review of risk register and emerging risks

#### May 2018

- Approval of the annual Pillar 3 disclosures
- Review of the conflicts of interest policy
- Annual approval of the firm's risk appetite
- Approval of ICAAP operational risk factors
- Review and consideration of the firm's suitability programme for the year
- Approval of the financial crime policy
- Review of banking committee report
- Review of risk register and emerging risks

#### July 2018

- Approval of ILAAP and liquidity contingency plan
- Approval of reverse stress testing disclosures
- Approval of recovery and resolution plan

#### September 2018

- Review of the risk management policy
- Review of risk register and emerging risks
- Review of the banking committee report

#### November 2018

- Approval of risk management policy statement
- Review of the banking committee report
- Review and consideration of the firm's suitability programme for the year with associated management actions
- Provide oversight of the firm's AML processes and procedures
- Review of the firm's risk culture dashboard
- Review of remuneration policy and associated risks with executive remuneration
- Review of risk register and emerging risks
- Approval of 2018 ICAAP and ILAAP stress testing proposals
- Approval of the remuneration policy

### Looking ahead to 2019

In reviewing the committee's priorities for the coming year, consideration will be given to the following areas:

- Continued risk assessment of recent and upcoming regulatory changes
- Further evolution of the firm's cyber security strategy
- Further enhancement of the risk management framework for external and internal emerging risks, especially the impact of the UK's exit from the EU
- Change risk, including the integration of Speirs & Jeffrey
- Continued assessment of the firm's risk culture against its core values

We are committed to the continuing development of our approach to risk management across the three lines of defence.

In the first line, we expect to see delivery continue on a number of projects currently underway that should strengthen further the sustainability of good client outcomes. Also, we will continue to invest in additional resource for teams in the second line of defence.

Full details of our risk management framework are included in the strategic report on pages 35 to 40.

#### Terri Duhon

Chairman of the group risk committee

20 February 2019





## Membership and attendance

Director	Meetings attended (eligible to attend)
<b>J W Dean (chairman)</b>	6(7)
C M Clark <sup>1</sup>	1(1)
T L Duhon <sup>2</sup>	3(3)
S F Gentleman	7(7)
J N Pettigrew	6(7)
<hr/>	
Former director	
<b>K A Matthews<sup>3</sup></b>	5(5)

- Colin Clark joined the committee on 24 October 2018
- Terri Duhon joined the committee on 2 July 2018
- Kathryn Matthews retired from the committee on 12 September 2018

## Roles and responsibilities

The key activities of the committee are as follows:

- Provide oversight of the firm's financial performance and reporting, announcement of results and significant judgements areas
- Review the firm's whistleblowing arrangements and ensure appropriate and independent investigations on matters
- Review the firm's internal controls and effectiveness of the internal audit function
- Oversee the appointment, performance and remuneration of the external auditor, including the provision of non-audit services to the firm

Full terms of reference for the committee are reviewed annually and are available on the company's website.

## Audit committee chairman's annual statement

The audit committee's key role is to ensure there is confidence in the integrity of our processes and procedures as they relate to internal financial controls and corporate reporting. The board relies on the committee to review financial reporting and to appoint and oversee the work of the internal and external auditors.

During 2018, the committee has continued to provide independent scrutiny of the processes in place to monitor the company's financial and non-financial reporting. This included oversight of the viability statement process and ensuring that this report and accounts meets the criteria for fair, balanced and understandable reporting. We have also overseen the firm's systems of internal controls management. The committee has considered a wide range of topics with a focus on the following areas:

- Analysis of the firm's financial reporting with particular consideration of accounting judgments made during the preparation of the financial statements
- Review of the firm's client assets sourcebook (CASS) audit and submissions
- Impact of the reporting standards relating to IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'
- Audit tender process

## Committee meetings

Our current members are the independent non-executive directors who met on seven occasions in 2018 (2017: six).

The board is satisfied that at least one member of the committee has recent and relevant financial experience. I am a chartered accountant as is Jim Pettigrew, while the other committee members have extensive experience of financial matters and of the financial services industry.

In addition to the members of the committee, standing invitations are extended to the chairman, executive directors, chief risk officer, head of internal audit, financial controller, and the external audit partner and manager. Other executives and external advisers are invited to attend the committee from time-to-time as required to present and advise on reports commissioned.

During the year, I have regular meetings with the finance director, head of internal audit and the external audit partner to discuss key audit-related topics ahead of each meeting.

The committee has an agreed annual standing agenda to ensure key areas are covered during the year, which it is required to address under its terms of reference. Prior to each meeting, I agree the agenda with the finance director and the company secretary.

### Committee effectiveness

The annual review of the effectiveness of the committee was carried out internally during the year. The committee members and executive directors were invited to respond to questions on the content, management, quality and focus of discussion during meetings. I am pleased that their responses indicated that the committee is performing well with no areas of concern.

#### Committee activity in 2018

Below is a summary of the key issues that the committee considered at each of its meetings during the year.

##### January 2018

- Review of the report and accounts
- Review of key judgements for the annual report
- Assessment of going concern and the viability statement
- Annual review of audit fees
- Review of 2017 internal audit plan and 2018 internal audit cycle
- Request for approval of 2018 non-audit services

##### February 2018

- Approval of the report and accounts
- Review the impact of IFRS 15
- Assessment of the report and accounts being fair, balanced and understandable
- Review of the firm's distributable reserves and dividend policy for 2017
- Year-end external audit report and audit opinion
- Review and approval of representation letter
- Review of external auditor's letter of independence

##### April 2018

- Review and approval of the firm's CASS submission

##### May 2018

- Review of audit tender process
- Review and approval of the Q1 interim management statement
- Review and approval of the external auditor's letter of engagement and audit fee
- Review of internal audit plan for 2018 and completed assessments across the firm
- Approval of the internal audit charter
- Assessment of conformity with International Literacy Association standards and the financial services code

##### July 2018

- Approval of half-year report for 2018
- Assessment of the firm's statement of going concern
- Review of audit fees for 2018
- External auditor's half-year review
- Review and approval of representation letter
- Review of external auditor's letter of independence
- Proposed audit plan for the year end
- Annual review of audit and non-audit fee policy
- Approval of recommendation of selection committee on external audit appointment for 2019
- Review of internal audit plan for 2018 and completed assessments across the firm
- Annual review of the whistleblowing reports for 2017
- Annual review of the whistleblowing policy
- Approval of committee's terms of reference

##### October 2018

- Review and approval of the Q3 interim management statement
- Review of internal audit plan for 2018 and completed assessments across the firm
- Review of planning of internal audit plan for 2018
- Approval of the firm's non-audit service policy

##### December 2018

- Review of key judgements and provisioning for the year end
- Review of audit and non-audit fees for the year
- Assessment of reporting standard changes relating to IFRS 9, 15 and 16
- Review of internal audit plan for 2018 and approval of the 2019 internal audit plan

## Financial reporting

### Accounting judgements

As part of the committee's role of monitoring the integrity of the firm's financial information contained in the interim and annual financial statements, a review of key accounting judgements and policies that were adopted by management was conducted and assessed. Following discussion with management and the external auditors, the committee concluded that these judgements were appropriate and proportionate for the firm. Details of these key significant judgements can be found in note 3 of the financial statements.

### Fair, balanced and understandable statement

The committee considered whether the interim statement and the report and accounts were fair, balanced and understandable and provided the information necessary for shareholders to assess the firm's performance, business model and strategy. The committee reviewed the interim and annual financial statements in conjunction with the narrative sections of the reports to ensure that there was consistency in the information reported, that appropriate weight had been given to both positive and negative aspects of business performance and that key messages had been presented coherently. The committee concluded that, taken as a whole, the interim statement and the report and accounts were fair, balanced and understandable.

### Viability and going concern

The committee considered the requirements contained in the Code regarding the company's viability statement, including the proposed three-year assessment period. After significant discussion, and having considered the firm's current position and impact of potential risks, the committee concluded that the three-year assessment period continued to be appropriate and recommended the draft viability statement (as set out on page 40) to the board for approval. The committee also reviewed the going concern disclosure (as set out on page 93) and concluded that the firm had adequate resources to continue in operational existence for the foreseeable future and confirmed to the board that it was appropriate for the firm's financial statements to be prepared on a going concern basis.

### The carrying value of assets

We reviewed the methodology for valuing assets where a significant amount of judgement is required, including intangible assets, particularly goodwill and client relationships.

### The valuation of defined benefit pension obligations

We reviewed the key assumptions supporting the valuation of defined benefit pension obligations, particularly salary increases, investment returns, inflation and the discount rate, which are disclosed in note 28 to the financial statements. We reviewed the professional advice taken by the company and discussed the assumptions used by us and by other companies with the external auditors. We satisfied ourselves that the assumptions used were reasonable.

### Provisions and contingent liabilities

The committee discussed provisions totalling £11.8 million, which have been summarised in note 26 to the financial statements. The main areas of provisions relate to the Speirs & Jeffrey acquisition, deferred payment for acquired business and property dilapidation liabilities.

### Brexit

Complementing the board's consideration of the potential impact of Brexit on our business, the committee considered the implications of Brexit uncertainties on those accounting judgements that depend on assessments of the future economic environment and the group's future prospects, going concern and viability. This included an assessment of the appropriateness of sensitivity analysis undertaken for known adverse scenarios and the adequacy of disclosures in the report and accounts.

### Acquisition of Speirs & Jeffrey

We considered the judgement and estimates made by management in accounting for the acquisition of Speirs & Jeffrey. In particular, we reviewed the estimated valuation and accounting treatment of the deferred elements of consideration payable for the business, the identification and valuation of the client relationships and other intangibles acquired and the valuation of goodwill arising from the acquisition.

### New accounting standards

During the year, the committee reviewed two new accounting standards that will be implemented over the next two years and will impact on the financial statements as they will have a number of transitional arrangements. The committee looked at the following:

#### i) IFRS 15

A review was conducted on the impact of this standard and the manner in which the firm is required to capitalise earn out payments. Following an extensive review of our contracts, it was determined that the net impact of this standard would result in a £8 million adjustment to the opening equity position and is disclosed in the financial statements.

#### ii) IFRS 16

A review of the firm's future lease payments was conducted during the year to establish the potential financial liability that will need to be recognised on the balance sheet. The firm's most significant property lease contracts were examined and may lead to the firm being required to hold additional capital from the inception of the standard.

For further information, please refer to note 1.3 to the financial statements.

### Audit tender process

As reported in last year's committee report, the last audit services tender process took place in 2009, which led to the appointment of KPMG LLP, and under the new EU audit regulations, the firm was required to initiate another process. Also, this timing coincided with the end of tenure of the lead engagement partner who, having been the lead engagement partner for five years, in accordance with audit regulations, is required to rotate off the firm's account in 2019.

## Audit committee report continued

The committee initiated an audit tender process, which it delegated to a sub-committee composed of the following:

- Chairman of the audit committee
- Chairman of the remuneration committee
- Finance Director
- Head of Internal Audit
- Group Financial Controller

The process was designed to be transparent, effective and efficient in order to provide participating firms an equal opportunity to tender for the services. Prior to the tender, the participating firms had been given equal opportunity to meet with key members of staff to ensure they had a good understanding of the business.

The main elements of planning for the tender began in May 2018 when the proposed process was approved by the committee. The sub-committee met regularly and received and commented on the main materials prior to these being issued to the participating firms.

As an initial step, a detailed desktop review process was undertaken, which considered the credentials of six firms against a range of criteria, including an assessment of the depth of knowledge and expertise in the investment management industry, the firms' geographical reach, analysis of the firms' current and recent audit clients in our sector, review of the Financial Reporting Council's (FRC) June 2017 Audit Quality Inspection reports on each firm and consideration of our experience of the firms in recent engagements (audit and non-audit). Following the desktop review, the sub-committee agreed that three firms should be issued with a request for proposal (RFP).

In line with FRC guidance the evaluation criteria for the process were agreed as:

### Audit quality

- Measured by reference to recent FRC audit quality reports
- Independence and management of potential conflicts

### Team competence

- Experience and expertise of the team

### Commitment and proactivity

- Enthusiasm and commitment of the proposed audit team

### Service approach

- Organisational and cultural fit of each firm and the proposed audit team with our business
- Appropriate audit approach and issue resolution processes for our business

### Communication, messages and style

In order to evaluate each of the firms against the criteria, the sub-committee oversaw a number of activities including:

- Analysis of the RFP responses
- Presentations to the sub-committee
- Assessment of performance on non-audit services provided in the preceding 24 months

- Due diligence including reviewing Audit Quality Review team Inspection reports published by the FRC, references and media searches

The sub-committee produced a scorecard to appraise each firm, which was presented to the audit committee for consideration. In summary, the committee concluded that Deloitte LLP had a strong team proposition, good knowledge of the business' and sector's key risks, had performed well on non-audit engagements during the past 24 months and through certain other actions demonstrated their commitment to providing a high-quality focused audit. Accordingly, the board agreed to recommend to shareholders the appointment of Deloitte at the 2019 AGM. The committee will oversee the implementation of a detailed transition plan and an update will be provided in next year's report.

## Internal audit

### Internal audit plan

The 2018 internal audit plan was approved by the committee ahead of the start of the year with a greater focus on thematic work. The internal audit plan is subject to an annual risk-based appraisal. In setting audit scope, the internal audit function will take into account business strategy and form an independent view of whether the key risks to the organisation have been identified, including emerging and systematic risks, and assess how effectively these risks are being managed. The status of scheduled work and the follow up of agreed actions arising from reviews is reviewed at each meeting to ensure that agreed recommendations are acted upon promptly and regularly reported to the committee.

At each meeting, the committee reviewed the internal audit reports presented by the head of internal audit and monitored progress against the 2018 plan. Reporting to the committee focuses on any significant issues identified in the audits and highlights any overdue items. A number of improvements to certain processes and controls were implemented in response to the recommendations put forward.

### Internal audit function

The internal audit function is an independent, objective assurance activity designed to add value and improve the organisation's operations by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The internal audit function is the third line of defence within the controls framework, providing independent assurance to both senior management and the audit committee, and reporting to the chairman of the audit committee. Deloitte LLP were engaged on 1 July 2015 as a co-source partner supplementing the in-house team. Deloitte's significant resource and knowledge base means they are able to provide specialist assistance supporting the annual internal audit planning process, as well as technical input into individual audit reviews. A combined assurance map has been developed, linking significant risks to first line controls, second line monitoring and oversight and internal audit work.

The committee reviewed the effectiveness of the internal audit function during the year to assess whether the function continued to meet key stakeholder objectives. The outcome of this review indicated that the internal audit function continued to be effective, operating in line with professional standards and is well supported by Deloitte. Following the proposed change in external auditor in 2019, the firm has initiated a tender process for the internal audit co-source relationship. An update will be provided in next year's committee report.

As well as meetings with management, I have regular meetings on a one-to-one basis with the head of internal audit before audit committee meetings to ensure that any concerns can be raised in confidence.

## External audit

### Audit work 2018

KPMG present their audit plan to the committee for review each year. The committee reviewed and challenged reports from KPMG, which outlined their risk assessments and audit plans for 2018 (including their proposed materiality level for the performance of the annual audit), the status of their audit work and issues arising from it. Particular focus was given to their testing of internal controls, their work on the key judgement areas and possible audit adjustments. We can confirm that there are no such material items remaining unadjusted in the financial statements.

### External audit effectiveness and appointment

We place great importance on the quality, effectiveness and independence of the external audit process. In order to review the external audit process, including the performance of the external auditors, feedback is gathered from both committee members and management. This process was undertaken by internal audit. We also reviewed the annual FRC Audit Quality Inspection report prepared on our external auditor and discussed this report with the audit partner. There are no contractual or similar obligations restricting the firm's choice of external auditor.

### Auditor independence and non-audit services

We discussed the independence of the external auditor, the nature of non-audit services supplied by them and non-audit fee levels relative to the audit fee. As a result of the EU Audit Directive and Audit Regulations, the non-audit services policy was updated and approved. The revised policy includes prohibited services and sets a fee guide that aims to achieve a cap of 70% of the statutory audit fee in any year by 2019. The committee's prior approval is only required where the fee for an individual non-audit service is expected to exceed £50,000 and it is on the list of pre-approved services.

Non-audit fees, excluding services required by national legislation, payable to the auditor in 2018 were £179,000. This represents 45% of the three-year average statutory audit fee of £387,000. Other non-audit work undertaken by the auditor in 2018 was largely in relation to the corporate transaction, pensions advisory work and the annual ISAE3402 internal controls report. We recognise that, given KPMG's knowledge of the business, there are often advantages in using the external auditor to provide certain non-audit services and we are satisfied that their independence has not been impaired by providing these services.

Prior to undertaking any non-audit service, KPMG LLP also completes its own independence confirmation processes, which are approved by the engagement partner. To provide the committee with oversight in this area, it submits six-monthly reports on the non-audit services it has provided.

Following a formal assessment of the external auditor's independence and objectivity, the committee concluded that KPMG continued to be independent and objective.

We agreed the external auditor's fees (which are shown in note 8 to the financial statements) and reviewed the audit engagement letter. We also had discussions with the external auditor with no management present to provide an opportunity for any concerns to be raised and discussed.

## Whistleblowing policy

We annually review the firm's whistleblowing policy, approve any changes to the document and receive details of any reports made.

As well as meetings with management, I have regular meetings on a one-to-one basis with the head of internal audit before audit committee meetings to ensure that any concerns can be raised in confidence.

## Overview of priorities for 2019

As well as considering the standing items of business, the committee will also focus on the following areas during 2019:

- Assessment and implementation of new accounting standards
- Transition of external audit work from KPMG to Deloitte

In light of its work, the committee was content with the effectiveness of the group's processes governing financial and regulatory reporting and controls, its ethical standards and its relationships with regulators.

## Approval

This report, in its entirety, has been approved by the committee and the board of directors and signed on its behalf by:

**James Dean**  
Chairman of the audit committee

20 February 2019



# Nomination committee report



## Membership and attendance

Director	Meetings attended (eligible to attend)
<b>M P Nicholls (chairman)</b>	<b>6(6)</b>
C M Clark <sup>1</sup>	1(1)
J W Dean	4(6)
T L Duhon <sup>2</sup>	2(2)
S F Gentleman	6(6)
J N Pettigrew	4(6)

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Former director	Meetings attended (eligible to attend)
<b>K A Matthews<sup>3</sup></b>	<b>4(4)</b>

1. Colin Clark joined the committee on 24 October 2018
2. Terri Duhon joined the committee on 2 July 2018
3. Kathryn Matthews retired from the committee on 12 September 2018

## Roles and responsibilities

The responsibilities of the committee include reviewing the composition (including the skills, knowledge, experience and diversity) of the board and making recommendations to the board for the appointment of directors. The board as a whole then decides on any such appointment.

The committee also has wider responsibilities for succession planning and the leadership needs of the organisation, both executive and non-executive, to ensure the continued ability of the firm to implement its strategy and compete effectively in the marketplace.

Full terms of reference for the committee are reviewed annually and are available on the company's website.

## Nomination committee chairman's annual statement

The nomination committee's primary focus this year has been on succession planning for the board and executive team. There have been a number of board member changes during the year that have ensured a busy period for the committee.

## Succession planning - board and executive management

As stated in last year's report, the committee employed independent search consultants to seek potential candidates to succeed Kathryn Matthews as a non-executive director and as chairman of the group risk committee. It was also agreed to undertake a search for an additional non-executive director with executive experience in the investment management industry.

Following a rigorous search process, Terri Duhon was appointed to the board in July 2018. In September 2018, the committee recommended Terri's appointment as chair of the group risk committee. The committee appointed Russell Reynolds Associates to undertake the search process for an additional non-executive director and, in October 2018, Colin Clark was appointed to the board.

I also referred in last year's report to the committee's review of executive succession plans, which were seen as integral to developing the next phase of our strategic plan. As a first step, in April 2018, the committee approved the appointment of Paul Stockton as managing director of Rathbone Investment Management and, after a careful assessment by the committee of Paul's performance in his new role, it was agreed in November 2018 that he would succeed Philip Howell as chief executive by the 2019 AGM. In reaching its conclusion, the committee met a number of times to assess Paul's progress as managing director of Rathbone Investment Management. The committee was unanimous on his appointment. Paul has been a key individual in the firm's success and has played an integral role in the growth of the business over the last 10 years.

Following Paul's change in role in April 2018, the committee approved a detailed specification for the role of group finance director with input from the chief executive and engaged an external search consultancy firm, Korn Ferry, to find appropriate candidates. The firm is not connected to the company in any way. The search process included consideration of both external and internal candidates and, at all stages, the committee took steps to ensure that external and internal candidates were treated equally. A shortlist of external and internal candidates was agreed and candidates were interviewed by members of the board and executive team. Following these interviews and assessments, the committee recommended the appointment of Jennifer Mathias. The board then considered and approved the recommendation. The PRA and FCA have each given their approval to Jennifer's appointment. Jennifer's appointment as a director will be proposed for approval by shareholders at the AGM in May 2019. The committee believes that Paul and Jennifer will make an excellent team.



## Non-executive directors' skills

As mentioned above, a key responsibility of the committee is to ensure that the board maintains a balance of skills, knowledge and experience appropriate to the operation of the business and as required to deliver the strategy. During the year, the committee considered and reaffirmed the skill set and experience of the firm's independent non-executive directors, including their extensive experience in financial services.

## Talent development

The committee also takes a keen interest in executive succession plans, which include executive directors, the group executive committee members and management roles across the business. Potential successors have been identified for many senior management positions and non-executive directors have met key individuals as part of normal board interactions and their visits to various teams in London and offices across the country. The committee continues to receive reports on the talent pipeline, which identifies high-calibre individuals with management potential. The committee acknowledges that, in a company the size of Rathbones, there may not always be successors for every senior role. The committee will continue to focus on this issue as a key part of its remit.

## Independence and conflicts of interest

It is of the utmost importance that the board of a financial services firm has high-quality, experienced non-executive directors with the skills and integrity to undertake senior management roles. At Rathbones, we are fortunate to have such non-executives. I maintain a dialogue with each of them on potential conflicts of interest and time commitments. I am quite satisfied that in each case any conflicts of interest are likely to be rare and will be handled appropriately by the individual concerned. I have also been impressed by the wholehearted commitment of all our non-executive colleagues to Rathbones during a year in which they were often called upon to attend non-scheduled or informal meetings at short notice.

All non-executive directors will be standing for re-election at the 2019 AGM.

## Board diversity

Diversity continues to be a key focus of the committee. The committee embraces the benefits of diversity and it has been a topic of discussion throughout the year, including in the context of the board-level appointments considered by the committee and as part of the committee's review of talent and executive management succession planning. The committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board where it is consistent with the skills, experience and expertise required at a particular point in time. When Jennifer joins the board in April, three of the company's eight directors will be women, meaning that the representation of women on the board exceeds the minimum percentage set out in the

recommendations of the Hampton-Alexander review published in November 2016. However, the committee recognises that, due to the relatively small size of the board, the appointment or departure of a single director can have a significant impact on its ability to achieve recommendations in relation to the composition and diversity of the board as a whole at a particular point in time.

For further information on our approach to diversity, please refer to the corporate responsibility report on page 44.

## Corporate governance reform

The committee has monitored the various reforms to corporate governance in the UK that have been announced during the year. These include the publication of the new Corporate Governance Code ('the new Code'), which will first apply to the company in the financial year ending 31 December 2019. The committee has received updates from the company secretary on the new Code and its implications for the firm. The committee will continue to discuss the resulting actions required over the coming months to ensure that the company complies with the new Code during 2019.

## Board effectiveness review

A formal and rigorous evaluation of the committee's effectiveness was undertaken during the year as part of the internal board effectiveness review. The review found that the committee operated well during the year.

## Looking forward

We will continue to keep under review a succession timetable for both executives and non-executives. We will also monitor the development of management talent below board level and encourage greater diversity and challenge management to develop the talent that exists in the firm.

**Mark Nicholls**

Chairman of the nomination committee

20 February 2019

# Group executive committee report



## Membership and attendance

Director	Meetings attended (eligible to attend)
<b>P L Howell (chairman)</b>	12(12)
R N K Baron	11(12)
M T Bolsover	11(12)
J A Butcher	10(12)
I D Darnley	12(12)
A T Morris	11(12)
S Owen-Jones	11(12)
R I Smeeton	11(12)
R P Stockton	12(12)
M M Webb	10(12)

## Roles and responsibilities

The committee has been delegated the full powers of the board subject to a list of matters which are reserved for decision by the board. This list is reviewed annually and approved by the board.

Please see the chief executive's review on pages 11 to 13. Biographies for the executive committee members are available on our website.

## Executive committee chairman's annual statement

The executive committee's key role is day-to-day management of Rathbones. The committee actively reviews and assesses business performance supported by a range of committees that operate across the group.

## Committee meetings

We formally meet each month. These formal meetings are minuted and copies of the minutes are sent to committee members and to the board. Ad hoc and informal meetings are held as required.

Non-committee members are regularly invited to attend part of a meeting to report on a particular aspect of our business and non-executive directors may also attend meetings.

The committee has an agreed annual standing agenda to cover key areas in the year. Prior to each meeting, I agree the agenda with the company secretary.

## What we have done

Our main focus is on the implementation of the agreed strategy and on the day-to-day management of the group. We review and discuss the annual business plan and budget prior to its submission to the board for approval. We discuss the management and performance of the operating businesses (including their results compared to the budget, risks and regulatory compliance) and growth initiatives such as possible acquisitions and new products and services.

Items of particular focus in 2018 were as follows:

- Implementation of planned enhancements to our investment process
- Implementation of the strategic initiatives relating to Rathbone Financial Planning
- Development of the intermediary distribution channel
- Implementation of an IT transformational programme
- Implementation of regulatory changes relating to the General Data Protection Regulation and MiFID II
- Review of investment processes and development of the client journey
- Review and assessment of the annual budget
- Integration of Speirs & Jeffrey

Our people are our main asset and so HR matters and learning and development are important agenda items. The maintenance of and improvement in our core IT and operations infrastructure are key to the continuing success of the business and are subject to close scrutiny.

The chief risk officer reports on the work of the risk and compliance teams and updates us on risk and internal control matters as well as on industry developments. We receive updates from internal audit on their work schedule and discuss any significant issues they raise following their work. The head of internal audit may attend any meeting. We also have oversight of business units, banking matters, marketing, social and environmental matters, business continuity and investor relations.

## Overview of priorities for 2019

As well as considering the standing items of business, the committee will also focus on the following areas during 2019:

- Implementation of our IT transformation programme
- Integration of Speirs & Jeffrey
- Formulation of the next five-year strategic plan
- The firm's cybersecurity strategy
- Employee engagement
- Talent development
- Diversity and succession planning

**Philip Howell**

Chairman of the executive committee

20 February 2019

## Executive committee members

Our current members and their responsibilities are below.



**Philip Howell**  
Chief Executive



**Paul Stockton**  
Finance Director and  
Managing Director of Rathbone  
Investment Management



**Rupert Baron**  
Head of Investment  
Management in London



**Mike Bolsover**  
Head of Strategy and  
Organisation Development



**Andrew Butcher**  
Chief Operating Officer



**Ivo Darnley**  
Head of Specialist and  
Charity Business



**Andrew Morris**  
Head of Investment  
Management outside  
London



**Sarah Owen-Jones**  
Chief Risk Officer



**Richard Smeeton**  
Head of Investment  
Management Special  
Projects and Recruitment



**Mike Webb**  
Chief Executive Unit Trusts  
and Head of Group  
Marketing and Distribution

# Remuneration committee report



## Membership and attendance

Director	Meetings attended (eligible to attend)
<b>S F Gentleman (chairman)</b>	5(5)
C M Clark <sup>1</sup>	1(1)
J W Dean	4(5)
T L Duhon <sup>2</sup>	2(2)
M P Nicholls	5(5)
J N Pettigrew	4(5)

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Former director	Meetings attended (eligible to attend)
<b>K A Matthews<sup>3</sup></b>	4(4)

1. Colin Clark joined the committee on 24 October 2018

2. Terri Duhon joined the committee on 2 July 2018

3. Kathryn Matthews retired from the committee on 12 September 2018

## Roles and responsibilities

The committee's responsibilities are to:

- Determine and set the firm's remuneration philosophy, ensuring that it is aligned with the business plans and risk appetite
- Approve the remuneration policy for executive directors for final approval by shareholders and make remuneration decisions within the policy
- Approve total annual remuneration for executive directors based on achievements against objectives set by the committee
- Review total annual remuneration for executive committee members and material risk takers

Full terms of reference for the committee are reviewed annually and are available on the company's website.

## Remuneration committee chairman's annual statement

On behalf of the board, I am pleased to present the directors' remuneration report for the year ended 31 December 2018.

2018 has been a busy year for the remuneration committee, which mainly focused on implementing the new remuneration policy. We also welcomed two new non-executive directors to the committee: Terri Duhon and Colin Clark. At the AGM in May 2018, shareholders approved the new remuneration policy, which was developed to ensure that remuneration structures and performance measures:

- supported the future strategy of our business, reflecting the need for investment at different times in the market cycle and the opportunities for inorganic growth that may arise
- aligned the reward received by our executive directors with the experience and interests of our shareholders
- continued to comply with regulations and industry best practice.

## 2018 performance and remuneration outcomes

Our remuneration framework is closely aligned with the financial performance of the group. While investment markets have been weak, particularly in the fourth quarter, the acquisition of Speirs & Jeffrey helped funds under management and administration reach £44.1 billion at 31 December 2018. Profit before tax grew by 4% to £61.3 million, while underlying profit before tax increased from £87.5 million to £91.6 million, which represents an underlying operating margin of 29.4%.

A significant milestone in 2018 was the completion of the acquisition of Speirs & Jeffrey. Speirs & Jeffrey was Scotland's largest independent wealth manager with funds under management and administration of £6.7 billion and 38 investment professionals. This acquisition completed on 31 August 2018 and the committee discussed this acquisition in detail and its impact on the Executive Incentive Plan (EIP) award.

## Speirs & Jeffrey impact on EIP award

As announced at the time of the acquisition, the transaction structure contained three elements. This design achieved the most commercially-beneficial outcome for our shareholders, and de-risked the transaction by ensuring all aspects of the deferred consideration required the sellers to be in employment at the date of vesting whilst linking significant elements of the consideration to their continued service. However, the accounting implications of de-risking the Speirs & Jeffrey acquisition in this way means that the deferred consideration is treated as an expense in the profit and loss accounts and is at odds with the commercial substance of the transaction, causing a material reduction in basic earnings per share (EPS) and return on capital employed (ROCE). If management had not de-risked the transaction, this amount would have been treated as capital.

The remuneration policy that was approved at the 2018 AGM, allows for both long- and short-term metrics to be reviewed in the case of a material acquisition or corporate transaction. The 2018 EIP was assessed against (a) one-year metrics based on 2018 performance and targets set at the start of the year; and



(b) three-year metrics based on performance between 2016 and 2018. The acquisition of Speirs & Jeffrey has had an impact on both sets of metrics, which was not envisaged at the time that the targets were originally set. As a result, the committee has decided to make an adjustment to the financial measures of the 2018 EIP award so that the commercial substance of the transaction is reflected and management are not penalised for taking actions that are in the interests of our shareholders.

The outcomes have therefore been adjusted to treat all of the consideration as capital, notionally increasing the number of shares in issue accordingly for the calculation of ROCE and EPS outcomes. This ensures that the outcomes reflect the associated higher capital requirement and balance the impact of the proposed adjustments across all performance measures. The committee made no adjustments to targets as related acquisition costs offset the profits earned by Speirs & Jeffrey from the date of completion to 31 December 2018.

Full detail on these adjustments and the EIP outcome for 2018 can be found on page 81. It is important to note that the EIP award for 2018 will vest at a smaller amount on an adjusted basis than if Rathbones had not completed the transaction.

The board took the opportunity to engage with shareholders to explain this decision in the early part of 2019 and we were pleased that the majority of shareholders understood the rationale and the need to make these adjustments. The committee is also aware that the firm may wish to make other acquisitions in the future. The committee will continue to ensure that management is incentivised to act in the best interest of our shareholders for any possible future acquisitions.

### EIP outcomes

Given the strong alignment between our remuneration framework and the financial performance of the group, the financial outcomes for 2018 are directly reflected in the respective elements of the EIP, which, having considered the impact of the Speirs & Jeffrey acquisition, delivered above target performance in respect of three-year ROCE, annual profit before tax and underlying operating margin. Above threshold performance was reached in respect of EPS, but, at 3.1%, total net organic growth of our Investment Management and Unit Trusts businesses in 2018 was not enough to meet threshold.

Good progress was made during the year on most of the non-financial objectives which cover critical project performance, stakeholder measures and client experience. We have set out in more detail the EIP results for 2018 on page 81.

### Board changes

We have announced that Philip Howell, our current chief executive, will be retiring from the board by the next AGM on 9 May 2019. Paul Stockton, currently finance director and managing director of Rathbone Investment Management, is being promoted to chief executive and Jennifer Mathias will be joining Rathbones as finance director from 1 April 2019. All remuneration arrangements for these three individuals are fully in line with our approved remuneration policy and full details are provided on pages 86 to 87.

I would also like to personally echo the board's thanks to Philip for his strong leadership of Rathbones during his tenure and to congratulate Paul and Jennifer on their new roles.

Philip is being treated as a good leaver as a result of his retirement and he will continue to receive pay and benefits until his retirement date. All unvested EIP awards will vest at their normal time. In line with our remuneration policy, Philip is required to retain 200% of base salary in shares in the first year post-cessation and 100% of his base salary in the second year post-cessation.

Paul Stockton's salary as chief executive has been set at £477,000 and Jennifer Mathias' salary as finance director has been set at £320,000, both of which are comparable to the salaries of the previous incumbents. In Paul's case, his base salary has been set at the same level as the previous incumbent. The committee reviewed these base salaries against those of other companies of similar size and complexity in line with our policy. These salaries are broadly at lower quartile market levels. The committee will review this position as our executives develop in their respective roles.

Both executive directors are eligible to participate in EIP awards annually with a maximum opportunity of 300% of base salary and receive pension benefits of 12% of base salary, in line with our approved policy.

### Fees and salaries

The 2019 budget for salary increases for employees across the company is set at around 3.6%. In setting directors' remuneration, the committee takes into account the pay and employment conditions of all employees, the performance of the firm, and the views of shareholders and their representatives. Remuneration arrangements at other firms of similar size and complexity are also reviewed for guidance. The committee will continue to use a number of reference points to determine future pay structure, quantum and peer group positioning for executive directors and members of the executive committee.

Chairman and non-executive director fees were also reviewed and increased in the year for the first time since 1 January 2015. Full detail on changes to these fees is on page 87.

Following their appointments as chief executive and finance director and the associated base salary changes, both executive directors will have their base salaries reviewed on 1 January 2020.

### Conclusion

I hope that you find the information in this letter and the directors' remuneration report clear and useful. The remuneration landscape continues to be the subject of many political and regulatory policy changes and, as these evolve, the committee will ensure that our policy and practices remain compliant, balancing the need to remain performance-driven and competitive. I welcome any feedback you may have during the year and hope to receive your support for the approval of the remuneration report.

**Sarah Gentleman**

Chairman of the remuneration committee

20 February 2019

# Remuneration outcomes for 2018

## Our remuneration philosophy

Our remuneration policy is designed to be:

- Linked to our strategy
- Aligned with shareholders' interests with significant, long-term equity participation
- Simple and transparent
- Compliant with financial services rules and regulations for both annual and long-term components
- In line with the market, having regard to the size and complexity of the group's operations
- Fair for both the director and the company with some element of discretion
- Aligned with the board's approved risk appetite
- Flexible, recognising that the business is evolving and responsibilities change

## Overview of our 2018 remuneration framework

### Key features

#### Salary

- The core, fixed component of the package is designed to enable the recruitment and retention of high-calibre individuals

#### Pensions and benefits

- Defined contribution benefit or a fixed maximum pension allowance

#### Shareholding requirement

- Executive directors and executive committee members are required to build and maintain a shareholding of at least 200% of base salary

#### EIP

- One variable pay plan with annual and long-term measures
- Balanced scorecard approach linked to strategic and financial targets
- Aligns the interests of shareholders and directors with long-term value creation
- Five year deferral period for each award
- Malus and clawback provisions

To read about our remuneration policy, please see page 82.



## Executive Incentive Plan Performance targets

### One-year financial (30% of award)

- Underlying profit before tax compared to the budget
- Net organic growth in funds under management and administration compared to the target
- Underlying operating profit margin compared to target range

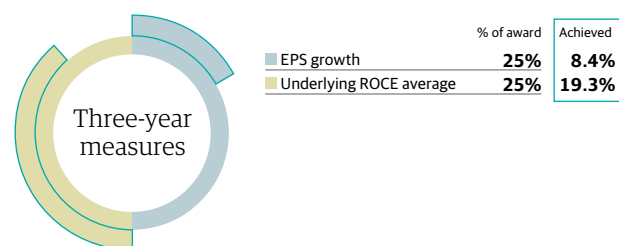
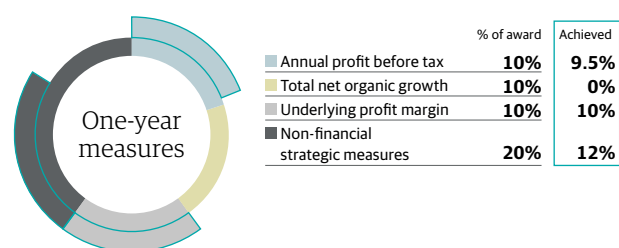
### Three-year financial (50% of award)

- Compound annual growth in EPS over three years
- Average ROCE over three years

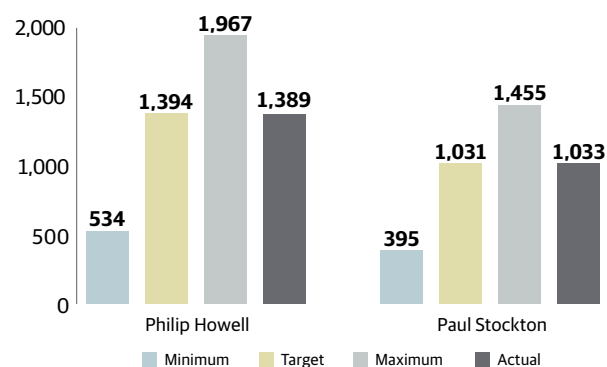
### Non-financial metrics (20% of award)

- Performance relating to delivery of strategic objectives
- Assessed and approved by remuneration committee

## Executive Incentive Plan Achievement summary 2018

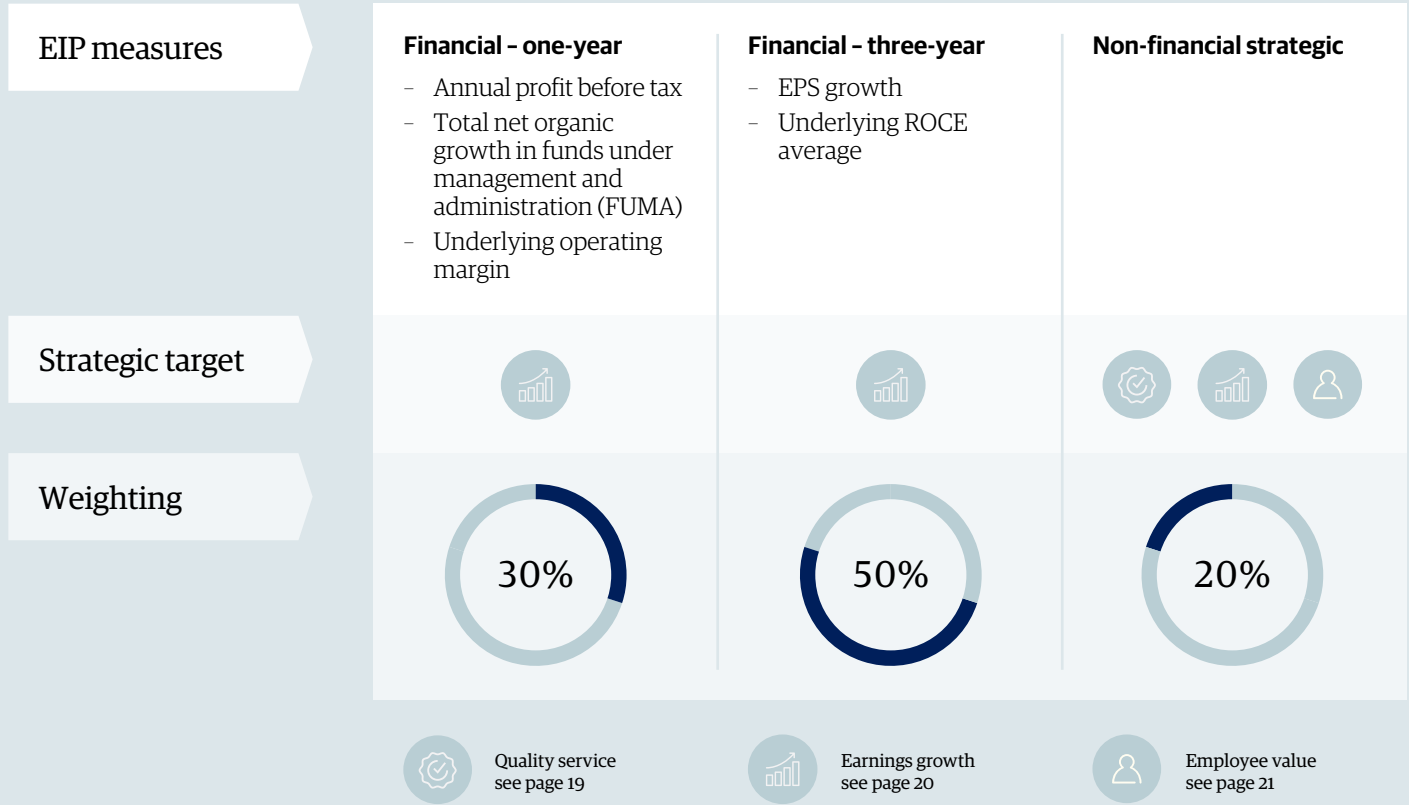


### Remuneration outcomes (£'000)

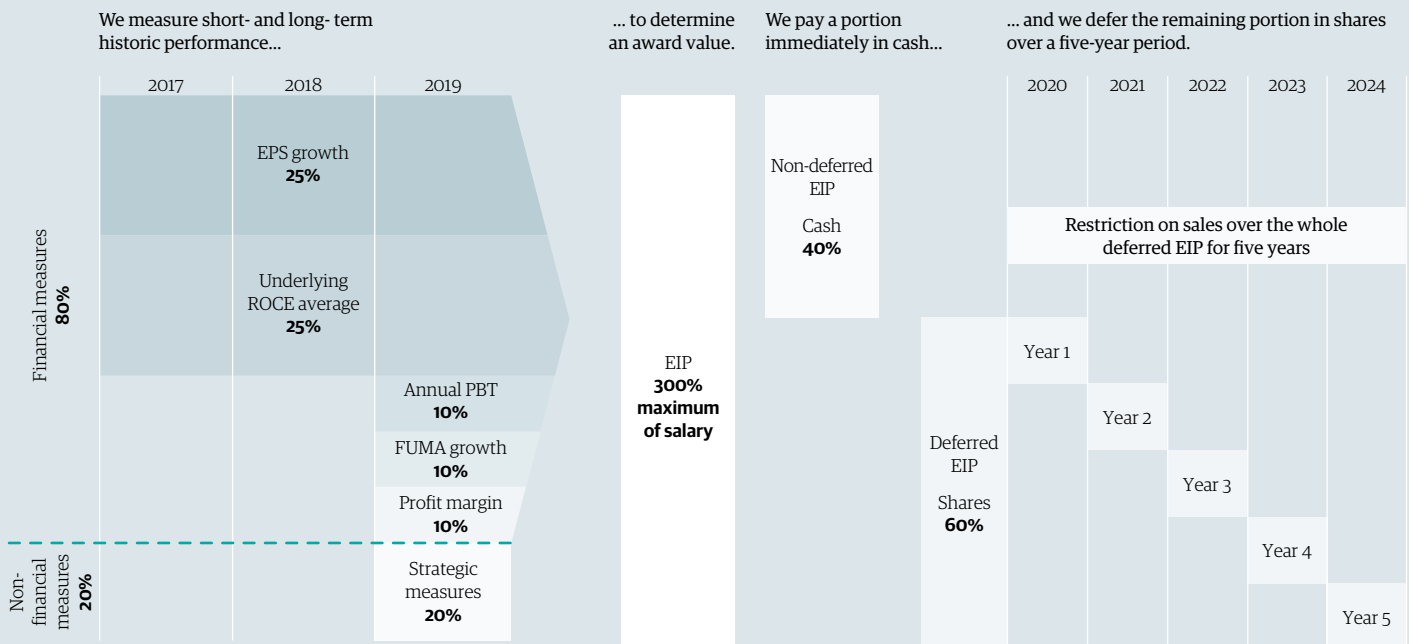


# Implementation of remuneration policy in 2019

How the implementation of our policy in 2019 supports our strategic priorities



How does the EIP work and how will performance be assessed for 2019?



## Remuneration policy

The remuneration policy ('Policy') was approved at the AGM in May 2018 and can be found on our website. No further changes have been made to the remuneration policy since its agreement in 2018.

## Annual report on remuneration

This part of the directors' remuneration report explains how we have implemented our remuneration policy during the year. This annual report on remuneration is subject to an advisory vote at the 2019 AGM, and the financial information in this part of the remuneration report has been audited where indicated.

## Role of remuneration committee

The role of the committee is to set the overarching principles of the remuneration policy and provide oversight on remuneration across the firm. Details of the committee's responsibilities and composition are noted above. At the invitation of the committee chairman, the chief executive, finance director and the head of strategy and organisation development attend some or all of each meeting. The chief risk officer also advises the committee on matters relating to remuneration, and attends meetings as required. The company secretary acts as secretary and, with the chairman, agrees the agenda for each meeting.

At the end of each meeting, there is an opportunity for private discussion between committee members without the presence of management. No committee member or attendee is present when matters relating to his or her own remuneration are discussed.

### Committee activity in 2018/19

Below is a summary of the key issues that the committee considered at each of its meetings during the year.

#### January 2018

- Review and approve the remuneration policy
- Assess and approve the 2017 EIP award for executive directors and members of the executive committee
- Review and approve EIP performance measures for 2018
- Review and approve the directors' remuneration report for shareholder approval

#### May 2018

- Annual review of remuneration for material risk takers across the firm
- Review and discuss shareholder and proxy agency feedback on the directors' remuneration report
- Review staff equity plan 2018
- Review regulatory developments on remuneration and their implications for the firm

#### September 2018

- Review of forecasted 2018 EIP performance assessment and impact of Speirs & Jeffrey on 2018 awards
- Annual review of the remuneration policy statement for the PRA
- Annual fee and pay review for the board

- Review regulatory developments on remuneration and their implications for the firm
- Review remuneration landscape and implications for executive remuneration
- Review progress against financial and non-financial EIP targets for the current year

#### October 2018

- Review and approve the remuneration package for the incoming finance director
- Review impact of executive directors' succession plans

#### December 2018

- Review and approve executive director salaries for 2019
- Review progress against financial and non-financial EIP targets for 2018
- Approval of chairman's fee
- Approval of the committee's terms of reference
- Re-appointment of the advisers to the committee

#### January 2019

- Review annual risk report on variable pay targets to ensure alignment with the firm's risk appetite
- Assess and approve the 2018 EIP award for executive directors and members of the executive committee
- Approve EIP performance measures for 2018
- Review and approve the directors' remuneration report for shareholder approval

### Single total figure of remuneration for each executive director (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 December 2018 and the prior year:

	Salary £'000	Taxable benefits and allowances £'000	EIP award for the year – cash £'000	EIP award for the year – unvested deferred shares £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
P L Howell								
<b>2018</b>	<b>477</b>	<b>2</b>	<b>339</b>	<b>509</b>	<b>57</b>	<b>5</b>	<b>-</b>	<b>1,389</b>
2017	464	2	238	356	40	4	-	1,104
R P Stockton								
<b>2018</b>	<b>353</b>	<b>6</b>	<b>251</b>	<b>376</b>	<b>42</b>	<b>5</b>	<b>-</b>	<b>1,033</b>
2017	295	13	151	226	25	5	3	718

### Notes to the single total figure of remuneration for each director table

Paul Stockton became managing director of Rathbone Investment Management on 1 May 2018 in addition to his finance director responsibilities. At this point, his base salary was increased to £375,000 per annum with a reduction in his contracted travel expenses. His base salary in the above table is the salary received in the 12 months to 31 December 2018.

#### Taxable benefits

Taxable benefits and allowances represent the provision of private medical insurance for executive directors and their dependents and contractual travel expenses for the executive directors.

#### Executive Incentive Plan (audited)

The EIP was approved by shareholders at the 2015 AGM and subsequently at the 2018 AGM. The overall maximum award level achievable under the existing Policy is 300% of base salary, with 60% of awards made in deferred shares, which must be held for a minimum period of five years.

#### Executive Incentive Plan award 2018

Performance is assessed using a combination of measures that are detailed below:

	Weight %	% of base salary
One-year financial	<b>30</b>	<b>90</b>
Three-year financial	<b>50</b>	<b>150</b>
Non-financial strategic	<b>20</b>	<b>60</b>
<b>Total</b>	<b>100</b>	<b>300</b>

#### 1) One-year financial

The one-year financial performance measures are three key performance indicators actively used by the business, which are closely aligned to strategy. The one-year financial measures and achievement levels are provided below:

	% of base salary	Threshold 75% of base salary	On target 180% of base salary	Maximum 300% of base salary	Actual	Speirs & Jeffrey adjusted	Weighted payout (% of base salary)
<b>Financial one-year</b>							
Annual profit before tax (£m)	30.0	62.1	69.0	75.9	<b>61.3</b>	<b>75.1</b>	<b>28.6</b>
Total net organic growth in funds under management and administration (%)	30.0	5.3	5.9	6.5	<b>4.3</b>	<b>4.3</b>	<b>0.0</b>
Underlying operating margin (%)	30.0	26.3	27.8	29.3	<b>29.4</b>	<b>29.4</b>	<b>30.0</b>
	90.0						<b>58.6</b>

The organic growth in funds under management and administration covers both our Investment Management and Unit Trusts businesses.





## 2) Three-year financial

The three-year financial performance measures and achievement levels are provided below:

	% of base salary	Threshold 75% of base salary	On target 180% of base salary	Maximum 300% of base salary	Actual	Speirs & Jeffrey adjusted	Weighted payout (% of base salary)
<b>Financial three-year</b>							
EPS growth (% CAGR)	75.0	4.0	9.0	14.0	<b>(3.0)</b>	<b>5.2</b>	<b>25.1</b>
ROCE average (%)	75.0	14.0	17.0	20.0	<b>18.6</b>	<b>18.3</b>	<b>57.9</b>
	150.0						<b>83.0</b>
<b>Total one- and three-year financial</b>	<b>240.0</b>						<b>141.6</b>

## 3) Non-financial strategic

The non-financial strategic measures are designed to drive strategic goals. Details of the performance measures, assessment and outcomes are detailed below:

Strategic objective	Objective	Performance in 2018	Extent to which objective has been met
 Quality service	<ul style="list-style-type: none"> <li>Upgrade the governance framework documentation, supporting the suitability processes and associated management information</li> <li>Add quality financial planning resources to key offices and develop the Rathbone Private Office proposition</li> <li>Deliver on key projects supporting the continued stability and security of data and our IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Improvements were made to suitability processes but the delivery of some planned system enhancements was moved into 2019</li> <li>Growth in internal research team resources was as planned with a number of improvements made to how research output is disseminated</li> <li>Financial planning headcount grew to 20 during the year, largely as planned, however progress on the private office was limited prompting a revision of the approach</li> <li>Successful completion of over 120 IT projects and upgrades</li> </ul>	Partially achieved
 Earnings growth	<p>In addition to the financial targets set for 2018:</p> <ul style="list-style-type: none"> <li>Deliver on budgeted organic growth targets</li> <li>Sub-let space at 1 Curzon Street</li> </ul>	<ul style="list-style-type: none"> <li>Net organic growth of 4.3% was achieved by consistent private client inflows somewhat offset by higher outflows in respect of departing investment managers, charities and Greenbank mandates have grown strongly at 5.8% and 12.5% respectively</li> <li>The Unit Trusts business had a strong year with gross inflows of £1.8 billion</li> <li>Vision delivered strong funds under management of £1.54 billion</li> <li>Inflows from our distribution team and networks of £177 million</li> <li>The Curzon Street office was sub-let in June 2018</li> </ul>	Largely achieved
 Employee value	<ul style="list-style-type: none"> <li>Continue to ensure good engagement and development of employees across the firm</li> </ul>	<ul style="list-style-type: none"> <li>Greater employee shareholding across the firm</li> <li>Increased annual training investment per employee</li> <li>Signed the Women in Finance Charter and introduced significant improvements to maternity and paternity leave terms</li> <li>Continuing to develop improvements to communication and employee engagement initiatives</li> </ul>	Largely achieved
 Risk conduct and compliance	<ul style="list-style-type: none"> <li>Maintain a proactive and effective relationship with regulators, committing to maintaining high standards in managing conduct and prudential matters</li> </ul>	<ul style="list-style-type: none"> <li>Positive engagement with regulators, providing responses to seven industry thematic questionnaires during the year</li> <li>Delivery of MiFID II and GDPR projects</li> <li>No material issues raised by the audit or risk committee during the year</li> </ul>	Achieved



## Total 2018 EIP award

In addition to the above specific measures, the committee also considered direct client feedback, investment performance and other feedback from the risk and audit committees. After taking this into account, the committee concluded that an overall score for this element of the EIP of 12% out of 20% was appropriate, which corresponds to 36% of base salary.

Target	Weighting	Award achieved
Financial - one-year total	30%	19.5
Financial - three-year trailing	50%	27.7
Non-financial strategic measures	20%	12.0
<b>Total award</b>	<b>100%</b>	<b>59.2</b>

Director	Total award (£)	Delivered in cash (£)	Deferred in shares (£)
P L Howell	848,589	339,435	509,154
R P Stockton	627,226	250,890	376,336

### Pensions

Philip Howell and Paul Stockton are paid a cash allowance of 12% of salary and neither are in receipt of a defined benefit pension.

All executive directors are eligible to participate in the Rathbone 1987 Scheme for death in service benefits.

### Share Incentive Plan (SIP)

This benefit is the value of the SIP matching and free share awards made in the year. All employees may contribute up to £150 per month to buy partnership shares with contributions matched on a one-for-one basis by the company. Free share awards are linked to EPS growth.

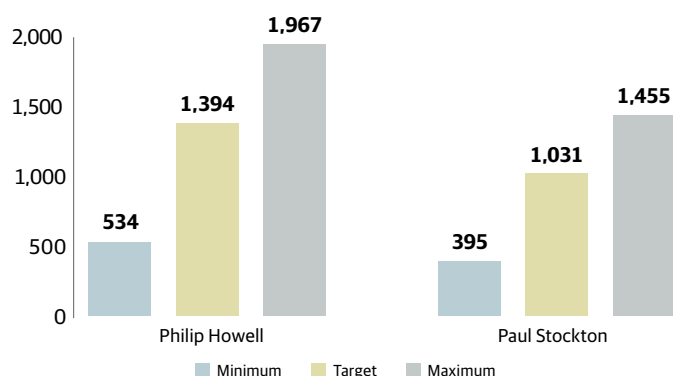
### Save As You Earn (SAYE)

This benefit is the value of the discount on SAYE options granted during the year.

## Remuneration outcomes under different performance scenarios

The charts below show the relative split of fixed and variable remuneration showing minimum, on-target and maximum awards.

### Value of package in 2018 (£'000)



## Change of executive directors

### Payments for loss of office (audited)

As announced on 27 November 2018, Philip Howell will retire from the board and will leave the firm by 9 May 2019.

On cessation of his employment, he will be paid in lieu of notice for the balance of his notice period (being six months). In accordance with the directors' remuneration policy, the payment in lieu of notice will be confined to basic salary, pension allowance and benefits. He will also receive payments in relation to legal and other costs. The total payments for loss of office are as follows:

Payment reason	£
Payment in lieu of notice	268,680
Legal and other costs	67,500
<b>Total</b>	<b>336,180</b>

The rules of the EIP required the remuneration committee to determine Philip's leaver status. As termination of his employment is due to retirement, the committee deemed him to be a 'good leaver' for the purposes of the EIP.

EIP awards are granted based on performance in the three years prior to their grant. 40% of any grant is delivered immediately in cash and 60% is deferred into shares, which vest over five years. Under the rules of the EIP and the remuneration policy all unvested share awards under the EIP will remain subject to their original vesting and retention schedules as well as the recovery provisions set out in the remuneration policy table.

These share awards have already been disclosed in the single figure table in the relevant year. The number of share awards outstanding under each EIP grant are as follows:

Deferred shares*	Number of shares outstanding
2015 Executive Incentive Plan	19,491
2016 Executive Incentive Plan	12,718
2017 Executive Incentive Plan	13,947
2018 Executive Incentive Plan <sup>1</sup>	21,740
<b>Total</b>	<b>67,896</b>

\* Subject to malus and clawback

1. Details on the 2018 EIP award are provided on page 81. Shares will be granted in March 2019 based on the share price at that time. The number of shares in this table is an estimate based on the share price at 31 December 2018 of £23.42

These amounts have already been disclosed in the relevant single figure and will continue to vest at their normal time. The final tranche will vest in March 2024.

As the termination of his employment is due to retirement, Philip is classified as an 'automatic good leaver', under which he will be paid in line with the rules of the SAYE scheme and the SIP. Following cessation of his employment, Philip is entitled to exercise his SAYE options to the extent of the savings in the related SAYE savings contract for a period of six months and to receive his SIP shares.

Philip will be eligible for a pro rata award under the 2019 EIP, which will be disclosed in next years directors' remuneration report.

#### Remuneration arrangements for Paul Stockton

Paul Stockton became managing director of Rathbone Investment Management on 1 May 2018 in addition to his finance director responsibilities. At this point, his base salary was increased to £375,000 per annum with a reduction in his contracted travel expenses. Upon promotion to chief executive, Paul's base salary will increase to £477,000 per annum effective from 9 May 2019. No other changes have been made to Paul's remuneration.

#### Remuneration arrangements for Jennifer Mathias

Jennifer Mathias will be joining Rathbones as finance director from 1 April 2019. Jennifer's base salary will be £320,000. In line with our approved remuneration policy, Jennifer will receive pension benefits worth 12% of base salary and be eligible to participate in the EIP, with maximum opportunity of 300% of salary per annum.

#### Payments to past directors

There were no payments to past directors.

## Implementation of the remuneration policy in 2019

In 2019, the remuneration policy will be applied in a similar way to 2018. Salary, pensions and benefits were set for both executive directors following their change in role as described above. No further changes will be made in 2019.

### EIP 2019 - forward-looking targets

The 2019 EIP (which will be awarded in 2020), subject to performance, will be delivered in line with the remuneration policy. While the committee is able to make awards up to the new maximum award level of 300%, actual award levels will continue to be determined by the committee based on a robust assessment of performance measures.

Incentive awards under the EIP will continue to be linked to a scorecard of short- and longer-term financial metrics, and annual objectives covering financial and non-financial criteria. Annual targets set for 2019 will take into account the amount of expenditure and investment approved by the board in the 2019 budget to develop the business and support its growth initiatives. The committee will not, at this time, disclose any of the remaining one-year measures on a prospective basis as these are considered commercially sensitive. Full disclosure of targets and performance against these will be disclosed retrospectively in 2020.

While recognising the potential volatility associated with investment markets and its direct impact on the financial outcomes for Rathbones, the committee believes EPS and underlying ROCE measures continue to be appropriate measures to use when assessing longer-term performance targets.

Long-term targets for the 2019-21 award period have accordingly been set as outlined in the table below:

Performance measure	Threshold	Maximum
Three-year CAGR EPS	5%	15%
Three-year underlying average ROCE	14%	20%

### Non-executive director fees

Chairman and non-executive director fees were reviewed in the year for the first time since 1 January 2015. The following increases were applied:

	Fee effective 1 January 2019 (£)	Fee effective 1 January 2018 (£)
Chairman fee	180,000	160,000
Non-executive director base fee	55,000	50,000
Committee chair fee	15,000	10,000

## Directors' interests in shares (audited)

The table below sets out details of the directors' shareholdings and outstanding share awards that are subject to vesting conditions:

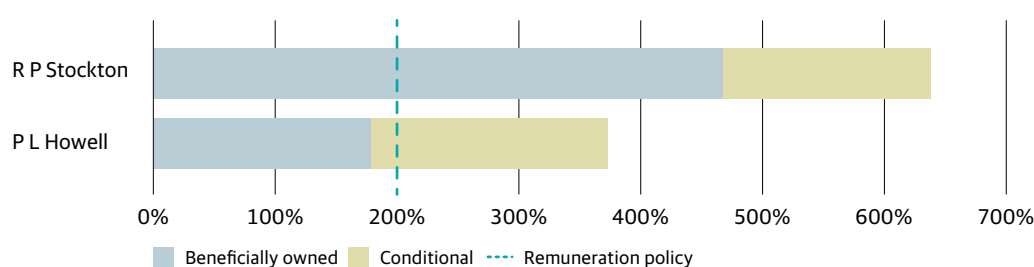
Executive directors	Beneficially owned shares			Subject to relevant holding period			
	Private shares	SIP <sup>1</sup>	Total	EIP	SIP (not yet beneficially owned) <sup>1</sup>	SAYE	Total
P L Howell	35,420	768	36,188	38,360	421	943	39,724
R P Stockton	67,614	2,787	70,401	24,285	582	983	25,850
	<b>103,034</b>	<b>3,555</b>	<b>106,589</b>	<b>62,645</b>	<b>1,003</b>	<b>1,926</b>	<b>65,574</b>

1. SIP matching and free shares held for less than three years may be forfeited in certain circumstances and so are not considered to be beneficially owned

## Shareholding guidelines

In order to align the interests of executive directors and shareholders, with effect from 1 January 2018, the executive directors are required to acquire and retain a holding in shares or rights to shares equivalent to the value of 200% of basic salary within five years of the date of appointment, or the date of adoption of the Policy. Shares that count towards these guidelines include shares that are owned outright, vested and not exercised EIP and SIP awards. Philip Howell and Paul Stockton have both achieved this target.

## Share ownership versus Policy



## Executive Incentive Plan

Executive directors	Grant date	Type of security	Face value of award at grant <sup>1</sup> (£)	At 1 January 2018	During 2018		At 31 December 2018		Normal exercise date (end of sales restriction period) <sup>3</sup>
				Number of unvested securities	Securities granted <sup>2</sup>	Vested but unexercised (subject to sales restriction period)	Unvested securities	Vested but unexercised (subject to sales restriction period)	
<b>P L Howell</b>									
	22/03/2016	Nil paid options	434,670	15,593	-	3,898	11,695	7,796	22/03/2021
	22/03/2017	Conditional shares	365,201	15,897	-	3,179	12,718	3,179	21/03/2022
	23/03/2018	Conditional shares	356,357	-	13,947	-	13,947	-	23/03/2023
<b>R P Stockton</b>									
	22/03/2016	Nil paid options	272,722	9,783	-	2,445	7,339	4,890	22/03/2021
	22/03/2017	Conditional shares	232,105	10,103	-	2,021	8,082	2,021	21/03/2022
	23/03/2018	Conditional shares	226,485	-	8,864	-	8,864	-	23/03/2023

1. Exercise price is nil

2. The number of shares awarded is calculated based on the 20-day average share price on the day prior to grant. Share price on award was £25.55

3. Awards vest in five equal tranches (1, 2, 3, 4 and 5 years from grant). All shares must be held until the fifth anniversary of the grant (the normal exercise date). There are no further performance conditions on these shares

## Deferred profit share scheme

Executive directors	Number of shares		
	At 1 January 2018	Vested in 2018	At 31 December 2018
<b>P L Howell</b>			
2013	-	-	-
2014	12,434	12,434	-
	12,434	12,434	-
<b>R P Stockton</b>			
2013	-	-	-
2014	7,477	7,477	-
	7,477	7,477	-
<b>Total</b>	<b>19,911</b>	<b>19,911</b>	<b>-</b>

## Share Incentive Plan

	At 1 January 2018	During 2018				At 31 December 2018
	Total number of SIP shares <sup>1</sup>	Partnership shares acquired	Matching shares acquired	Dividend shares acquired	Free shares received	Total number of SIP shares <sup>1</sup>
P L Howell	949	81	81	26	52	1,189
R P Stockton	3,075	81	81	80	52	3,369
<b>Total</b>	<b>4,024</b>	<b>162</b>	<b>162</b>	<b>106</b>	<b>104</b>	<b>4,558</b>

1. SIP matching and free shares held for less than three years may be forfeited in certain circumstances and so are not considered to be beneficially owned

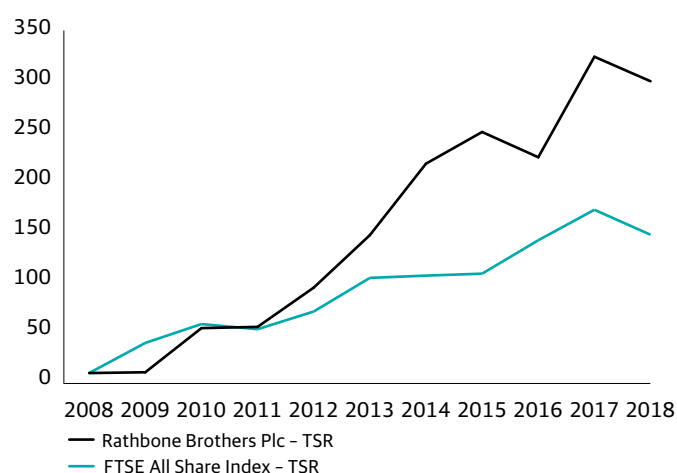
## Save As You Earn outstanding options

Executive directors	Grant date	Number of shares					Earliest exercise date	Latest exercise date	Market price on grant (p)	Exercise price (p)
		At 1 January 2018	Granted in 2018	Exercised in 2018	Lapsed in 2018	At 31 December 2018				
<b>P L Howell</b>										
	28/03/13	1,356	-	1,356	-	-	01/05/18	01/11/18	1,397	1,106
	01/05/14	578	-	-	-	578	01/06/19	01/12/19	1,945	1,556
	28/04/15	365	-	-	-	365	01/06/20	01/12/20	2,051	1,641
<b>R P Stockton</b>										
	28/04/16	273	-	-	-	273	01/06/19	01/12/19	2,059	1,648
	28/04/17	710	-	-	-	710	01/06/20	01/12/20	2,373	1,899
<b>Total</b>		<b>3,282</b>	<b>-</b>	<b>1,356</b>	<b>-</b>	<b>1,926</b>				

## Performance graph

The chart opposite shows the company's total shareholder return (TSR) against the FTSE All Share Index for the nine years to 31 December 2018. TSR is calculated assuming that dividends are reinvested on receipt. The FTSE All Share Index has been selected as a comparator as it is a suitably broad market index and has been used as a performance comparator for long-term incentive plan (LTIP) cycles since 2005-07.

## Performance graph (unaudited)



## Chief executive officer single figure

During the nine years to 31 December 2018, Andy Pomfret was chief executive until 28 February 2014 when he was succeeded by Philip Howell.

Year	Chief executive	Chief executive single figure of total remuneration £'000	EIP award or short-term bonus as % of maximum opportunity	Long-term incentive vesting as % of maximum opportunity
<b>2018</b>	<b>Philip Howell</b>	<b>1,389</b>	<b>59</b>	<b>-</b>
2017	Philip Howell	1,104	64	-
2016	Philip Howell	1,398	66	67
2015	Philip Howell	1,608	78	100
2014	Philip Howell	999	89	n/a
2014	Andy Pomfret	342	n/a	96
2013	Andy Pomfret	1,204	59	100
2012	Andy Pomfret	1,046	38	100
2011	Andy Pomfret	678	46	-
2010	Andy Pomfret	736	52	24

## Percentage change in the remuneration of the chief executive and employees

The table below shows the percentage year-on-year change in salary, benefits and bonus in 2018 for the chief executive compared with the average Rathbones employee.

	Salary	Benefits	Annual bonus
Chief executive	<b>3%</b>	<b>-</b>	<b>43%</b>
Average pay based on all Rathbones' employees	<b>(4%)</b>	<b>(22%)</b>	<b>(11%)</b>

## Chairman and non-executive directors' fees (audited)

Fees paid to the non-executive directors were not increased in 2018 but will be increased for the 2019 financial year. Any future increases will depend upon a rigorous assessment of the burden of responsibilities and market rates.

	2018 £'000	2017 £'000
<b>Chairman</b>		
M P Nicholls	<b>160</b>	160
<b>Non-executive directors</b>		
J W Dean	<b>60</b>	60
J N Pettigrew	<b>60</b>	45
S F Gentleman	<b>60</b>	56
K A Matthews	<b>42</b>	60
T L Duhon	<b>28</b>	-
C M Clark	<b>9</b>	-
<b>Total</b>	<b>419</b>	381

## Non-executive directors' share interests

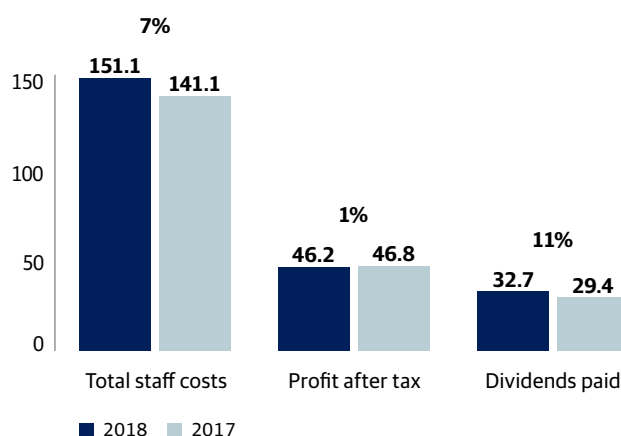
The interest of the directors in the ordinary shares of the company are set out below:

	Private shares	SIP	Total
<b>Chairman</b>			
M P Nicholls	<b>3,000</b>	<b>749</b>	<b>3,749</b>
<b>Non-executive directors</b>			
C M Clark	-	-	-
J W Dean	<b>1,000</b>	-	<b>1,000</b>
T L Duhon	-	-	-
S F Gentleman	-	-	-
K A Matthews	<b>1,242</b>	-	<b>1,242</b>
J N Pettigrew	-	-	-
<b>Total</b>	<b>5,242</b>	<b>749</b>	<b>5,991</b>

## Relative importance of spend on pay

The chart below shows the relationship between total employee remuneration, profit after tax and dividend distributions for 2018 and 2017. The reported profit after tax has been selected by the directors as a useful indicator when assessing the relative importance of spend on pay.

### Relative importance of spend on pay (£m)

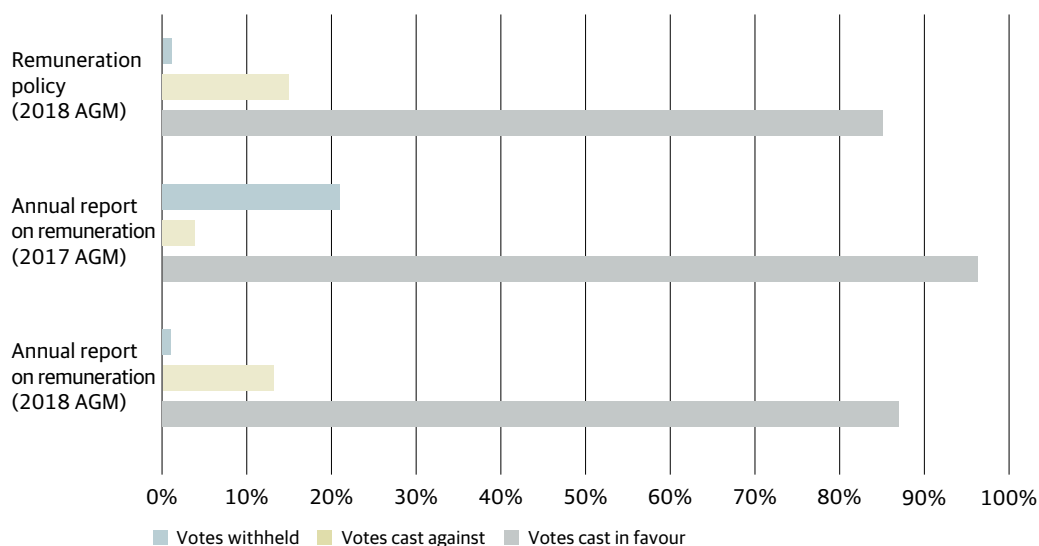




## Statement of shareholder voting

At the 2018 AGM, shareholders approved the remuneration policy, to apply for three years from the date of the AGM. At the 2018 AGM, shareholders also approved the remuneration report that was published in the 2017 report and accounts and the results are detailed below.

### Votes on remuneration



	Annual report on remuneration (2018 AGM)	Annual report on remuneration (2017 AGM)	Remuneration policy (2018 AGM)
Votes cast in favour	<b>86.91%</b>	96.20%	<b>85.10%</b>
Votes cast against	<b>13.09%</b>	3.80%	<b>14.90%</b>
Total votes cast	<b>79.20%</b>	79.00%	<b>79.20%</b>
Votes withheld	<b>409,995</b>	1,268,045	<b>428,216</b>

### Advisers to the committee and their fees

PwC were appointed as advisers to the committee in August 2017. They are members of the Remuneration Consultants Group and advise the committee on a range of matters including remuneration package assessments, scheme design and reporting best practice. PwC also provide professional services in the ordinary course of business, including advisory work to the group. The committee is of the opinion that the advice received is objective and independent. PwC's fees are charged on a time cost basis and fees for services to the remuneration committee were £98,550 in 2018. The appointment of advisers is reviewed annually.

### Evaluating the performance of the committee

The annual evaluation of the committee's effectiveness was undertaken as part of the board's internal evaluation process during the year. The committee and senior management attendees were invited to respond to questions on the content, management, and quality and focus of discussion during meetings. I am pleased that responses indicated that the committee is performing well with no particular concerns.

### Approval

The remuneration committee report, incorporating both the remuneration policy and annual report on remuneration, has been approved by the board.

Signed on behalf of the board

**Sarah Gentleman**  
Chairman of the remuneration committee

20 February 2019

# Directors' report

## Group results and company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2018 was £46,169,000 (2017: £46,829,000).

The directors recommend the payment of a final dividend of 42.0p (2018: 39.0p) on 14 May 2019 to shareholders on the register on 23 April 2019. An interim dividend of 24.0p (2017: 22.0p) was paid on 2 October 2018 to shareholders on the register on 7 September 2018. This results in total dividends of 66.0p (2017: 61.0p) per ordinary share for the year. These dividends amount to £35,204,000 (2017: £30,429,000) - see note 13 to the financial statements.

The company operates a generally progressive dividend policy subject to market conditions. The aim is to increase the dividend in line with the growth of the business over each economic cycle. This means that there may be periods where the dividend is maintained but not increased and periods where profits are retained rather than distributed to maintain retained reserves and regulatory capital at prudent levels through troughs and peaks in the cycle.

## Share capital

The company's share capital comprises one class of ordinary shares of 5p each. At 31 December 2018, 55,206,957 shares were in issue (2017: 51,302,074). No shares were held in treasury. Details of the movements during the year are set out in note 29 to the financial statements. The shares carry no rights to fixed income and each share carries the right to one vote at general meetings. All shares are fully paid.

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

## New issues of share capital

Under section 551 of the Companies Act 2006, the board currently has the authority to allot 17,100,864 shares (approximately one third of the issued share capital at 31 March 2018). The existing authorities given to the company at the last annual general meeting (AGM) to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolutions renewing these authorities are included in the notice of AGM.

Awards under the company's employee share plans are satisfied from a combination of shares held either in treasury or in the employee benefit trust and by newly issued shares. During the year, the company issued 228,989 shares to satisfy share awards and issued 269,372 shares to the company's employee benefit trust, to satisfy future awards under the group's share-based payment schemes.

## Purchase of own shares

Following the 2018 AGM, resolution to purchase own shares, the board currently has the authority to buy back up to 2,700,000 shares under certain stringent conditions. During the year, the company did not utilise this authority but the board considers it would be appropriate to renew it. We intend to seek shareholder approval for the continued authority to purchase own shares at the forthcoming AGM in line with current investor sentiment.

Details of the resolution renewing the authority are included in the notice of AGM.

## Corporate governance statement

As required by Disclosure and Transparency Rule 7.2, you can find our corporate governance statement in the governance report on pages 56 to 65 and it is incorporated into this directors' report by reference.

## Appointment and removal of directors

Regarding the appointment and replacement of directors, the company is governed by the company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation.

## Employee share trust

On 4 April 2017, Equiniti Trust (Jersey) Limited was appointed as trustee of the second employee benefit trust. The trust is independent and holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy awards under the Executive Incentive Plan, Share Incentive Plan and the Savings Related Share Option Plan. As part of these arrangements, the company issued shares to the trust to enable the trustee to satisfy these awards. Further details are set out in note 30 to the financial statements. During the year, the number of shares issued totaled 131,313 ordinary shares.

In addition, under the rules of the Rathbone Share Incentive Plan, shares are held in trust for participants by Equiniti Share Plan Trustees Limited ('the Trustee'). Voting rights are exercised by the Trustee on receipt of the participant's instructions. If no such instruction is received by the Trustee then no vote is registered. No person has any special rights of control over the company's share capital and all issued shares are either fully or nil paid.

## Directors

All those who served as directors at any time during the year are listed on pages 60 to 61. The directors' interests in the share capital of the company at 31 December 2018 are set out on pages 88 to 89 of the remuneration committee report.

## Employees

Details of the company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the corporate responsibility report on pages 41 to 54.

## Corporate responsibility

Information about greenhouse gas emissions and our corporate social responsibility are set out in the corporate responsibility report on pages 41 to 54.

## Financial instruments and risk management

The risk management objectives and policies of the group are set out in note 32 to the financial statements.

## Insurance and indemnification of directors

The company has put in place insurance to cover its directors and officers against the costs of defending themselves in civil legal action taken against them in that capacity and any damages awarded. The company has granted indemnities, which are uncapped, to its directors and to the company secretary by way of deed. Qualifying third-party indemnity provisions, as defined by Section 234 of the Companies Act 2006, were therefore in place throughout 2018 and remain in force at the date of this report.

## Substantial shareholdings

As at 31 December 2018, the company had received notifications in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5 of the following interests:

Shareholder	Holding at 20 Feb 2019	% held at 20 Feb 2019
Lindsell Train Ltd.	7,761,974	14.06
Mawer Investment Management Ltd.	5,005,498	9.07
MFS Investment	2,637,236	4.78
Aviva Investors	1,775,682	3.22
Kabouter Management	1,764,247	3.20
Heronbridge Investment Management	1,653,765	3.00

## Share price

The closing share price of the company on 31 December 2018 was £23.42 and the closing price range from the start of the financial year to the year end was £25.82 to £23.42.

## Auditor

The audit committee reviews the appointment of the external auditor and its relationship with the group, including monitoring the group's use of the auditor for non-audit services. Note 8 to the financial statements sets out details of the auditor's remuneration. KPMG LLP was appointed as external auditor in 2009, and under the Companies Act 2006, the company is required to hold a competitive tender process for the external auditor not less than every 10 years. The audit committee carried out a tender process in 2018 which assessed the credentials and fit of the three audit firms that were shortlisted for the tender. Having reviewed the independence and effectiveness of the three external audit firms, the audit committee has recommended to the board that Deloitte LLP be appointed and a resolution appointing them as auditor and authorising the directors to set their remuneration will be proposed at the 2019 AGM.

The directors in office at the date of signing of this report confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each director has taken all steps that he or she ought to have taken to make him or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's review, strategic report and group risk committee report. In addition, note 1.5 to the financial statements provides further details.

The group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. The company publishes Pillar 3 disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. In July 2015, Rathbone Investment Management issued £20 million of 10-year subordinated loan notes to finance future growth. The group has no other external borrowings.

The directors believe that the company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Political donations**

No political donations were made during the year (2017: nil).

### **Post-balance sheet events**

Details of post-balance sheet events are set out in note 39 to the financial statements.

### **FCA's Disclosure Guidance and Transparency Rules**

For the purposes of DTR 4.1.5R (2) and DTR 4.1.8, this directors' report and the strategic report comprise the management report.

### **Annual General Meeting**

The 2019 AGM will be held on Thursday 9 May 2019 at 12.00 noon at 8 Finsbury Circus, London EC2M 7AZ. Full details of all resolutions and notes are set out in the separate notice of AGM.

By order of the board

**Ali Johnson**  
Company Secretary

20 February 2019

Registered office: 8 Finsbury Circus, London EC2M 7AZ

# Statement of directors' responsibilities in respect of the report and accounts

The directors are responsible for preparing the report and accounts 2018, and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with IFRS as adopted by the EU
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal controls as they determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

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

## Responsibility statement of the directors in respect of the report and accounts

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic report and directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

By order of the board

**Philip Howell**  
Chief Executive

20 February 2019



# Financial statements



# Independent auditor's report to the members of Rathbone Brothers Plc

## 1 Our opinion is unmodified

We have audited the financial statements of Rathbone Brothers Plc ("the company"), and its subsidiaries (together "the Group"), for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated statement of cash flows, company statement of changes in equity, company balance sheet and company statement of cash flows, and the related notes, including the accounting policies in notes 1 and 41.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described in the next paragraph. We believe that the audit evidence we have obtained is sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 9 June 2009. The period of total uninterrupted engagement is for the ten financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

## 2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

### (New) The impact of uncertainties due to UK exiting the European Union on our audit

Refer to page 37 (risk management report) and page 71 (audit committee report)

#### The risk – Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters below including (i) accounting for acquisition of Speirs & Jeffrey Ltd and (ii) considering the impairment of client relationship intangibles, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.



## 2 *Key audit matters: including our assessment of risks of material misstatement continued*

### Our response

In this area our procedures included:

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own assessment of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis** – When addressing key audit matters including accounting for acquisition of Speirs & Jeffrey Ltd and considering the impairment of client relationship intangibles, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on key audit matters including accounting for acquisition of Speirs & Jeffrey Ltd and considering the impairment of client relationship intangibles we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

**Our results** – As reported under key audit matters including accounting for acquisition of Speirs & Jeffrey Ltd and considering the impairment of client relationship intangibles, we found the resulting estimates and related disclosures of these key audit matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### (New) Accounting for acquisition of Speirs & Jeffrey Ltd

Refer to page 71 (audit committee report), page 109 (accounting policy) and page 162 (financial disclosures).

During the year ended 31 December 2018, the Group acquired a 100% equity interest in Speirs & Jeffrey Ltd for a total consideration of £89.4 million. The fair values of identifiable net assets acquired on the date of acquisition amounted to £61.3 million and goodwill arising from the acquisition amounted to £28.1 million.

### The risk – Accounting application in relation to the split of total consideration between acquisition consideration and remuneration for post-acquisition services

As part of the acquisition, payments are made to the owners of Speirs & Jeffrey Ltd on completion date and future payments based on certain operational targets and the continued employment of owners by the Group.

The key areas our audit considered:

- The determination of whether payments made to the shareholders of the acquired company are treated as consideration or post acquisition remuneration. While there is limited judgement in this determination, the decision has a significant impact on the financial statements.
- For those payments regarded as post acquisition remuneration, there is judgment in calculating the value of the contingent and earn out awards including estimates relating to the achievement of operating targets as set out in the Sale and Purchase agreement.
- The effect of these matters is that, as part of our risk assessment, we determined that contingent and earn-out awards have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

### The risk – The fair value of client relationship intangibles

On acquisition of Speirs & Jeffrey Ltd, the Group recognised client relationships as an identifiable intangible asset at fair value, reflecting the future cash flows expected from the client relationships acquired. The fair value of client relationship intangibles recognised is £54.3 million.

- The valuation of the client relationship intangible depends on a number of key judgemental assumptions and estimates including the assumed useful economic life of acquired client relationships, the growth rate used to forecast revenue generated from these client relationships and the discount rate used in the discounted cash flow model. An inappropriate judgement, error or omission in valuing client relationship intangibles can consequently impact the amount of goodwill recognised during the year in relation to the related acquisition.
- The effect of these matters is that, as part of our risk assessment, we determined that valuation of client relationship intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

### Our response

In this area our procedures included:

#### **Accounting application in relation to the split of total consideration between acquisition consideration and post-acquisition services**

**Accounting analysis:** We obtained and examined the Sale and Purchase agreement to gain an understanding of all elements of consideration.

We evaluated the appropriateness of the treatment for each element of consideration by considering the treatment against the requirements set out in IFRS 3 "Business combinations". We tested the appropriateness of the amounts recorded by agreeing these to the Sale and Purchase agreement and underlying calculations supported by documentary evidence as appropriate.

We engaged our internal valuation specialists to evaluate the fair value of the consideration and post-acquisition remuneration involving share based payments.

We challenged the basis and assumptions around the achievement of operational and financial performance targets used by the management in estimation and recording of the contingent and earn out portion of the post-acquisition remuneration in the year ended 31 December 2018 through verification and recalculation.

**Methodology choice:** We considered the Group's judgement in selecting its assumptions and whether there were any indicators of management bias.

**Assessing transparency:** We have evaluated the appropriateness of the related disclosures in note 35 to the financial statements.

#### **Fair value of client relationship intangibles**

**Assessment of fair value:** We evaluated management's determination of the fair value of client relationship intangibles by:

1. Engaging our internal valuation specialists to evaluate and challenge the identification and valuation methodology used by management. This included assessing the client relationship intangibles identified and the basis of their valuation.
2. Challenge of the key assumptions used in the valuation model including the discount rate and growth rate used.

**Methodology choice:** We considered the Group's judgement in selecting its assumptions and whether there were any indicators of management bias.

**Assessing transparency:** We have evaluated the appropriateness of the related disclosures in note 35 to the financial statements.

**Our results -** We found the accounting application in relation to the split of total consideration between acquisition consideration and post-acquisition services and the fair value of client relationship intangibles acquired for the acquisition of Speirs & Jeffrey Ltd to be acceptable.

**Impairment of client relationship intangibles £134.6 million (2017: £88.5 million) of which £54.3 million relates to the Speirs & Jeffery acquisition as described on page 98 of our report**

**Risk vs 2017:** ◀▶

Refer to page 71 (audit committee report), page 113 (accounting policy) and page 134 (financial disclosures).

The Group has capitalised significant amounts as client relationship intangibles, including both those purchased individually (initially recognised at cost) and those acquired as part of a business combination (initially recognised at fair value).

#### **The risk – Accounting application in relation to impairment of client relationship intangibles**

- For client relationship intangibles acquired as part of a business combination, the Group assesses whether there is an indication of impairment considering a range of impairment triggers. Where such an indication exists, the Group considers whether the ongoing benefits offered by the capitalised client relationship intangibles are greater than their carrying value and, if not, an impairment provision is recorded. There is a risk that a client relationship intangible was impaired but the Group did not record an impairment provision, because the impairment trigger remained undetected.
- For client relationship intangibles purchased individually, the Group assesses whether there is an indication of impairment by considering if the remaining economic benefits expected to be received is greater than the carrying value and, if not, an impairment provision is recorded. There is a risk that a client relationship intangible was impaired but the Group did not record an impairment provision.
- The effect of these matters is that, as part of our risk assessment, we determined that impairment of client relationship intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

#### **Our response**

In this area our procedures included:

#### **Accounting application in relation to impairment of client relationship intangibles**

- **Independent re-performance:** For the element of the client relationship intangibles previously capitalised under IFRS 3 Business Combinations we have critically assessed the Group's review of the client relationship intangibles against impairment triggers. We have assessed and re-performed the Group's impairment calculation and verified the data inputs such as value of funds under management and number of client accounts.
- **Tests of details:** In considering the adequacy of the impairment assessment performed by the Group to support the carrying value of client relationship intangibles previously capitalised, we assessed the population for closed client accounts or non-income generating clients to assess whether they were appropriately derecognised. We inspected client attrition rates and funds under management for evidence of impairment.

## 2 *Key audit matters: including our assessment of risks of material misstatement continued*

### **Assessing transparency:**

We have evaluated the appropriateness of the related disclosures in note 22 to the financial statements.

**Our results** - We found the carrying value of client relationship intangibles to be acceptable.

Following the implementation of IFRS 15, which introduces guidance on capitalisation of contract costs, we have not assessed recognition of client relationship intangibles as one of the most significant risks in our current year audit and, therefore, it is not included as part of this key audit matter in this year's report.

**Valuation of defined benefit pension obligation £146.5 million (2017: £164.1 million)**

**Risk vs 2017:** ◀▶

Refer to page 71 (audit committee report), page 114 (accounting policy) and page 138 (financial disclosures).

### **The risk - Subjective valuation**

The Group and parent company have recognised a defined benefit pension obligation of £146.5 million as at 31 December 2018.

- The valuation of the defined benefit pension obligation depends on a number of judgemental assumptions and estimates, including: the discount rate used to calculate the current value of the future payments the Group expects to pay pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments and the life expectancy of pension scheme members. The valuation is an important judgment as this balance is volatile and impacts the parent company's distributable reserves.

Uncertainty arises as a result of estimates made in respect of long term trends and market conditions to determine the value based on the Group's expectations of the future. As a result, the defined benefit pension obligation recognised by the Group on the balance sheet might be significantly different than the actual liability of the Group, since small changes to the assumptions used in the calculation materially affect the valuation.

The effect of these matters is that, as part of our risk assessment, we determined that valuation of defined benefit pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

**Our response - Our procedures include:**

- **Our actuarial expertise:** We used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the pension deficit. The key assumptions and estimates we tested included the discount rate, RPI inflation, and life expectancy that were applied to the valuation.
- **Benchmarking assumptions:** We performed a comparison of key assumptions against externally derived data and our benchmark ranges for similar schemes.
- **Methodology choice:** We considered Group's judgement in selecting its assumptions and whether there were any indicators of management bias.
- **Assessing transparency:** We considered the adequacy of the Group's disclosure in respect of the defined benefit pension deficit and the assumptions used which is set out in note 28 to the financial statements.

**Our results** - We found the valuation of the defined benefit pension obligation to be acceptable.

We continue to perform procedures over measurement of onerous lease provision. However, during the year Group completed assignment of its leases on surplus property, hence we have not assessed this as one of the significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at £3.8 million (2017: £3.6 million), determined with reference to a benchmark of Group profit before tax, normalised to exclude the acquisition and integration related costs of £3.6 million (refer note 9), the current year charge of the contingent and earn-out consideration payable to vendors and employees of Speirs & Jeffrey Ltd amounting to £14.7 million (refer note 9) and the credit related to the assignment of the onerous lease £3.7 million (refer note 10). These expenses do not form part of the normal, continuing operations of the Group and are not considered to be part of the normalised profit before tax. Materiality represents 5% (2017: 5%) of the normalised Group profit before tax.

Materiality for the parent company financial statements as a whole was set at £3.0 million (2017: £2.9 million). This is lower than the materiality we would otherwise have determined by reference to net assets, and represents 1.0% of the parent company's net assets (2017: 1.4%).

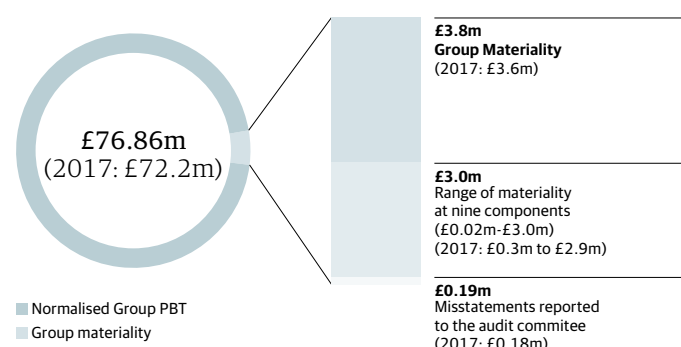
We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £190,000 (2017: £180,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2017: eight) reporting components, we subjected nine (2017: eight) to full scope audits for Group purposes. The audit work for eight (2017: eight) was performed by the Group team and one (2017: Nil) was performed by a component team to materiality levels set individually for each entity which ranged from £0.02 million to £3.0 million (2017: £0.03 million to £2.9 million), having regard to the mix of size and risk profile of the Group across the components.

The Group team performed procedures on the items excluded from normalised Group profit before tax.

The components scoped in for Group reporting purposes accounted for 100% of total Group revenue, Group profit before tax and total Group assets.

### Normalised Group profit before tax



## 4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or the Group or to cease its operations, and as they have concluded that the company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1.5 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 93 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## 5 We have nothing to report on the other information in the Annual Report and accounts

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.



## 5 *We have nothing to report on the other information in the Annual Report and accounts continued*

### Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within viability statement on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and company's longer-term viability.

### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the corporate governance report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

## 6 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

## 7 Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 95 the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### Irregularities - ability to detect

We identified relevant areas of laws and regulations that could have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Group's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

## 8 The purpose of our audit work and to whom we owe our responsibilities

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

**Nicholas Edmonds (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants**

15 Canada Square  
London  
E14 5GL

20 February 2019

# Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest and similar income		20,968	13,501
Interest expense and similar charges		(5,647)	(1,907)
<b>Net interest income</b>	5	<b>15,321</b>	11,594
Fee and commission income		314,013	292,034
Fee and commission expense		(22,903)	(22,715)
<b>Net fee and commission income</b>	6	<b>291,110</b>	269,319
Net trading income	7	3,405	3,071
Gain on plan amendment of defined benefit pension schemes	28	-	5,523
Other operating income	7	2,127	2,065
<b>Operating income</b>		<b>311,963</b>	291,572
Charges in relation to client relationships and goodwill	8	(13,188)	(11,716)
Acquisition-related costs	9	(19,925)	(6,178)
Head office relocation costs	10	2,861	(16,248)
Other operating expenses		(220,405)	(198,529)
<b>Operating expenses</b>	8	<b>(250,657)</b>	(232,671)
<b>Profit before tax</b>		<b>61,306</b>	58,901
Taxation	12	(15,137)	(12,072)
<b>Profit after tax</b>		<b>46,169</b>	46,829
<b>Profit for the year attributable to equity holders of the company</b>		<b>46,169</b>	46,829
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Net remeasurement of defined benefit liability	28	1,219	17,288
Deferred tax relating to net remeasurement of defined benefit liability	21	(207)	(2,939)
<i>Items that may be reclassified to profit or loss</i>			
Revaluation of available for sale investment securities:			
- net gain from changes in fair value	18	-	163
- net profit on disposal transferred to profit or loss during the year		-	(43)
		-	120
Deferred tax relating to revaluation of available for sale investment securities	21	-	(20)
<b>Other comprehensive income net of tax</b>		<b>1,012</b>	14,449
<b>Total comprehensive income for the year net of tax attributable to equity holders of the company</b>		<b>47,181</b>	61,278
Dividends paid and proposed for the year per ordinary share	13	66.0p	61.0p
Dividends paid and proposed for the year		35,204	30,429
Earnings per share for the year attributable to equity holders of the company:	14		
- basic		88.7p	92.7p
- diluted		86.2p	91.9p

The accompanying notes form an integral part of the consolidated financial statements.

# Consolidated statement of changes in equity

for the year ended 31 December 2018

Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	2,535	139,991	31,835	150	(6,243)	156,545	324,813
Profit for the year						46,829	46,829
Net remeasurement of defined benefit liability	28					17,288	17,288
Revaluation of available for sale investment securities:							
net gain from changes in fair value	18			163			163
net profit on disposal transferred to profit or loss during the year				(43)			(43)
Deferred tax relating to components of other comprehensive income	21			(20)		(2,939)	(2,959)
Other comprehensive income net of tax		-	-	100	-	14,349	14,449
Dividends paid	13					(29,420)	(29,420)
Issue of share capital	29	31	3,098				3,129
Share-based payments:							
- value of employee services						3,591	3,591
- cost of own shares acquired	30				(441)		(441)
- cost of own shares vesting	30				1,820	(1,820)	-
- own shares sold	30						-
- tax on share-based payments						328	328
<b>At 31 December 2017</b>	<b>2,566</b>	<b>143,089</b>	<b>31,835</b>	<b>250</b>	<b>(4,864)</b>	<b>190,402</b>	<b>363,278</b>
Adjustment on initial application of IFRS 9 (net of tax)				(250)		102	(148)
Adjustment on initial application of IFRS 15 (net of tax)						8,443	8,443
<b>Adjusted balance at 1 January 2018</b>	<b>2,566</b>	<b>143,089</b>	<b>31,835</b>	<b>-</b>	<b>(4,864)</b>	<b>198,947</b>	<b>371,573</b>
Profit for the year						46,169	46,169
Net remeasurement of defined benefit liability	28					1,219	1,219
Deferred tax relating to components of other comprehensive income	21					(207)	(207)
Other comprehensive income net of tax		-	-	-	-	1,012	1,012
Dividends paid	13					(32,691)	(32,691)
Issue of share capital	29	194	87,134				87,328
Share-based payments:							
- value of employee services						20,279	20,279
- cost of own shares acquired	30				(29,888)		(29,888)
- cost of own shares vesting	30				2,015	(2,015)	-
- tax on share-based payments						358	358
<b>At 31 December 2018</b>	<b>2,760</b>	<b>230,223</b>	<b>31,835</b>	<b>-</b>	<b>(32,737)</b>	<b>232,059</b>	<b>464,140</b>

The accompanying notes form an integral part of the consolidated financial statements.

# Consolidated balance sheet

as at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Assets</b>			
Cash and balances with central banks	15	1,198,479	1,375,382
Settlement balances		39,754	46,784
Loans and advances to banks	16	166,200	117,253
Loans and advances to customers	17	138,959	126,213
Investment securities:			
– fair value through profit or loss	18	79,797	-
– amortised cost	18	907,225	-
– available for sale	18	-	109,312
– held to maturity	18	-	701,966
Prepayments, accrued income and other assets	19	81,552	74,445
Property, plant and equipment	20	16,838	16,457
Net deferred tax asset	21	-	9,061
Intangible assets	22	238,918	161,977
<b>Total assets</b>		<b>2,867,722</b>	<b>2,738,850</b>
<b>Liabilities</b>			
Deposits by banks	23	491	1,338
Settlement balances		36,692	54,452
Due to customers	24	2,225,536	2,170,498
Accruals, deferred income, provisions and other liabilities	25	103,393	108,391
Current tax liabilities		5,985	5,598
Net deferred tax liability	21	481	-
Subordinated loan notes	27	19,807	19,695
Retirement benefit obligations	28	11,197	15,600
<b>Total liabilities</b>		<b>2,403,582</b>	<b>2,375,572</b>
<b>Equity</b>			
Share capital	29	2,760	2,566
Share premium	29	230,223	143,089
Merger reserve		31,835	31,835
Available for sale reserve		-	250
Own shares	30	(32,737)	(4,864)
Retained earnings		232,059	190,402
<b>Total equity</b>		<b>464,140</b>	<b>363,278</b>
<b>Total liabilities and equity</b>		<b>2,867,722</b>	<b>2,738,850</b>

The financial statements were approved by the board of directors and authorised for issue on 20 February 2019 and were signed on their behalf by:

Philip Howell  
Chief Executive

Paul Stockton  
Finance Director

Company registered number: 01000403

The accompanying notes form an integral part of the consolidated financial statements.



# Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		61,306	58,901
Net profit on disposal of available for sale investment securities		-	(43)
Change in fair value through profit or loss		185	-
Net interest income		(15,321)	(11,594)
Impairment losses on financial instruments	32	44	1
Net (credit)/charge for provisions	26	(1,498)	16,728
Loss/(profit) on disposal of property, plant and equipment		1	-
Depreciation, amortisation and impairment		21,673	19,415
Foreign exchange movements	18	(2,297)	1,480
Defined benefit pension scheme charges	28	491	(2,948)
Defined benefit pension contributions paid	28	(3,673)	(3,619)
Share-based payment charges		19,838	3,871
Interest paid		(5,175)	(1,663)
Interest received		21,362	13,084
		96,936	93,613
Changes in operating assets and liabilities:			
- net increase in loans and advances to banks and customers		(10,482)	(16,643)
- net decrease/(increase) in settlement balance debtors		7,030	(8,997)
- net increase in prepayments, accrued income and other assets		(3,887)	(8,318)
- net increase in amounts due to customers and deposits by banks		54,191	282,647
- net (decrease)/increase in settlement balance creditors		(17,760)	15,163
- net (decrease)/increase in accruals, deferred income, provisions and other liabilities		(222)	8,146
<b>Cash generated from operations</b>		125,806	365,611
Tax paid		(14,697)	(14,087)
<b>Net cash inflow from operating activities</b>		111,109	351,524
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired		(72,914)	-
Purchase of property, plant, equipment and intangible assets		(18,338)	(16,123)
Proceeds from sale of property, plant and equipment		-	-
Purchase of investment securities	18	(1,051,150)	(746,566)
Proceeds from sale and redemption of investment securities	18	847,323	742,581
<b>Net cash used in investing activities</b>		(295,079)	(20,108)
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	38	57,440	2,688
Dividends paid	13	(32,691)	(29,420)
<b>Net cash generated from/(used in) financing activities</b>		24,749	(26,732)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(159,221)	304,684
Cash and cash equivalents at the beginning of the year		1,567,758	1,263,074
<b>Cash and cash equivalents at the end of the year</b>	38	1,408,537	1,567,758

The accompanying notes form an integral part of the consolidated financial statements.

# Notes to the consolidated financial statements

## 1 Principal accounting policies

Rathbone Brothers Plc ('the company') is a public company incorporated and domiciled in England and Wales under the Companies Act 2006.

### 1.1 Basis of preparation

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The company financial statements are presented on pages 169 to 189.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (notes 1.12 and 1.16). The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the consolidated financial statements.

### 1.2 Basis of consolidation

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

The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained, and no longer consolidated from the date that control ceases; their results are included in the consolidated financial statements up to the date that control ceases. Intercompany transactions and balances between group companies are eliminated on consolidation.

### 1.3 Developments in reporting standards and interpretations

#### Standards and interpretations affecting the reported results or the financial position

This is the first set of the group's financial statements where IFRS 9 and IFRS 15 have been applied. These new standards were adopted from 1 January 2018. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 2.

The following amendments to standards have also been adopted in the current period, but have not had a significant impact on the amounts reported in these financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

#### Future new standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the group's financial statements in the period of initial application.

#### IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019 and replaces existing lease guidance, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Lease - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard was endorsed by the EU during 2017. The group has not adopted this standard early.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for lessees. The group will be required to recognise all leases with a term of more than 12 months as a right-of-use lease asset on its balance sheet; the group will also recognise a financial liability representing its obligation to make future lease payments.

#### Transition

The group plans to apply IFRS 16 initially with effect from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance sheet at 1 January 2019, with no restatement of comparative information.

The group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

#### Lessee accounting

The group has assessed the impact of adopting the new standard, based on its existing lease contracts.

The group's total assets and total liabilities will be increased by the recognition of lease assets and liabilities. The lease assets will be depreciated over the shorter of the expected life of the asset and the lease term. The lease liability will be reduced by lease payments, offset by the unwinding of the liability over the lease term, which will be recognised in interest expense and similar charges in the consolidated statement of comprehensive income.

The most significant impact is in respect of its London head office premises. Based on the information currently available, the group estimates that it will recognise lease liabilities of approximately £63 million to £67 million as at 1 January 2019 and related right-of-use assets with a value of approximately £50 million to £55 million, reflecting the impact of accrued rent free periods up to 31 December 2018. We do not expect any impact on the group's equity at the date of adoption.

On the group's statement of comprehensive income, the profile of lease costs will be front-loaded, at least individually, as the interest charge is higher in the early years of a lease term as the discount rate unwinds. The total cost of the lease over the lease term is expected to be unchanged.

In addition to the above impacts, recognition of lease assets will increase the group's regulatory capital requirement.

#### Lessor accounting

The group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease. Based on the work completed by the group, it expects to reclassify one sub-lease as a finance lease. This results in recognition of a finance lease receivable of approximately £1 million to £2 million as at 1 January 2019.

## 1.4 Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities assumed and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values may arise as a result of additional information obtained after this date about facts and circumstances that existed at the acquisition date. Provided they arise within 12 months of the acquisition date, these changes are measurement period adjustments and are reflected against the cost of acquisition. Changes in the fair value of contingent consideration resulting from events occurring after the acquisition date are charged to profit or loss or other comprehensive income, except for obligations that are classified as equity, which are not remeasured. Such changes are irrespective of the 12 month period from acquisition.

## 1.5 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence. In forming this view, the directors have considered the company's and the group's prospects for a period exceeding 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

## 1.6 Foreign currencies

The functional and presentational currency of the company and its subsidiaries is sterling.

Transactions in currencies other than the relevant group entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in profit or loss for the year.

## 1.7 Income

The group has initially applied IFRS 15 from 1 January 2018.

### Net interest income

Interest income or expense are recognised within net interest income using the effective interest method.

The effective interest method is the method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the group estimates cash flows considering all contractual terms of the financial instrument but excluding the impact of future credit losses.

Dividends received from money market funds are included in net interest income when received.

### Net fee and commission income

Portfolio or investment management fees, commissions receivable or payable and fees from advisory services are recognised on a continuous basis over the period that the related service is provided.

Commission charges for executing transactions on behalf of clients are recognised when the transaction is dealt.

Initial charges receivable from the sale of unit holdings in the group's collective investment schemes and related rebates are recognised at the point of sale.

### Net trading income

Net trading income comprises net dealing profits on the sale and redemption of units in the Unit Trusts business and is recognised when received.

### Dividend income

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

## 1 *Principal accounting policies continued*

### 1.8 Operating leases

Lease agreements which do not transfer substantially all of the risks and rewards of ownership of the leased assets to the group are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. The impact of any lease incentives is spread over the term of the lease.

### 1.9 Share-based payments

The group engages in equity-settled and cash-settled share-based payment transactions in respect of services received from its employees.

#### Equity-settled awards

For equity-settled share-based payments, the fair value of the award is measured by reference to the fair value of the shares or share options granted on the grant date. The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss over the vesting period, with a corresponding credit to equity.

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

#### Cash-settled awards

For cash-settled share-based payments, a liability is recognised for the services received to the balance sheet date, measured at the fair value of the liability. At each subsequent balance sheet date and at the date on which the liability is settled, the fair value of the liability is remeasured with any changes in fair value recognised in profit or loss.

### 1.10 Taxation

#### Current tax

Current tax is the expected tax payable or receivable on net taxable income for the year. Current tax is calculated using tax rates enacted or substantively enacted by the balance sheet date, together with any adjustment to tax payable or receivable in respect of previous years.

#### Deferred tax

Deferred tax is accounted for under the balance sheet liability method in respect of temporary differences using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised, except where the temporary difference arises:

- from the initial recognition of goodwill;
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination; or
- in relation to investments in subsidiaries and associates, where the group is able to control the reversal of the temporary difference and it is the group's intention not to reverse the temporary difference in the foreseeable future.

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

### 1.11 Cash and cash equivalents

Cash comprises cash in hand.

Cash equivalents comprise money market funds which are realisable on demand and loans and advances to banks with a maturity of less than three months from the date of acquisition.

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

### 1.12 Financial assets

#### Initial recognition and measurement

Financial assets, excluding trade receivables, are initially recognised when the group becomes party to the contractual provisions of the asset. Trade receivables are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to its acquisition. Trade receivables without a significant financing component are initially measured at the transaction price.

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

### Classification and subsequent measurement

Financial assets are classified and measured in the following categories:

– amortised cost

Financial assets are measured at amortised cost if its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and it is held within a business model whose objective is to hold assets to collect contractual cash flows.

Assets are measured at amortised cost using the effective interest rate method (note 1.7), less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

– at fair value through other comprehensive income (FVOCI)

Debt instruments are measured at FVOCI if its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and it is held within a business model whose objective is both to hold assets to collect contractual cash flows and sell the assets.

For debt instruments, interest income is calculated using the effective interest method. For equity instruments, dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains and losses on assets at FVOCI are recognised in OCI.

– at fair value through profit or loss (FVTPL)

All equity instruments are measured at FVTPL unless, provided the instrument is not held for trading, the group irrevocably elects to measure the instrument at FVOCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

### Business model assessment

The Group assesses the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes:

- the objectives for the portfolio and how those tie in to the current and future strategy of the group;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how group employees are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

### Payments of principal and interest criterion

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers:

- the contractual terms of the instrument, checking consistency with a basic lending criteria;
- the impact of the time value of money;
- features that would change the amount or timing of contractual cash flows;
- other factors, such as prepayment or extension features.

### Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the group has transferred substantially all the risks and rewards of ownership.

### Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and FVOCI and loan commitments held off balance sheet.

A financial asset will attract a loss allowance equal to either:

- 12 month expected credit losses (losses resulting from possible defaults within the next 12 months); or
- lifetime expected credit losses (losses resulting from possible defaults over the remaining life of the financial asset).

The latter applies if there has been a significant deterioration in the credit quality of the asset, albeit lifetime ECLs will always be recognised for assets without a significant financing component.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for treasury book and investment management loan book exposures for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trust and financial planning debtors are always measured at an amount equal to lifetime ECLs.

When assessing whether the credit risk of a financial asset has increased significantly between the reporting date and initial recognition, quantitative and qualitative indicators are used. More detail can be found at note 32.



## 1 *Principal accounting policies continued*

### **Measurement of ECLs**

#### **Treasury book and investment management loan book**

The group has developed a detailed model for calculating ECLs on its treasury book and investment management loan book (which includes loan commitments held off balance sheet). The group has applied considerable judgment in developing three different economic scenarios: a base case, an upside and a downside.

The base case is assigned a 60% probability of occurring with the upside and downside each assigned a 20% probability of occurring.

The economic scenarios are based on the projections of GDP, inflation, unemployment rates, house price indices, financial markets and interest rates as set out in the banking system stress testing scenario published annually by the PRA.

Management adjust the projections for the economic variables in arriving at the upside and downside scenarios.

Under each resultant scenario, an expected credit loss is forecast for each exposure in the treasury book and investment management loan book. The expected credit loss is calculated based on management's estimate of the probability of default, the loss given default and the exposure at default of each exposure taking into account industry credit loss data, the group's own credit loss experience, the expected repayment profiles of the exposures and the level of collateral held. Industry credit loss information is drawn from data on credit defaults for different categories of exposure published by the Council of Mortgage Lenders and Standard & Poor's.

The model adopts a staging allocation methodology, primarily based on changes in the internal and/or external credit rating of exposures to identify significant increases in credit risk since inception of the exposure.

The group has not rebutted the presumption that if an exposure is more than 30 days past due, the associated credit risk has significantly increased.

More detail on the group's staging criteria is provided in note 32.

ECLs are discounted back to the balance sheet date at the effective interest rate of the asset.

#### **Trust and financial planning debtors**

The group's trust and financial planning debtors are generally short term and do not contain significant financing components. Therefore, the group has applied a practical expedient by using a provision matrix to calculate lifetime expected credit losses based on actual credit loss experience over the past four years.

#### **Credit-impaired financial assets**

At each reporting date, the group assesses whether financial assets carried at amortised cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The group's definition of default is given in note 32.

#### **Presentation of impairment**

Loss allowances for financial assets measured at amortised cost and FVOCI are deducted from the gross carrying amount of the assets.

Impairment losses related to the group's treasury book and investment management loan book are presented in 'interest expense and similar charges' and those related to all other financial assets (including trust and financial planning debtors) are presented under 'other operating expenses'. No losses are presented separately on the statement of the comprehensive income and there have been no reclassifications of amounts previously recognised under IAS 39.

### **1.13 Property, plant and equipment**

All property, plant and equipment is stated at historical cost, which includes directly attributable acquisition costs, less accumulated depreciation and impairment losses. Depreciation is charged so as to write off the cost of assets to their estimated residual value over their estimated useful lives, using the straight line method, on the following bases:

- leasehold improvements: over the lease term
- plant, equipment and computer hardware: over three to 10 years

The assets' residual lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in profit or loss.

### **1.14 Intangible assets**

#### **Goodwill**

Goodwill arises through business combinations and represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a business at the date of acquisition.

Goodwill is recognised as an asset and measured at cost less accumulated impairment losses. It is allocated to groups of cash generating units. Cash generating units are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets and are no larger than the group's operating segments, as set in note 4.

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

Goodwill arising on acquisitions before 1 January 2004, being the date of the group's transition to IFRS, has been retained at the previous UK GAAP carrying amounts and is tested for impairment annually.

#### **Client relationships**

Client relationships acquired as part of a business combination are initially recognised at fair value (note 1.4). Determining whether a transaction that involves the purchase of client relationships is treated as a business combination or a separate purchase of intangible assets requires judgement. The factors that the group takes into consideration in making this judgement are set out in note 3.1.

Individually purchased client relationships are initially recognised at cost. Where a transaction to acquire client relationship intangibles includes an element of variable deferred consideration, an estimate is made of the value of consideration that will ultimately be paid. The client relationship intangible recognised on the balance sheet is adjusted for any subsequent change in the value of deferred consideration. Note 3.1 sets out the approach taken by the group where judgement is required to determine whether payments made for the introduction of client relationships should be capitalised as intangible assets or charged to profit or loss.

Client relationships are subsequently carried at the amount initially recognised less accumulated amortisation, which is calculated using the straight line method over their estimated useful lives (normally 10 to 15 years, but not more than 15 years).

#### Computer software and software development costs

Costs incurred to acquire and bring to use computer software licences are capitalised and amortised through profit or loss over their expected useful lives (three to four years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the group are recognised as intangible assets when the group is expected to benefit from future use of the software and the costs are reliably measurable. Other costs of producing software are charged to profit or loss as incurred. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

#### 1.15 Impairment of goodwill and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Goodwill is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to the group's cash generating units. The carrying amount of each cash generating unit is compared to its value-in-use, calculated using a discounted cash flow method. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to that unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Client relationship intangibles are tested for impairment by comparing the fair value of funds under management and administration for each individually acquired client relationship (or, for client relationships acquired with a business combination, each acquired portfolio of clients) with their associated amortised value. An example of evidence of impairment would be lost client relationships. In determining whether a client relationship is lost, the group considers factors such as the level of funds withdrawn and the existence of other retained family relationships. When client relationships are lost, the full amount of unamortised cost is recognised immediately in profit or loss and the intangible asset is derecognised.

If the recoverable amount of any asset other than goodwill, client relationships is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Any impairment loss is recognised immediately in profit or loss.

#### 1.16 Financial liabilities

##### Initial recognition and measurement

Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to its issue.

##### Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or at fair value through profit or loss.

The group has not designated any liabilities as fair value through profit or loss and holds no liabilities as held for trading. Financial liabilities are measured at amortised cost using the effective interest method (note 1.7). Amortised cost is calculated by taking into account any issue costs and any discounts or premiums on settlement. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

##### Derecognition

The group derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

#### 1.17 Provisions and contingent liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits, that can be reliably estimated, will occur. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are possible obligations that depend on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of crystallisation is judged to be remote.

## 1 *Principal accounting policies continued*

### 1.18 Retirement benefit obligations on retirement benefit schemes

The group's net liability in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of providing benefits under defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Net remeasurements of the defined benefit liability are recognised in full in the period in which they occur in other comprehensive income.

Past service costs or gains are recognised immediately in the period of a plan amendment.

The amount recognised in the balance sheet for death in service benefits represents the present value of the estimated obligation, reduced by the extent to which any future liabilities will be met by insurance policies.

The company determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability.

Contributions to defined contribution retirement benefit schemes are charged to profit or loss as an expense as they fall due.

### 1.19 Segmental reporting

The group determines and presents operating segments based on the information that is provided internally to the group executive committee, which is the group's chief operating decision maker. Operating segments are organised around the services provided to clients; a description of the services provided by each segment is given in note 4. No operating segments have been aggregated in the group's financial statements.

Transactions between operating segments are reported within the income or expenses for those segments; intra-segment income and expenditure is eliminated at group level. Indirect costs are allocated between segments in proportion to the principal cost driver for each category of indirect costs that is generated by each segment.

### 1.20 Fiduciary activities

The group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Such assets and income arising thereon are excluded from these financial statements, as they are not assets of the group. Largely as a result of cash and settlement processing, the group holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority, the Jersey Financial Services Commission and the Solicitors' Accounts Rules issued by the Solicitors Regulation Authority, as applicable. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the group is not beneficially entitled to them.

### 1.21 Financial guarantees

The group provides a limited number of financial guarantees, which are backed by assets in clients' portfolios. Financial guarantees are initially recognised in the balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the guarantee.

### 1.22 Fair value measurement

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

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## 2 Changes in significant accounting policies

The group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018.

The effect of applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (IFRS 9);
- an increase in client relationship intangibles in respect of the additional capitalisation of payments made to investment managers (IFRS 15); and
- earlier recognition of revenue in Rathbone Trust Company Limited (IFRS 15).

### IFRS 9 'Financial Instruments'

IFRS 9 governs the accounting treatment for the classification and measurement of financial instruments and the timing and extent of credit provisioning. The standard replaces IAS 39.

#### Transition

The group has taken advantage of the exemption from restating comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Under the requirements of IFRS 9, the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The nature of the business model under which a financial asset is managed.
- Whether the SPPI (solely payments of principal and interest) criterion is met.
- The designation of certain financial assets as measured at fair value through profit or loss.
- If an investment in a debt instrument had a low credit risk (e.g. 'investment grade' credit rating) at the date of initial application of IFRS 9, then the group assumes that the credit risk on the asset has not increased significantly since its initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

	Impact of adopting IFRS 9 on opening balance	
	Available for sale reserve £'000	Retained earnings £'000
Recycle to retained earnings of available for sale reserve	(250)	250
Recognition of expected credit losses under IFRS 9	-	(148)
<b>Impact at 1 January 2018</b>	<b>(250)</b>	<b>102</b>

The recognition of expected credit losses under IFRS 9 in opening retained earnings of £148,000 is split out by balance sheet line item in the table below.

The hedge accounting requirements of IFRS 9 have not been applied, as the group was not party to any hedging relationships as at 1 January 2018.

#### Classification and measurement of financial assets and financial liabilities

The basis of classification for financial assets under IFRS 9 is different from that under IAS 39. Financial assets are classified into one of three categories: amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed.

The classification criteria for allocating financial assets between categories under IFRS 9 require the group to document the business models under which its assets are managed and review contractual terms and conditions.

All of the group's financial assets as at 1 January 2018 were managed within business models whose objective is solely to collect contractual cash flows, except equity securities and money market funds, which are equity instruments not held for trading and were classified as fair value through profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets as at 1 January 2018.

## 2 Changes in significant accounting policies continued

Financial assets	Note	Original classification under IAS 39	Original carrying amount under IAS 39 £'000	New classification under IFRS 9	New carrying amount under IFRS 9 £'000
Cash and balances with central banks	15	Loans and receivables	1,375,382	Amortised cost	<b>1,375,290</b>
Loans and advances to banks	16	Loans and receivables	117,253	Amortised cost	<b>117,250</b>
Loans and advances to customers	17	Loans and receivables	126,213	Amortised cost	<b>126,191</b>
Equity securities	18	Available for sale	2,565	Fair value through profit or loss	<b>2,565</b>
Money market funds	18	Available for sale	106,747	Fair value through profit or loss	<b>106,747</b>
Debt securities	18	Held to maturity	701,966	Amortised cost	<b>701,935</b>
Other financial assets		Loans and receivables	112,483	Amortised cost	<b>112,483</b>
<b>Total financial assets</b>			<b>2,542,609</b>		<b>2,542,461</b>

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described in note 1.12.

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39. All financial liabilities continue to be classified as amortised cost, with no financial liabilities designated at fair value through profit or loss. There was no change to carrying value of financial liabilities at 1 January 2018.

### Impairment of financial assets

Under IFRS 9, an expected credit loss (ECL) model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred. See note 1.12 for more detail on the ECL model.

### Impact of the new impairment model

The initial application of IFRS 9's impairment requirements at 1 January 2018 resulted in an additional impairment provision as follows:

	£'000
Loss provision at 31 December 2017 under IAS 39	66
Additional impairment recognised at 1 January 2018 on:	
treasury book:	
- cash and balances with central banks	92
- loans and advances to banks	3
- debt securities	31
loans and advances to customers:	
- investment management loan book	1
- trust and financial planning debtors	21
	<b>148</b>
<b>Loss provision at 1 January 2018 under IFRS 9</b>	<b>214</b>

Additional impairment recognised at 1 January 2018 relate to financial assets classified and measured at amortised cost.

### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 changes how and when revenue is recognised from contracts with customers and the treatment of the costs of obtaining a contract with a customer. The standard requires that the recognition of revenue is linked to the fulfilment of identified performance obligations that are enshrined in the customer contract. It also requires that the incremental cost of obtaining a customer contract should be capitalised if that cost is expected to be recovered. The standard replaces existing revenue recognition guidance, in particular under IAS 18.

## Transition

The group has adopted IFRS 15 using the cumulative effect method, with the effect of applying the standard recognised at the date of adoption, with no restatement of the comparative period. The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 15 on opening balance £'000
<b>Retained earnings</b>	
Net recognition of intangible assets under IFRS 15	8,268
Reduction in accruals	4,011
Recognition of provisions	(4,075)
Impact of changes to timing of recognition of certain time-based fees	296
Related tax	(57)
<b>Impact at 1 January 2018</b>	<b>8,443</b>

The impact on transition is primarily due to a change in policy for capitalising contract costs under IFRS 15 (see below). Client relationship intangible assets with a carrying value of £8,268,000 were recognised as a result of additional costs capitalised under the new policy. There is also a reclassification between accruals and provisions for amounts payable as at 1 January 2018 under these contracts.

### Impact on financial statements for the year ended 31 December 2018

The group has considered the impact of adopting the standard, on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts.

#### Net fee and commission income

Included within net fee and commission income are initial fees, charged by a number of group companies in relation to certain business activities. Under IFRS 15, the group has made an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, then these fees can be recognised when the relevant performance obligation has been satisfied; if not, then the fees can only be recognised in the period in which the services are provided.

The adoption of IFRS 15 has not had a significant impact on the group's accounting policies for revenue recognition, as the application of the new requirements does not change the treatment under previous guidance, in particular IAS 18, apart from a small change in how we recognise certain fees in Rathbone Trust Company.

A breakdown of the timing of revenue recognition can be found in note 4.

#### Contract costs

Under the group's previous policy under IAS 18 for capitalising contract costs, incremental payments that were made to secure investment management contracts were capitalised as client relationship intangibles if they were separable, reliably measurable and expected to be recovered. The period during which such payments are capitalised was typically the 12 months following the end of any non-compete period.

Under IFRS 15, the scope requirements are broader such that costs to obtain any contract with a customer should be capitalised if those costs are incremental and the entity expects to recover them.

The group has assessed its previous policy and has removed the 12 month limit on capitalisation of payments to newly recruited investment managers under the new standard. The policy is unchanged in all other respects.

The group has also identified a number of other remuneration schemes where awards are linked to obtaining client contracts and has considered whether any meet the new criteria for capitalising costs under IFRS 15. The group has determined that the adoption of the new standard has not resulted in any awards made under these schemes being capitalised. The costs of these awards continue to be expensed through staff costs.

The following tables summarise the impacts of adopting IFRS 15 on the group's consolidated statement of comprehensive income for the year ended 31 December 2018 and its consolidated balance sheet as at that date for each of the line items affected. There was no impact on the group's consolidated statement of cash flows for the year ended 31 December 2018.



2 *Changes in significant accounting policies continued*

Impact on the consolidated statement of comprehensive income (extract)

	As reported Year to 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
<b>Operating income</b>	<b>311,963</b>	579	312,542
Charges in relation to client relationships and goodwill	(13,188)	836	(12,352)
Other operating expenses	(220,405)	(160)	(220,565)
Operating expenses	(250,657)	676	(249,981)
<b>Profit before tax</b>	<b>61,306</b>	1,255	62,561
Taxation	(15,137)	(238)	(15,375)
<b>Profit for the period attributable to equity holders of the company</b>	<b>46,169</b>	1,017	47,186
<b>Other comprehensive income net of tax</b>	<b>1,012</b>	-	1,012
<b>Total comprehensive income for the period net of tax attributable to equity holders of the company</b>	<b>47,181</b>	1,017	48,198

The adjustments to the consolidated statement of comprehensive income primarily relate to amortisation charged on the additional client relationship intangibles recognised under the new policy for capitalising contract costs (see below) and decrease in revenue in Rathbone Trust Company as a result of the revised treatment under IFRS 15.

Impact on the consolidated balance sheet (extract)

	As reported 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
<b>Assets</b>			
Prepayments, accrued income and other assets	81,552	283	81,835
Intangible assets	238,918	(7,641)	231,277
<b>Total assets</b>	<b>2,867,722</b>	(7,358)	2,860,364
<b>Liabilities</b>			
Accruals, deferred income, provisions and other liabilities	103,393	(10)	103,383
Current tax liabilities	5,985	181	6,166
<b>Total liabilities</b>	<b>2,403,582</b>	171	2,403,753
<b>Equity</b>			
Retained earnings	232,059	(7,529)	224,530
<b>Total equity</b>	<b>464,140</b>	(7,529)	456,611
<b>Total liabilities and equity</b>	<b>2,867,722</b>	(7,358)	2,860,364

The adjustments to the consolidated balance sheet reflect the initial and subsequent application of the new policy for capitalising contract costs under IFRS 15.

### 3 Critical accounting judgements and key sources of estimation and uncertainty

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

Both judgements and estimates are made in the following areas in applying accounting policies, and care has been taken to distinguish between the two.

#### 3.1 Client relationship intangibles (note 22)

##### Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business combination in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction and whether ownership of a corporate entity has been acquired, among other factors.

##### Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If these payments are incremental costs of acquiring investment management contracts and are deemed to be recoverable (i.e. through future revenues earned from the funds that transfer), they are capitalised as client relationship intangibles. Otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

Under the broader scope requirements of IFRS 15, judgement is no longer required over the suitable period during which awards accruing to new investment managers are capitalised. Instead, payments are capitalised for the duration of the contractual agreement.

##### Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations that these will continue in the future. During the year, client relationship intangible assets were amortised over a 10 to 15 year period. Amortisation of £12,919,000 (2017: £11,433,000) was charged during the year, which includes the amortisation on the recently acquired Speirs & Jeffrey client relationship intangible. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,303,000 (2017: £1,076,000). At 31 December 2018, the carrying value of client relationship intangibles was £134,556,000 (2017: £88,511,000).

#### 3.2 Retirement benefit obligations (note 28)

The group makes estimates about a range of long term trends and market conditions to determine the value of the surplus or deficit on its retirement benefit schemes, based on the group's expectations of the future and advice taken from qualified actuaries. Long term forecasts and estimates are necessarily highly judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

The principal assumptions underlying the reported deficit of £11,197,000 (2017: £15,600,000 deficit) and information on the sensitivity of the retirement benefit obligations to changes in underlying estimates are set out in note 28.

### 3 *Critical accounting judgements and key sources of estimation and uncertainty continued*

#### 3.3 Business combinations (note 35)

During the year, the group acquired the entire share capital of Speirs & Jeffrey ("S&J"). The group has accounted for the transaction as a business combination, as set out in note 35.

##### **Treatment and fair value of consideration transferred**

The purchase price payable in respect of the acquisition is split into a number of different components. The payment of certain elements has been deferred; the timing and value of these are contingent on certain employment conditions and operational and financial targets being met.

The proportion of the deferred payments that are contingent on selling shareholders remaining employees of the group for a specific period are accounted for as remuneration for ongoing services in employment. The group's estimate of the amounts ultimately payable will be expensed over the deferral period.

Those deferred payments accounted for as additional consideration were assessed against the operational targets to which they are subject. Based on performance against the operational targets to date, the group has made an assessment of the amount and timing of these payments. A provision for contingent consideration has been made for the amount expected to be paid.

##### **Identification of assets acquired and liabilities assumed**

As at 31 August 2018, the date of acquisition, Speirs & Jeffrey's identifiable assets, liabilities and contingent liabilities have been recognised at their fair value.

In accordance with the process described in note 3.1, the group has recognised a client relationship intangible of £54,337,000, arising from Speirs & Jeffrey's relationship with clients whose assets are managed by the business. Further detail on the sources of estimation in the valuation is provided in note 35.

Goodwill of £28,087,000 has been recognised in accordance with note 1.14.

##### **Carrying value of assets acquired**

As at 31 December 2018, the carrying value for the client relationship intangible arising from Speirs & Jeffrey was £53,129,000 (2017: £nil). Amortisation in the year ended 31 December 2018 in relation to the client relationship intangible was £1,207,000 (2017: £nil). A reduction in the amortisation period by 1 year would increase the amortisation charge for the year by approximately £87,000 (2017: £nil).

The carrying value of £28,087,000 for goodwill remains unchanged at 31 December 2018 compared to the acquisition date.

## 4 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Unit Trusts. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure; principally, the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and administration and the segment's total revenue. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the group executive committee, which is the group's chief operating decision maker.

31 December 2018	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	200,530	32,865	-	233,395
Net commission income	41,439	-	-	41,439
Net interest income	15,321	-	-	15,321
Fees from advisory services and other income	18,019	3,789	-	21,808
<b>Underlying operating income</b>	<b>275,309</b>	<b>36,654</b>	<b>-</b>	<b>311,963</b>
Staff costs – fixed	(66,512)	(3,300)	(26,152)	(95,964)
Staff costs – variable	(37,736)	(7,552)	(9,806)	(55,094)
<b>Total staff costs</b>	<b>(104,248)</b>	<b>(10,852)</b>	<b>(35,958)</b>	<b>(151,058)</b>
Other direct expenses	(27,629)	(6,950)	(34,768)	(69,347)
Allocation of indirect expenses	(64,596)	(6,130)	70,726	-
<b>Underlying operating expenses</b>	<b>(196,473)</b>	<b>(23,932)</b>	<b>-</b>	<b>(220,405)</b>
<b>Underlying profit before tax</b>	<b>78,836</b>	<b>12,722</b>	<b>-</b>	<b>91,558</b>
Charges in relation to client relationships and goodwill (note 22)	(13,188)	-	-	(13,188)
Acquisition-related costs (note 9)	(16,228)	-	(3,697)	(19,925)
<b>Segment profit before tax</b>	<b>49,420</b>	<b>12,722</b>	<b>(3,697)</b>	<b>58,445</b>
Head office relocation costs (note 10)				2,861
<b>Profit before tax attributable to equity holders of the company</b>				<b>61,306</b>
Taxation (note 12)				(15,137)
<b>Profit for the year attributable to equity holders of the company</b>				<b>46,169</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	2,786,718	81,004		2,867,722
Unallocated assets				-
<b>Total assets</b>				<b>2,867,722</b>

## 4 Segmental information continued

31 December 2017	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	189,465	28,020	-	217,485
Net commission income	38,729	-	-	38,729
Net interest income	11,594	-	-	11,594
Fees from advisory services and other income	14,831	3,410	-	18,241
<b>Underlying operating income</b>	<b>254,619</b>	<b>31,430</b>	<b>-</b>	<b>286,049</b>
Staff costs - fixed	(59,457)	(3,040)	(25,294)	(87,791)
Staff costs - variable	(40,240)	(7,246)	(5,843)	(53,329)
<b>Total staff costs</b>	<b>(99,697)</b>	<b>(10,286)</b>	<b>(31,137)</b>	<b>(141,120)</b>
Other direct expenses	(21,893)	(4,415)	(31,101)	(57,409)
Allocation of indirect expenses	(56,188)	(6,050)	62,238	-
<b>Underlying operating expenses</b>	<b>(177,778)</b>	<b>(20,751)</b>	<b>-</b>	<b>(198,529)</b>
<b>Underlying profit before tax</b>	<b>76,841</b>	<b>10,679</b>	<b>-</b>	<b>87,520</b>
Charges in relation to client relationships and goodwill (note 22)	(11,716)	-	-	(11,716)
Acquisition-related costs (note 9)	(1,273)	-	(4,905)	(6,178)
<b>Segment profit before tax</b>	<b>63,852</b>	<b>10,679</b>	<b>(4,905)</b>	<b>69,626</b>
Gain on plan amendment of defined benefit pension schemes (note 28)				5,523
Head office relocation costs (note 10)				(16,248)
<b>Profit before tax attributable to equity holders of the company</b>				<b>58,901</b>
Taxation (note 12)				(12,072)
<b>Profit for the year attributable to equity holders of the company</b>				<b>46,829</b>

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	2,659,723	74,672	2,734,395
Unallocated assets			4,455
<b>Total assets</b>			<b>2,738,850</b>

The following table reconciles underlying operating income to operating income:

	2018 £'000	2017 £'000
Underlying operating income	<b>311,963</b>	286,049
Gain on plan amendment of defined benefit pension schemes (note 28)	-	5,523
<b>Operating income</b>	<b>311,963</b>	<b>291,572</b>

The following table reconciles underlying operating expenses to operating expenses:

	2018 £'000	2017 £'000
Underlying operating expenses	<b>220,405</b>	198,529
Charges in relation to client relationships and goodwill (note 22)	<b>13,188</b>	11,716
Acquisition-related costs (note 9)	<b>19,925</b>	6,178
Head office relocation costs (note 10)	<b>(2,861)</b>	16,248
<b>Operating expenses</b>	<b>250,657</b>	<b>232,671</b>

## Geographic analysis

The following table presents operating income analysed by the geographical location of the group entity providing the service:

	2018 £'000	2017 £'000
United Kingdom	301,029	280,892
Jersey	10,934	10,680
<b>Operating income</b>	<b>311,963</b>	<b>291,572</b>

The following is an analysis of the carrying amount of non-current assets analysed by the geographical location of the assets:

	2018 £'000	2017 £'000
United Kingdom	251,429	173,496
Jersey	4,327	4,938
<b>Non-current assets</b>	<b>255,756</b>	<b>178,434</b>

## Timing of revenue recognition

The following table presents operating income analysed by the timing of revenue recognition of the operating segment providing the service:

	2018		2017	
	Investment Management £'000	Unit Trusts £'000	Investment Management £'000	Unit Trusts £'000
Products and services transferred at a point in time	44,392	3,431	42,036	3,104
Products and services transferred over time	230,917	33,223	212,583	28,326
<b>Underlying operating income</b>	<b>275,309</b>	<b>36,654</b>	<b>254,619</b>	<b>31,430</b>

## Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues.

## 5 Net interest income

	2018 £'000	2017 £'000
<b>Interest income</b>		
Cash and balances with central banks	7,634	3,963
Fair value through profit or loss investment securities	958	-
Amortised cost investment securities	6,503	-
Held to maturity investment securities	-	4,242
Available for sale investment securities	-	808
Loans and advances to banks	2,353	1,409
Loans and advances to customers	3,520	3,079
	<b>20,968</b>	<b>13,501</b>
<b>Interest expense</b>		
Banks and customers	(4,323)	(631)
Subordinated loan notes (see note 27)	(1,283)	(1,276)
Credit impairment charges	(41)	-
	<b>(5,647)</b>	<b>(1,907)</b>
<b>Net interest income</b>	<b>15,321</b>	<b>11,594</b>

With the exception of credit impairment charges, which are calculated as described in note 32, all net interest income is calculated using the effective interest method (note 1.7).



## 6 Net fee and commission income

	2018 £'000	2017 £'000
<b>Fee and commission income</b>		
Investment Management	<b>272,700</b>	256,476
Unit Trusts	<b>41,313</b>	35,558
	<b>314,013</b>	292,034
<b>Fee and commission expense</b>		
Investment Management	<b>(16,987)</b>	(17,293)
Unit Trusts	<b>(5,916)</b>	(5,422)
	<b>(22,903)</b>	(22,715)
<b>Net fee and commission income</b>	<b>291,110</b>	269,319

## 7 Net trading and other operating income

### Net trading income

Net trading income of £3,405,000 (2017: £3,071,000) comprises Unit Trust net dealing profits.

### Other operating income

Other operating income of £2,127,000 (2017: £2,065,000) comprises dividend income from fair value through profit or loss equity securities, rental income from sub-leases on certain properties leased by group companies and sundry income.

## 8 Operating expenses

	2018 £'000	2017 £'000
Staff costs (note 11)	<b>151,059</b>	141,120
Depreciation of property, plant and equipment	<b>3,817</b>	3,619
Amortisation of internally generated intangible assets (note 22)	<b>686</b>	492
Amortisation of purchased software (note 22)	<b>3,983</b>	2,809
Auditor's remuneration (see below)	<b>793</b>	857
Impairment charges on loans and advances to customers (note 32)	<b>33</b>	1
Operating lease rentals	<b>8,952</b>	8,221
Other	<b>51,082</b>	41,410
<b>Other operating expenses</b>	<b>220,405</b>	198,529
Charges in relation to client relationships and goodwill (note 22)	<b>13,188</b>	11,716
Acquisition-related costs (note 9)	<b>19,925</b>	6,178
Head office relocation costs (note 10)	<b>(2,861)</b>	16,248
<b>Total operating expenses</b>	<b>250,657</b>	232,671

A more detailed analysis of auditor's remuneration is provided below:

	2018 £'000	2017 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	<b>118</b>	136
Fees payable to the company's auditor and their associates for other services to the group:		
– audit of the company's subsidiaries pursuant to legislation	<b>314</b>	280
– audit-related assurance services	<b>299</b>	297
– tax compliance services	<b>23</b>	25
– other services	<b>39</b>	119
	<b>793</b>	857

Of the above, audit-related services for the year totalled £731,000 (2017: £713,000).

Fees payable for the audit of the company's annual financial statements include £19,000 (2017: £39,000) relating to prior year audit work. Fees for audit-related assurance services include £208,000 for the provision of assurance reports to our regulators and review of the interim statement (2017: £208,000). Fees for other services include advice in relation to the pension schemes, a qualified intermediary compliance review and work related to the merger discussions.

## 9 Acquisition-related costs

	2018 £'000	2017 £'000
Acquisition of Speirs & Jeffrey	<b>18,411</b>	-
Acquisition of Vision and Castle	<b>1,514</b>	1,273
Merger discussions with Smith & Williamson	-	4,905
<b>Acquisition-related costs</b>	<b>19,925</b>	<b>6,178</b>

### Costs relating to the acquisition of Speirs & Jeffrey

On 31 August 2018, the group completed the acquisition of 100% of the share capital of Speirs & Jeffrey. The group incurred £18,411,000 for the year ended 31 December 2018 in relation to the acquisition, which is made up as follows.

	2018 £'000
<b>Acquisition costs:</b>	
- Staff costs (note 35)	<b>14,714</b>
- Legal and advisory fees	<b>2,465</b>
- Stamp duty	<b>653</b>
<b>Integration costs</b>	<b>579</b>
	<b>18,411</b>

### Costs relating to the acquisition of Vision Independent Financial Planning and Castle Investment Solutions

The group has incurred the following costs in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions, summarised by the classification with the income statement.

	2018 £'000	2017 £'000
Staff costs	<b>1,074</b>	1,026
Interest expense	<b>440</b>	247
Legal and advisory fees	-	-
	<b>1,514</b>	<b>1,273</b>

Amounts reported in staff costs relate to deferred payments to previous owners who remain in employment with the acquired companies. The payment is due to be settled at the end of 2019 (see note 26) and the total cost is being charged to profit and loss over the deferral period.

### Costs relating to merger discussions with Smith & Williamson

In 2017, the group incurred professional services costs of £4,905,000 in relation to the merger discussions with Smith & Williamson. On 31 August 2017, the group announced that these discussions had been terminated.

## 10 Head office relocation

On 6 June 2018, the group completed the assignment of its leases on surplus property at 1 Curzon Street. The completion of the deal triggered a release of £3,726,000 from the onerous lease provision held over the property (see note 26).

During the year ended 31 December 2018, a credit of £2,861,000 (2017: costs of £16,248,000 were incurred) was incurred. This incremental credit was as follows:

	2018 £'000	2017 £'000
Rental costs for 8 Finsbury Circus prior to occupancy	-	536
Accelerated depreciation charge for 1 Curzon Street	-	779
Provision for dilapidations	492	248
(Credit)/charge in relation to onerous lease provision (note 26)	(3,726)	16,064
Interest charge in relation to onerous lease provision	75	201
Release of rent free period and landlord contribution on recognition of the onerous lease provision	-	(2,148)
Professional and other costs	298	568
	<b>(2,861)</b>	<b>16,248</b>

## 11 Staff costs

	2018 £'000	2017 £'000
Wages and salaries	120,241	113,719
Social security costs	15,446	14,695
Equity-settled share-based payments	6,886	4,120
Cash-settled share-based payments	-	(249)
Pension costs (note 28):		
- defined benefit schemes	491	2,575
- defined contribution schemes	7,995	6,260
	<b>8,486</b>	<b>8,835</b>
	<b>151,059</b>	<b>141,120</b>

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2018	2017
Investment Management:		
- investment management services	855	734
- advisory services	107	92
Unit Trusts	33	28
Shared services	334	293
	<b>1,329</b>	<b>1,147</b>

## 12 Income tax expense

	2018 £'000	2017 £'000
Current tax:		
- charge for the year	16,830	13,466
- adjustments in respect of prior years	(1,599)	(303)
Deferred tax (note 21):		
- credit for the year	(1,049)	(1,034)
- adjustments in respect of prior years	955	(57)
	<b>15,137</b>	<b>12,072</b>

The tax charge is calculated based on our best estimate of the amount payable as at the balance sheet date. Any subsequent differences between these estimates and the actual amounts paid are recorded as adjustments in respect of prior years.

The tax charge on profit for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.2%). The differences are explained below.

	2018 £'000	2017 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2017: 19.2%)	<b>11,650</b>	11,338
Effects of:		
- disallowable expenses	<b>1,210</b>	1,045
- share-based payments	<b>211</b>	(79)
- tax on overseas earnings	<b>(190)</b>	(230)
- adjustments in respect of prior year	<b>(644)</b>	(360)
- deferred payments to previous owners of acquired companies (note 9)	<b>2,904</b>	247
- other	<b>(36)</b>	(28)
Effect of change in corporation tax rate on deferred tax	<b>32</b>	139
	<b>15,137</b>	12,072

The effect of disallowable expenses relate to certain operating expenses, which are not deductible for tax purposes. The most significant of these expenses relate to legal and professional fees associated with the acquisition of Speirs & Jeffrey (tax impact of £575,000) and client entertaining (tax impact of £307,000).

### 13 Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
- final dividend for the year ended 31 December 2017 of 39.0p (2016: 36.0p) per share	<b>19,858</b>	18,236
- interim dividend for the year ended 31 December 2018 of 24.0p (2017: 22.0p) per share	<b>12,833</b>	11,184
Dividends paid in the year of 63.0p (2017: 58.0p) per share	<b>32,691</b>	29,420
Proposed final dividend for the year ended 31 December 2018 of 42.0p (2017: 39.0p) per share	<b>22,371</b>	19,245

An interim dividend of 24.0p per share was paid on 2 October 2018 to shareholders on the register at the close of business on 7 September 2018 (2017: 22.0p).

A final dividend declared of 42.0p per share (2017: 39.0p) is payable on 14 May 2019 to shareholders on the register at the close of business on 20 April 2019. The final dividend is subject to approval by shareholders at the Annual General Meeting on 9 May 2019 and has not been included as a liability in these financial statements.

### 14 Earnings per share

Earnings used to calculate earnings per share on the bases reported in these financial statements were:

	2018			2017		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	<b>91,558</b>	<b>(17,388)</b>	<b>74,170</b>	87,520	(17,426)	70,094
Gain on plan amendment of defined benefit pension schemes (note 28)	-	-	-	5,523	(1,063)	4,460
Charges in relation to client relationships and goodwill (note 22)	<b>(13,188)</b>	<b>2,506</b>	<b>(10,682)</b>	(11,716)	2,255	(9,461)
Acquisition-related costs (note 9)	<b>(19,925)</b>	<b>289</b>	<b>(19,636)</b>	(6,178)	944	(5,234)
Head office relocation costs (note 10)	<b>2,861</b>	<b>(544)</b>	<b>2,317</b>	(16,248)	3,218	(13,030)
<b>Profit attributable to shareholders</b>	<b>61,306</b>	<b>(15,137)</b>	<b>46,169</b>	58,901	(12,072)	46,829

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 52,050,979 (2017: 50,493,984).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Executive Incentive Plan, employee share options remaining capable of exercise and any dilutive shares to be issued under the Share Incentive Plan, all weighted for the relevant period:

	2018	2017
Weighted average number of ordinary shares in issue during the year - basic	<b>52,050,979</b>	50,493,984
Effect of ordinary share options/Save As You Earn	<b>148,564</b>	188,549
Effect of dilutive shares issuable under the Share Incentive Plan	<b>474</b>	59,030
Effect of contingently issuable shares under the Executive Incentive Plan	<b>375,759</b>	228,702
Effect of contingently issuable shares under S&J contingent consideration (note 35)	<b>1,006,522</b>	-
<b>Diluted ordinary shares</b>	<b>53,582,298</b>	50,970,265

14 *Earnings per share continued*

	2018	2017
Earnings per share for the year attributable to equity holders of the company:		
- basic	<b>88.7p</b>	92.7p
- diluted	<b>86.2p</b>	91.9p
Underlying earnings per share for the year attributable to equity holders of the company:		
- basic	<b>142.5p</b>	138.8p
- diluted	<b>138.4p</b>	137.5p

## 15 Cash and balances with central banks

	2018 £'000	2017 £'000
Cash in hand	<b>1</b>	2
Balances with central banks	<b>1,198,600</b>	1,375,380
Less impairment loss allowance	<b>(122)</b>	-
	<b>1,198,479</b>	1,375,382

The fair value of balances with central banks is not materially different from their carrying amount.

	2018 £'000	2017 £'000
Repayable:		
- on demand	<b>1,197,001</b>	1,374,002
- 1 year or less but over 3 months	<b>1,600</b>	1,380
Less impairment loss allowance	<b>(122)</b>	-
	<b>1,198,479</b>	1,375,382
Amounts include balances with:		
- variable interest rates	<b>1,197,001</b>	1,374,000
- non-interest-bearing	<b>1,600</b>	1,382
Less impairment loss allowance	<b>(122)</b>	-
	<b>1,198,479</b>	1,375,382

The group's exposure to credit risk arising from cash and balances with central banks is described in note 32.

## 16 Loans and advances to banks

	2018 £'000	2017 £'000
Current accounts	<b>126,203</b>	76,070
Fixed term deposits	<b>40,000</b>	41,183
Less impairment loss allowance	<b>(3)</b>	-
	<b>166,200</b>	117,253

	2018 £'000	2017 £'000
Repayable:		
- on demand	126,072	75,826
- 3 months or less excluding on demand	10,131	11,183
- 1 year or less but over 3 months	30,000	30,244
Less impairment loss allowance	(3)	-
	<b>166,200</b>	117,253
Amounts include loans and advances with:		
- variable interest rates	125,855	75,734
- fixed interest rates	40,000	41,183
- non-interest-bearing	348	336
Less impairment loss allowance	(3)	-
	<b>166,200</b>	117,253

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

Loans and advances to banks included in cash and cash equivalents at 31 December 2018 were £136,203,000 (note 38) (2017: £87,009,000).

The group's exposure to credit risk arising from loans and advances to banks is described in note 32.

## 17 Loans and advances to customers

	2018 £'000	2017 £'000
Overdrafts	6,096	4,621
Investment management loan book	131,741	120,509
Trust and financial planning debtors	1,196	1,114
Other debtors	29	35
Less impairment loss allowance	(103)	(66)
	<b>138,959</b>	126,213

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

	2018 £'000	2017 £'000
Repayable:		
- on demand	6,796	4,732
- 3 months or less excluding on demand	21,587	13,312
- 1 year or less but over 3 months	50,232	42,519
- 5 years or less but over 1 year	60,447	65,716
Less impairment loss allowance	(103)	(66)
	<b>138,959</b>	126,213
Amounts include loans and advances with:		
- variable interest rates	137,812	125,112
- non-interest-bearing	1,250	1,167
Less impairment loss allowance	(103)	(66)
	<b>138,959</b>	126,213

The group's exposure to credit risk arising from loans and advances to customers is described in note 32.



## 18 Investment securities

### Fair value through profit or loss

	2018 £'000	2017* £'000
Equity securities:		
– listed	3,205	2,565
– unlisted	1,259	–
Money market funds:		
– unlisted	75,333	106,747
	<b>79,797</b>	<b>109,312</b>

\* Fair value through profit or loss investments as at 31 December 2017 were classified under IAS 39 as available for sale securities

### Amortised cost

	2018 £'000	2017* £'000
Debt securities:		
– unlisted	907,259	701,966
Less impairment loss allowance	(34)	–
	<b>907,225</b>	<b>701,966</b>

\* Amortised cost investments as at 31 December 2017 were classified under IAS 39 as held to maturity

All debt securities are due to mature within one year (2017: all).

Fair value through profit or loss securities include money market funds and direct holdings in equity securities. Equity securities comprises units in Rathbone Unit Trust Management managed funds and Euroclear shares. Equity securities do not bear interest. Money market funds, which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 38).

The fair value of debt securities is disclosed in note 32.

The change in the group's holdings of investment securities in the year is summarised below.

	Fair value through profit or loss* £'000	Amortised cost** £'000	Total £'000
At 1 January 2017	105,421	700,000	805,421
Additions	36,248	745,867	782,115
Disposals (sales and redemptions)	(27,416)	(742,421)	(769,837)
Foreign exchange movements	(5,104)	(1,480)	(6,584)
Gain from changes in fair value	163	–	163
<b>At 1 January 2018</b>	<b>109,312</b>	<b>701,966</b>	<b>811,278</b>
Additions	18,580	1,050,084	1,068,664
Acquired through business combination	1,254	–	1,254
Disposals (sales and redemptions)	(50,835)	(847,088)	(897,923)
Foreign exchange movements	1,671	2,297	3,968
Loss from changes in fair value	(185)	–	(185)
Less impairment loss allowance	–	(34)	(34)
<b>At 31 December 2018</b>	<b>79,797</b>	<b>907,225</b>	<b>987,022</b>

\* Fair value through profit or loss investments as at 31 December 2017 were classified under IAS 39 as available for sale securities

\*\* Amortised cost investments as at 31 December 2017 were classified under IAS 39 as held to maturity

Included within amortised cost are additions of £1,066,000 (2017: £699,000) and £235,000 (2017: £160,000) of disposals of financial instruments that are not classified as cash and cash equivalents.

## 19 Prepayments, accrued income and other assets

	2018 £'000	2017 £'000
Work in progress	2,738	1,461
Prepayments and other assets	18,733	12,396
Accrued income	60,081	60,588
	<b>81,552</b>	<b>74,445</b>

## 20 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2017	22,765	17,361	40,126
Additions	1,940	2,325	4,265
Disposals	-	(1,970)	(1,970)
<b>At 1 January 2018</b>	<b>24,705</b>	<b>17,716</b>	<b>42,421</b>
<b>Additions</b>	<b>1,376</b>	<b>1,879</b>	<b>3,255</b>
Acquisitions through business combinations	1,442	2,162	3,604
Disposals	(6,031)	(656)	(6,687)
<b>At 31 December 2018</b>	<b>21,492</b>	<b>21,101</b>	<b>42,593</b>
<b>Depreciation</b>			
At 1 January 2017	9,861	13,675	23,536
Charge for the year	2,436	1,962	4,398
Disposals	-	(1,970)	(1,970)
<b>At 1 January 2018</b>	<b>12,297</b>	<b>13,667</b>	<b>25,964</b>
Charge for the year	1,690	2,127	3,817
Acquisitions through business combinations	711	1,949	2,660
Disposals	(6,031)	(655)	(6,686)
<b>At 31 December 2018</b>	<b>8,667</b>	<b>17,088</b>	<b>25,755</b>
<b>Carrying amount at 31 December 2018</b>	<b>12,825</b>	<b>4,013</b>	<b>16,838</b>
Carrying amount at 31 December 2017	12,408	4,049	16,457
Carrying amount at 1 January 2017	12,904	3,686	16,590

## 21 Net deferred tax liability

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
<b>As at 1 January 2018</b>	<b>1,284</b>	<b>2,650</b>	<b>1,539</b>	<b>4,331</b>	<b>(50)</b>	<b>(693)</b>	<b>9,061</b>
Recognised in profit or loss in respect of:							
- current year	121	(605)	400	807	33	325	1,081
- prior year	(29)	-	(29)	(844)	(53)	-	(955)
- change in rate	(13)	64	-	(85)	12	(10)	(32)
<b>Total</b>	<b>79</b>	<b>(541)</b>	<b>371</b>	<b>(122)</b>	<b>(8)</b>	<b>315</b>	<b>94</b>
Recognised in other comprehensive income in respect of:							
- current year	-	(231)	-	-	-	-	(231)
- prior year	-	-	-	-	-	-	-
- change in rate	-	24	-	-	-	-	24
<b>Total</b>	<b>-</b>	<b>(207)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(207)</b>
Recognised in equity in respect of:							
- current year	-	-	80	-	-	-	80
- prior year	-	-	(108)	-	-	-	(108)
- change in rate	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(28)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28)</b>
<b>Acquisitions</b>							
- business combinations	(44)	-	-	-	(96)	(9,261)	(9,401)
<b>As at 31 December 2018</b>	<b>1,319</b>	<b>1,902</b>	<b>1,882</b>	<b>4,209</b>	<b>(154)</b>	<b>(9,639)</b>	<b>(481)</b>
	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
Deferred tax assets	1,319	1,902	1,882	4,209	-	-	9,312
Deferred tax liabilities	-	-	-	-	(154)	(9,639)	(9,793)
<b>As at 31 December 2018</b>	<b>1,319</b>	<b>1,902</b>	<b>1,882</b>	<b>4,209</b>	<b>(154)</b>	<b>(9,639)</b>	<b>(481)</b>

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
As at 1 January 2017	1,122	6,705	1,264	2,320	(30)	(780)	10,601
Recognised in profit or loss in respect of:							
- current year	(38)	(1,264)	(57)	2,434	-	99	1,174
- prior year	196	-	-	(139)	-	-	57
- change in rate	4	148	4	(284)	-	(12)	(140)
<b>Total</b>	<b>162</b>	<b>(1,116)</b>	<b>(53)</b>	<b>2,011</b>	<b>-</b>	<b>87</b>	<b>1,091</b>
Recognised in other comprehensive income in respect of:							
- current year	-	(3,327)	-	-	(23)	-	(3,350)
- prior year	-	-	-	-	-	-	-
- change in rate	-	388	-	-	3	-	391
<b>Total</b>	<b>-</b>	<b>(2,939)</b>	<b>-</b>	<b>-</b>	<b>(20)</b>	<b>-</b>	<b>(2,959)</b>
Recognised in equity in respect of:							
- current year	-	-	318	-	-	-	318
- prior year	-	-	10	-	-	-	10
- change in rate	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>328</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>328</b>
<b>As at 31 December 2017</b>	<b>1,284</b>	<b>2,650</b>	<b>1,539</b>	<b>4,331</b>	<b>(50)</b>	<b>(693)</b>	<b>9,061</b>
	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
Deferred tax assets	1,284	2,650	1,539	4,331	-	-	9,804
Deferred tax liabilities	-	-	-	-	(50)	(693)	(743)
<b>As at 31 December 2017</b>	<b>1,284</b>	<b>2,650</b>	<b>1,539</b>	<b>4,331</b>	<b>(50)</b>	<b>(693)</b>	<b>9,061</b>

## 22 Intangible assets

	2018 £'000	2017 £'000
Goodwill	91,000	63,182
Other intangible assets	147,918	98,795
	<b>238,918</b>	161,977

## Goodwill

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

	Investment management £'000	Trust and tax £'000	Rooper & Whately £'000	Total £'000
<b>Cost</b>				
At 1 January 2017 and 1 January 2018	62,091	1,954	227	64,272
Acquired through business combinations (note 35)	28,087	-	-	28,087
At 31 December 2018	<b>90,178</b>	<b>1,954</b>	<b>227</b>	<b>92,359</b>
<b>Impairment</b>				
At 1 January 2017	-	807	-	807
Charge in the year	-	283	-	283
<b>At 1 January 2018</b>	-	<b>1,090</b>	-	<b>1,090</b>
Charge in the year	-	269	-	269
<b>At 31 December 2018</b>	-	<b>1,359</b>	-	<b>1,359</b>
<b>Carrying amount at 31 December 2018</b>	<b>90,178</b>	<b>595</b>	<b>227</b>	<b>91,000</b>
Carrying amount at 31 December 2017	62,091	864	227	63,182
Carrying amount at 1 January 2017	62,091	1,147	227	63,465

Goodwill acquired through business combinations in 2018 comprises goodwill arising on the acquisition of Speirs & Jeffrey. The goodwill has been allocated to the investment management CGU (see note 35).

The recoverable amounts of the CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins are in line with recent historical rates and equity markets will not change significantly in the forthcoming year. Budgets are extrapolated for up to 10 years based on annual revenue growth for each CGU (see table below); as well as the group's expectation of future industry growth rates. A 10 year extrapolation period is chosen based on the group's assessment of the likely associated duration of client relationships. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The pre-tax rate used to discount the forecast cash flows for each CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which the CGUs operate and, in particular, the relatively small size of the trust and tax CGU.

At 31 December	Investment management		Trust and tax		Rooper & Whately	
	2018	2017	2018	2017	2018	2017
Discount rate	12.3%	11.1%	14.3%	13.1%	12.3%	11.1%
Annual revenue growth rate	5.0%	5.0%	(1.0)%	(1.0)%	0.0%	0.0%

At 30 June 2018, the group recognised an impairment charge of £269,000 in relation to goodwill allocated to the trust and tax CGU. An impairment was recognised, as the recoverable amount of the CGU at 30 June 2018 was £595,000, which was lower than the carrying value of £864,000 at 31 December 2017. The recoverable amount was calculated based on forecast earnings for 2018, extrapolated over 10 years based on a decrease in revenues of 1.0% per annum. The pre-tax rate used to discount the forecast cash flows was 15.0%. The impairment was recognised in the Investment Management segment in the segmental analysis. No further impairment was recognised at 31 December 2018.

Based on the assumptions in the table above, the calculated recoverable amount of the trust and tax CGU at 31 December 2018 was £1,729,000; this was higher than its carrying value of £595,000. Reducing the assumed growth rate for income in the trust and tax CGU by one percentage point would reduce the calculated recoverable amount of the CGU to £828,000. No reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the investment management CGU, including management's assessment of the impact of Brexit, would result in an impairment of the goodwill allocated to it.

## Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
<b>Cost</b>				
At 1 January 2017	144,652	4,922	24,368	173,942
Internally developed in the year	-	837	-	837
Purchased in the year	2,743	-	6,222	8,965
Disposals	(1,983)	-	-	(1,983)
At 31 December 2017	145,412	5,759	30,590	181,761
Adjustment on initial application of IFRS 15 (note 2)	9,691	-	-	9,691
<b>At 1 January 2018</b>	<b>155,103</b>	<b>5,759</b>	<b>30,590</b>	<b>191,452</b>
Internally developed in the year	-	1,450	-	1,450
Acquired through business combinations (note 35)	54,337	-	-	54,337
Purchased in the year	1,298	-	6,297	7,595
Disposals	(2,182)	-	-	(2,182)
Revaluation of assets	(4,939)	-	-	(4,939)
<b>At 31 December 2018</b>	<b>203,617</b>	<b>7,209</b>	<b>36,887</b>	<b>247,713</b>
<b>Amortisation</b>				
At 1 January 2017	47,451	4,037	18,727	70,215
Charge for the year	11,433	492	2,809	14,734
Disposals	(1,983)	-	-	(1,983)
At 31 December 2017	56,901	4,529	21,536	82,966
Adjustment on initial application of IFRS 15 (note 2)	1,423	-	-	1,423
<b>At 1 January 2018</b>	<b>58,324</b>	<b>4,529</b>	<b>21,536</b>	<b>84,389</b>
Charge for the year	12,919	686	3,983	17,588
Disposals	(2,182)	-	-	(2,182)
<b>At 31 December 2018</b>	<b>69,061</b>	<b>5,215</b>	<b>25,519</b>	<b>99,795</b>
<b>Carrying amount at 31 December 2018</b>	<b>134,556</b>	<b>1,994</b>	<b>11,368</b>	<b>147,918</b>
Carrying amount at 31 December 2017	88,511	1,230	9,054	98,795
Carrying amount at 1 January 2017	97,201	885	5,641	103,727

Client relationships acquired through business combinations in 2018 relate to the acquisition of Speirs & Jeffrey (note 35).

Purchases of client relationships in the year relate to payments made to investment managers and third parties for the introduction of client relationships.

The total amount charged to profit or loss in the year, in relation to goodwill and client relationships, was £13,188,000 (2017: £11,716,000).

The value of certain awards related to client relationships were reduced by £4,939,000 during the year as not all performance conditions were ultimately met.

Purchased software with a cost of £18,769,000 (2017: £18,069,000) has been fully amortised but is still in use.

## 23 Deposits by banks

On 31 December 2018, deposits by banks included overnight cash book overdraft balances of £491,000 (2017: £1,338,000).

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



## 24 Due to customers

	2018 £'000	2017 £'000
Repayable:		
- on demand	2,065,029	2,081,788
- 3 months or less excluding on demand	153,127	83,425
- 1 year or less but over 3 months	7,380	5,285
	<b>2,225,536</b>	2,170,498
Amounts include balances with:		
- variable interest rates	2,064,814	2,060,565
- fixed interest rates	131,327	83,908
- non-interest-bearing	29,395	26,025
	<b>2,225,536</b>	2,170,498

The fair value of amounts due to customers was not materially different from their carrying value. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount at which deposits could be transferred to a third party at the measurement date. The estimated fair value of fixed-interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

## 25 Accruals, deferred income, provisions and other liabilities

	2018 £'000	2017 £'000
Trade creditors	2,513	2,259
Other creditors	20,395	18,294
Accruals and deferred income	68,701	64,126
Other provisions (note 26)	11,784	23,712
	<b>103,393</b>	108,391

## 26 Other provisions

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property- related £'000	Total £'000
At 1 January 2017	10,212	1,136	598	2,798	14,744
Charged to profit or loss	-	-	248	16,534	16,782
Unused amount credited to profit or loss	-	-	(54)	-	(54)
Net charge to profit or loss	-	-	194	16,534	16,728
Other movements	2,743	84	-	-	2,827
Utilised/paid during the year	(4,883)	-	(115)	(5,589)	(10,587)
At 31 December 2017	8,072	1,220	677	13,743	23,712
Adjustment on initial application of IFRS 15 (note 2)	4,075	-	-	-	4,075
<b>At 1 January 2018</b>	<b>12,147</b>	<b>1,220</b>	<b>677</b>	<b>13,743</b>	<b>27,787</b>
Charged to profit or loss	-	-	449	1,836	2,285
Unused amount credited to profit or loss	-	-	(57)	(3,726)	(3,783)
Net credit to profit or loss	-	-	392	(1,890)	(1,498)
Other movements	(3,641)	3,158	-	600	117
Utilised/paid during the year	(7,445)	(2,000)	(260)	(4,917)	(14,622)
<b>At 31 December 2018</b>	<b>1,061</b>	<b>2,378</b>	<b>809</b>	<b>7,536</b>	<b>11,784</b>
Of which:					
- Payable within 1 year	511	2,378	809	5,953	9,651
- Payable after 1 year	550	-	-	1,583	2,133
	<b>1,061</b>	<b>2,378</b>	<b>809</b>	<b>7,536</b>	<b>11,784</b>

### Deferred, variable costs to acquire client relationship intangibles

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year. In 2018, there was a net release of £3,641,000 (2017: net increase of £2,743,000) in relation to the value of certain payments where not all performance conditions were ultimately met (note 22).

### Deferred and contingent consideration in business combinations

Deferred and contingent consideration includes £1,050,000 (2017: £nil) payable to vendors following the acquisition of Speirs & Jeffrey. The payment is contingent on certain operational targets being met (see note 35). It also includes £1,328,000 (2017: £1,220,000) which is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

### Legal and compensation

During the ordinary course of business the group may, from time-to-time, be subject to complaints, as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

### Property-related

Property-related provisions of £7,536,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the group (2017: £13,743,000).

On 6 June 2018, the group completed assignment of its leases on surplus property at 1 Curzon Street, which triggered a release of £3,726,000 from the onerous lease provision held over the property. The timing of cash flows from the group relating to monies due under the contract with the assignee are subject to the level of rent paid by the assignee following the rent review that was due in the third quarter of 2018 but remains outstanding.

Dilapidation provisions are calculated using a discounted cash flow model; during the year ended 31 December 2018, dilapidation provisions increased by £1,449,000 (2017: decreased by £533,000). The group utilised £912,000 (2017: £802,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. During the year, management have reviewed the potential cost and timing of dilapidation provisions, which has resulted in an increase in provisions of £1,636,000 (2017: £nil). The impact of discounting led to an additional £125,000 (2017: £82,000) being provided for over the year. The acquisition of Speirs & Jeffrey led to £600,000 being added to the dilapidations provision during the year for floors leased in George House, Glasgow (note 35).

### Amounts payable after one year

Property-related provisions of £1,583,000 are expected to be settled within 15 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within two years of the balance sheet date.

## 27 Subordinated loan notes

	2018 £'000	2017 £'000
Subordinated loan notes		
- face value	20,000	20,000
- carrying value	19,807	19,695

Subordinated loan notes consist of 10-year Tier 2 notes ('Notes'), which are repayable in August 2025, with a call option in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over 6 month LIBOR thereafter. An interest expense of £1,283,000 (2017: £1,276,000) was recognised in the year (see note 5).

## 28 Long-term employee benefits

### Defined contribution pension scheme

The group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to these schemes during the year was £7,959,000 (2017: £6,213,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £36,000 (2017: £47,000).

### Defined benefit pension schemes

The group operates two defined benefit pension schemes that operate within the UK legal and regulatory framework; the Rathbone 1987 Scheme and the Laurence Keen Retirement Benefit Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the group.

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

Following a recent high court ruling, the cost of equalising pension benefits for the impact of unequal Guaranteed Minimum Pensions (GMP) has been recognised. Only the Laurence Keen Scheme is impacted. The Rathbone 1987 Scheme was never contracted out, meaning there are no GMP benefits in this scheme. Ahead of a specific method for equalisation being agreed with the scheme trustees, the cost has been estimated using a method consistent with that deemed by the high court to be the minimum necessary requirements to achieve equality. This has resulted in a plan amendment loss of £125,000 being recognised in staff costs.

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002 and to future accrual from 30 June 2017. This resulted in a plan amendment gain of £5,523,000 being recognised in operating income on that date.

The group provides death in service benefits to all employees through the Rathbone 1987 Scheme. Third party insurance is purchased for the benefits where possible and £913,000 of related insurance premiums were expensed to profit or loss in the year (2017: £1,167,000). The estimated present value of the uninsured death in service benefits is included in long term employee benefits liabilities.

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

Rathbone 1987 Scheme	31 December 2016
Laurence Keen Scheme	31 December 2016

The next triennial valuations of the two schemes will be carried out as at 31 December 2019, and are likely to result in changes to the funding commitments.

The assumptions used by the actuaries, to estimate the schemes' liabilities, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice.

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2018 % (unless stated)	2017 % (unless stated)	2018 % (unless stated)	2017 % (unless stated)
Rate of increase of salaries	n/a	n/a	n/a	n/a
Rate of increase of pensions in payment	3.60	3.60	3.30	3.40
Rate of increase of deferred pensions	3.40	3.50	3.40	3.50
Discount rate	2.85	2.65	2.85	2.65
Inflation*	3.40	3.50	3.40	3.50
Percentage of members transferring out of the schemes per annum	3.00	3.00	3.00	3.00
Average age of members at date of transferring out (years)	52.5	52.5	52.5	52.5

\* Inflation assumptions are based on the Retail Price Index

Over the year, the financial assumptions have been amended to reflect changes in market conditions. Specifically:

1. the discount rate has been increased by 0.2% to reflect an increase in the yields available on AA-rated Corporate Bonds;
2. the assumed rate of future inflation has decreased by 0.1% and reflects expectations of long-term inflation as implied by changes in the fixed-interest and index-linked gilts market;
3. the assumed rates of future increases to pensions in payment have decreased by 0.1% for the 1987 Scheme and remained level for the Laurence Keen Scheme, consistent with the assumed rate of future inflation.

Over the year the demographic assumptions adopted remain unchanged, other than updating the CMI model used to project future improvements in mortality from the 2016 version to the 2017 version.

The assumed duration of the liabilities for the Laurence Keen Scheme is 17 years (2017: 16 years) and the assumed duration for the Rathbone 1987 Scheme is 21 years (2016: 20 years).

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S2NA actuarial tables (2017: S2NA tables). The assumed life expectations on retirement were:

		2018		2017	
		Males (Years)	Females (Years)	Males (Years)	Females (Years)
Retiring today:	- aged 60	28.4	30.5	28.5	30.6
	- aged 65	23.6	25.6	23.7	25.6
Retiring in 20 years:	- aged 60	30.3	32.3	30.4	32.4
	- aged 65	25.3	27.3	25.4	27.4

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

	2018			2017		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Present value of defined benefit obligations	(12,383)	(134,150)	(146,533)	(12,980)	(151,133)	(164,113)
Fair value of scheme assets	11,624	123,712	135,336	12,278	136,235	148,513
<b>Net defined benefit liability</b>	<b>(759)</b>	<b>(10,438)</b>	<b>(11,197)</b>	<b>(702)</b>	<b>(14,898)</b>	<b>(15,600)</b>

## 28 Long-term employee benefits continued

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2018			2017		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Current service cost	-	-	-	-	1,559	1,559
Net interest on net liability	14	352	366	59	957	1,016
Loss/(gain) on plan amendment	125	-	125	(305)	(5,218)	(5,523)
	<b>139</b>	<b>352</b>	<b>491</b>	<b>(246)</b>	<b>(2,702)</b>	<b>(2,948)</b>

Remeasurements of the net defined benefit liability have been reported in other comprehensive income. The actual return on scheme assets was a fall in value of £280,000 (2017: £1,170,000 rise) for the Laurence Keen Scheme and a fall in value of £6,279,000 (2017: £13,558,000 rise) for the Rathbone 1987 Scheme.

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

	2018			2017		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	12,980	151,133	164,113	16,203	216,238	232,441
Service cost (employer's part)	-	-	-	-	1,559	1,559
Interest cost	334	3,879	4,213	412	5,219	5,631
Contributions from members	-	-	-	-	314	314
Actuarial experience gains	106	(5,446)	(5,340)	(214)	(4,489)	(4,703)
Actuarial (gains)/losses arising from:						
- demographic assumptions	103	1,817	1,920	(494)	(7,786)	(8,280)
- financial assumptions	(487)	(7,720)	(8,207)	369	5,439	5,808
Loss/(gain) on plan amendment	125	-	125	(305)	(5,218)	(5,523)
Benefits paid	(778)	(9,513)	(10,291)	(2,991)	(60,143)	(63,134)
<b>At 31 December</b>	<b>12,383</b>	<b>134,150</b>	<b>146,533</b>	<b>12,980</b>	<b>151,133</b>	<b>164,113</b>

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

	2018			2017		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	12,278	136,235	148,513	14,099	178,887	192,986
Remeasurement of net defined benefit liability:						
- interest income	320	3,527	3,847	353	4,262	4,615
- return on scheme assets (excluding amounts included in interest income)	(600)	(9,806)	(10,406)	817	9,296	10,113
Contributions from the sponsoring companies	404	3,269	3,673	-	3,619	3,619
Contributions from scheme members	-	-	-	-	314	314
Benefits paid	(778)	(9,513)	(10,291)	(2,991)	(60,143)	(63,134)
<b>At 31 December</b>	<b>11,624</b>	<b>123,712</b>	<b>135,336</b>	<b>12,278</b>	<b>136,235</b>	<b>148,513</b>

The statements of investment principles set by the trustees of both schemes were revised in 2015. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between growth assets (primarily equities) and safer assets (gilts, index-linked gilts, corporate bonds and other fixed income investments) with a switch to a greater percentage of safer assets over time as the schemes mature.

In the Rathbone 1987 Scheme, the target date for the 100% allocation to safer assets is 31 December 2048. The scheme also seeks to hedge around 50% of its interest rate and inflation risk by using Liability Driven Investment (LDI) strategies.

In the Laurence Keen Scheme the target date for the 100% allocation to safer assets is 31 December 2040.

The expected asset allocations at 31 December 2018 as set out in the statements of investment principles are as follows:

Target asset allocation at 31 December 2018	Laurence Keen Scheme	Rathbone 1987 Scheme
<b>Benchmark</b>		
Safer assets	52%	40%
Growth assets	48%	60%
<b>Range</b>		
Safer assets	46% - 58%	32% - 44%
Growth assets	42% - 54%	54% - 66%

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

Laurence Keen Scheme	2018 Fair value £'000	2017 Fair value £'000	2018 Current allocation %	2017 Current allocation %
Equity instruments:				
- United Kingdom	3,007	3,722		
- Eurozone	377	409		
- North America	588	755		
- Other	734	558		
	4,706	5,444	40	45
Debt instruments:				
- United Kingdom government bonds	4,475	4,482		
- United Kingdom corporate bonds	1,993	1,686		
	6,468	6,168	56	50
Cash	84	283	1	2
Other	366	383	3	3
<b>At 31 December</b>	<b>11,624</b>	<b>12,278</b>	<b>100</b>	<b>100</b>



## 28 Long-term employee benefits continued

Rathbone 1987 Scheme	2018 Fair value £'000	2017 Fair value £'000	2018 Current allocation %	2017 Current allocation %
Equity instruments:				
- United Kingdom	34,367	41,736		
- Eurozone	6,110	6,016		
- North America	8,958	9,422		
- Other	7,081	7,168		
	<b>56,516</b>	64,342	<b>45</b>	47
Debt instruments:				
- United Kingdom government bonds	36,055	36,069		
- Overseas government bonds	2,042	1,973		
- United Kingdom corporate bonds	8,809	10,100		
- Overseas corporate bonds	-	-		
	<b>46,906</b>	48,142	<b>38</b>	35
Derivatives:				
- Interest rate swap funds	15,734	20,222		
	<b>15,734</b>	20,222	<b>13</b>	15
Cash	4,556	3,529	4	3
Other	-	-	-	-
<b>At 31 December</b>	<b>123,712</b>	136,235	<b>100</b>	100

During 2018, the Rathbone 1987 Scheme held shares in real time inflation-linked interest rate swap funds, which had a fair value of £15,734,000 at the year end (2017: £20,222,000). The value of these investments is expected to increase when the value of the scheme's liabilities increase (and vice versa). They therefore act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation. The funds are selected so that their average duration is intended to broadly align with the duration of the scheme's liabilities.

All equity and debt instruments have quoted prices in active markets. The majority of government bonds are issued by governments of the United Kingdom, the United States of America and Germany all of which are rated AAA, AA+ or AA, based on credit ratings awarded by Fitch Ratings Limited (Fitch) or Moody's Corporation (Moody's) as at the balance sheet date. Other scheme assets comprise commodities and property funds, both of which also have quoted prices in active markets.

The key assumptions affecting the results of the valuation are the discount rate, future inflation, mortality, the rate of members transferring out and the average age at the time of transferring out. In order to demonstrate the sensitivity of the results to these assumptions, the actuary has recalculated the defined benefit obligations for each scheme by varying each of these assumptions in isolation whilst leaving the other assumptions unchanged. For example, in order to demonstrate the sensitivity of the results to the discount rate, the actuary has recalculated the defined benefit obligations for each scheme using a discount rate that is 0.5% higher than used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations are set out below.

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% increase in:		
- discount rate	(13,717)	(9.4)
- rate of inflation	8,603	5.9
Reduce allowance for future transfers to nil	1,289	0.9
1 year increase to:		
- longevity at 60	5,645	3.9
- average age of members at the time of transferring out	642	0.4

The total contributions made by the group to the Rathbone 1987 Scheme during the year were £3,269,000 (2017: £3,694,000). Regular contribution to the Rathbone 1987 Scheme ceased with effect from 30 June 2017; in that year, regular contributions of £856,000 were made based on 20.3% of pensionable salaries and additional lump sum contributions of £2,838,000 were paid. The group has committed to pay deficit reducing contributions of £1,750,000 by 28 February each year from 2019 to 2022 (inclusive) and a further £1,000,000 by 31 August in each of those years, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2019.

The total contributions made by the group to the Laurence Keen Scheme during the year were £404,000 (2017: £nil). The group has committed to pay deficit reducing contributions of £168,000 by 28 February each year from 2019 to 2021 (inclusive) and a further £168,000 by 31 August in each of those years, so long as that scheme remains in deficit. Regular contributions to the Laurence Keen Scheme stopped with effect from 1 January 2015.

No allowance has been made for a minimum funding requirement under IFRIC 14. The funding plans only require further contributions if the schemes remain in deficit.

## 29 Share capital and share premium

The following movements in share capital occurred during the year:

	Number of shares	Exercise/ issue price pence	Share capital £'000	Share premium £'000	Total £'000
<b>At 1 January 2017</b>	<b>50,682,679</b>		<b>2,535</b>	<b>139,991</b>	<b>142,526</b>
Shares issued:					
- to Share Incentive Plan	86,671	1,784.0 - 2,611.0	4	1,725	1,729
- to Save As You Earn scheme	95,041	984.0 - 1,648.0	5	1,373	1,378
- to Employee Benefit Trust	437,683	5.0	22	-	22
<b>At 1 January 2018</b>	<b>51,302,074</b>		<b>2,566</b>	<b>143,089</b>	<b>145,655</b>
Shares issued:					
- in relation to business combinations (note 35)	<b>1,006,522</b>	<b>2,484.0</b>	<b>50</b>	<b>24,950</b>	<b>25,000</b>
- to Share Incentive Plan	<b>79,649</b>	<b>2,354.0 - 2,488.0</b>	<b>4</b>	<b>1,945</b>	<b>1,949</b>
- to Save As You Earn scheme	<b>149,340</b>	<b>1,106.0 - 1,648.0</b>	<b>7</b>	<b>2,050</b>	<b>2,057</b>
- to Employee Benefit Trust	<b>269,372</b>	<b>5.0</b>	<b>13</b>	<b>-</b>	<b>13</b>
- on placing	<b>2,400,000</b>	<b>2,500.0</b>	<b>120</b>	<b>58,189</b>	<b>58,309</b>
<b>At 31 December 2018</b>	<b>55,206,957</b>		<b>2,760</b>	<b>230,223</b>	<b>232,983</b>

The total number of issued and fully paid up ordinary shares at 31 December 2018 was 55,206,957 (2017: 51,302,074) with a par value of 5p per share.

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

On 18 June 2018, the company issued 2,400,000 shares by way of a placing for cash consideration at £25.00 per share, which raised £58,309,000, net of £1,691,000 placing costs, offset against share premium arising on the issue.

On 31 August 2018, the company issued 1,006,522 shares in respect of the initial share consideration from the acquisition of Speirs & Jeffrey (see note 35). These shares are being held in own shares (see note 30) until they vest on the third anniversary of issue.

### 30 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 January 2017	336,987	6,243
Acquired in the year	461,067	441
Released on vesting	(141,361)	(1,820)
<b>At 1 January 2018</b>	<b>656,693</b>	<b>4,864</b>
Acquired in the year	1,465,828	29,888
Released on vesting	(178,668)	(2,015)
<b>At 31 December 2018</b>	<b>1,943,853</b>	<b>32,737</b>

Own shares represent the cost of the company's own shares, either purchased in the market or issued by the company, that are held by the company or in an employee benefit trust to satisfy future awards under the group's share-based payment schemes (note 31). 664,071 shares were held in the Employee Benefit Trust at 31 December 2018 (2017: 382,751) and 273,260 (2017: 273,942) shares were held by the trustees of the Share Incentive Plan but were not unconditionally gifted to employees. A further 1,006,552 (2017: nil) shares were held in nominee in respect of the initial share consideration for the acquisition of Speirs & Jeffrey (see note 29).

### 31 Share-based payments

#### Share Incentive Plan

The group operates a Share Incentive Plan (SIP), which is available to all employees. Employees can contribute up to £150 per month to acquire partnership shares, which are purchased or allotted twice a year at the end of six month accumulation periods. The group currently matches employee contributions on a one-for-one basis to acquire matching shares.

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

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

As at 31 December 2018, the trustees of the SIP held 1,086,261 (2017: 1,092,120) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £25,440,000 (2017: £28,330,000). Of the total number of shares held by the trustees, 261,253 (2017: 263,165) have been conditionally gifted to employees and 12,007 (2017: 10,777) remain unallocated. Dividends on the unallocated shares have been waived by the trustees.

#### Savings-related share option or Save As You Earn (SAYE) plan

Under the SAYE plan, employees can contribute up to £500 per month to acquire shares at the end of a three or five year savings period.

Options with an aggregate estimated fair value of £668,000, determined using a binomial valuation model including expected dividends, were granted on 20 April 2018 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2018, as at the date of issue, were as follows:

	2018	2017
Share price (pence)	2,302	2,351
Exercise price (pence)	1,977	1,899
Expected volatility	20%	20%
Risk-free rate	1.0%	0.2%
Expected dividend yield	2.6%	2.4%

The number of share options outstanding for the SAYE plan at the end of the year, the period in which they were granted and the dates on which they may be exercised are given below.

Year of grant	Exercise price pence	Exercise period	2018 Number of share options	2017 Number of share options
2012	984.0	2017	-	-
2013	1,106.0	2018	-	74,868
2014	1,556.0	2019	57,005	59,415
2015	1,641.0	2018 and 2020	48,828	123,182
2016	1,648.0	2019 and 2021	131,598	141,034
2017	1,899.0	2020 and 2022	117,202	127,392
2018	1,977.0	2021 and 2023	146,746	-
<b>At 31 December</b>			<b>501,379</b>	<b>525,891</b>

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

	2018		2017	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
At 1 January	525,891	1,620.0	507,714	1,518.0
Granted in the year	156,588	1,977.0	130,745	1,899.0
Forfeited in the year	(31,240)	1,800.0	(17,520)	1,684.0
Exercised in the year	(149,860)	1,379.0	(95,048)	1,450.0
<b>At 31 December</b>	<b>501,379</b>	<b>1,800.0</b>	<b>525,891</b>	<b>1,620.0</b>

The weighted average share price at the dates of exercise for share options exercised during the year was £24.38 (2017: £25.72). The options outstanding at 31 December 2018 had a weighted average contractual life of 2.4 years (2017: 2.3 years) and a weighted average exercise price of £17.92 (2017: £16.20).

### Executive Incentive Plan

Details of the general terms of this plan are set out in the remuneration committee report on pages 82 to 87.

Under the remuneration policy, 40% of the total award will be given in cash with the remaining 60% of the award granted in shares. The group treats the cash element of the award as an employee benefit under IAS 19 and the share element of the award as an equity-settled share-based payment under IFRS 2.

### Staff Equity Plan

During 2018, the group launched a new remuneration scheme, Staff Equity Plan, for individuals within Rathbone Investment Management and Rathbone Investment Management International. The aim of the scheme is to promote increased equity interest in Rathbone Brothers Plc amongst employees.

Participants are granted awards under the plan in the form of an option with an exercise price of £nil. The option awards are subject to certain service and performance conditions. Following the satisfaction of these performance conditions, the awards will vest (or lapse) and become exercisable on the fifth anniversary of the grant date. The awards will be exercisable from the vesting date until the tenth anniversary of the grant date.

### Other schemes

The group operates a number of other plans for rewarding employees. Participants are granted awards under these plans in the form of options, which vest automatically on an anniversary of the grant date (generally between one and five years). As the intention is to settle the options in such plans in shares, the awards are treated as equity-settled share-based payments under IFRS 2.

The group recognised total expenses of £6,886,000 in relation to share-based payment transactions in 2018 (2017: £3,871,000) (see note 11).

### Speirs & Jeffrey share-based payments

Details of the general terms of share-based payments associated with the acquisition of Speirs & Jeffrey are set out in note 35.

## 32 Financial risk management

The group has identified the financial, business and operational risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the group risk committee report on pages 66 to 68.

The group categorises its financial risks into the following primary areas:

- (i) credit risk (which includes counterparty default risk);
- (ii) liquidity risk;
- (iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk); and
- (iv) pension risk.

The group's exposures to pension risk are set out in note 28.

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

The treasury department, reporting through the banking committee, has principal responsibility for monitoring exposure to credit risk, liquidity risk and market risk. Procedures and delegated authorities are documented in a group treasury manual and policy documents prescribe the management and monitoring of each type of risk. The primary objective of the group's treasury policy is to manage short term liquidity requirements whilst maintaining an appropriate level of exposure to other financial risks in accordance with the group's risk appetite.

### (i) Credit risk

The group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its banking, treasury, trust and financial planning activities. The principal source of credit risk arises from placing funds in the money market and holding interest-bearing securities. The group also has exposure to credit risk through its client loan book and guarantees given on clients' behalf.

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

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

The group categorises its exposures based on the long term ratings awarded to counterparties by Fitch or Moody's. Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the banking committee also utilises market intelligence information to assist its ongoing monitoring.

The group's financial assets are categorised as follows:

#### Balances with central banks (note 15)

The group has exposure to central banks through its deposits held with the Bank of England.

#### Loans and advances to banks (note 16) and debt and other securities (note 18)

The group has exposures to a wide range of financial institutions through its treasury portfolio, which includes bank deposits, certificates of deposit, money market funds and treasury bills. These exposures principally arise from the placement of clients' cash, where it is held under a banking relationship, and the group's own reserves.

Balances with central banks, loans and advances to banks and debt and other securities (excluding equity securities) are collectively referred to as the group's treasury book.

Treasury book	2018 £'000	2017 £'000
Balances with central banks	<b>1,198,600</b>	1,375,380
Loans and advances to banks – fixed deposits	<b>40,000</b>	41,427
Unlisted debt securities	<b>907,225</b>	701,966
Money market funds	<b>75,333</b>	106,747
<b>Gross amount</b>	<b>2,221,158</b>	2,225,520

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

#### Loans and advances to customers (note 17)

The group provides loans to clients through its investment management operations ('the investment management loan book'). The group is also exposed to credit risk on overdrafts on clients' investment management accounts, trade debtors arising from the trust, tax and financial planning businesses ('trust and financial planning debtors') and other debtors.

##### (a) Overdrafts

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

##### (b) Investment management loan book ("IM loan book")

Loans are provided as a service to investment management clients who are generally asset rich but have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name, and some loans may be partially secured by property. Extensions to the initial loan period may be granted subject to credit criteria.

At 31 December 2018, the total lending exposure limit for the investment management loan book was £200,000,000 (2017: £175,000,000), of which £131,071,000 had been advanced (2017: £120,433,000) and a further £32,854,000 had been committed (2017: £30,025,000).

##### (c) Trust and financial planning debtors

Trust and financial planning debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and financial planning debtors are reviewed on a monthly basis by the management committees of the group's trust and financial planning businesses.

##### (d) Other debtors

Other loans and advances to customers relate to management fees receivable.

#### Settlement balances

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

The Investment Management and Unit Trusts segments have exposure to market counterparties in the settlement of trades. Settlement balances arising in the Investment Management segment are primarily in relation to client trades and risk of non-settlement is borne by clients.



32 *Financial risk management continued*(i) *Credit risk continued*

Maximum exposure to credit risk

	2018 £'000	2017 £'000
<b>Credit risk relating to on-balance sheet exposures:</b>		
Cash and balances with central banks	<b>1,198,602</b>	1,375,380
Settlement balances	<b>39,754</b>	46,784
Loans and advances to banks	<b>166,203</b>	117,253
Loans and advances to customers:		
– overdrafts	<b>6,096</b>	4,621
– investment management loan book	<b>131,741</b>	120,509
– trust and financial planning debtors	<b>1,196</b>	1,114
– other debtors	<b>29</b>	35
Investment securities:		
– unlisted debt securities and money market funds	<b>982,595</b>	808,713
Other financial assets	<b>74,990</b>	71,562
<b>Credit risk relating to off-balance sheet exposures:</b>		
Loan commitments	<b>32,854</b>	30,025
Financial guarantees (note 34)	<b>117</b>	117
	<b>2,634,177</b>	2,576,113

The above table represents the group's gross credit risk exposure at 31 December 2018 and 2017, without taking account of any associated collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

11.6% of the total maximum exposure is derived from loans and advances to banks and customers (2017: 9.5%) and 37.3% represents investment securities (2017: 31.4%).

The credit risk relating to off-balance sheet exposures for financial guarantees reflects the group's gross potential exposure of guarantees held on balance sheet (see note 1.21).

**Impairment of financial instruments**

The group's accounting policy governing impairment of financial assets is given in note 1.12. Impairment losses on financial assets recognised in profit or loss were as follows.

	2018 £'000	2017 £'000
Impairment losses/(reversals) arising from:		
– treasury book	<b>33</b>	-
– investment management loan book	<b>10</b>	-
– trust and pension debtors	<b>23</b>	(25)
	<b>66</b>	(25)

### Expected credit loss assessment

At each reporting date, for both the treasury book and investment management loan book, the group assesses whether there has been a significant increase in credit risk of exposures since initial recognition, by comparing the change in the risk of a default occurring over the expected life of the instrument between the reporting date and the date of initial recognition. The following criteria are used to identify significant increases in credit risk and are monitored and reviewed periodically for appropriateness by the treasury team.

### Qualitative indicators

The group periodically monitors its exposures and uses a set of defined criteria to flag any counterparties that may be experiencing financial difficulties. Such exposures are added to a watch list maintained by the treasury team. These are considered to have experienced a significant increase in credit risk and are classified as 'Stage 2' on which a lifetime ECL is recognised.

### Quantitative indicators

The lifetime probability of default at the reporting date is compared to the original lifetime probability of default at initial recognition and if the difference exceeds a predefined threshold (for the current analysis this threshold is set at 50% of the value at initial recognition) the exposure is moved to stage 2.

Probability of defaults used for identifying significant increases in credit risk for staging purposes are calculated using the same methodology and data used for estimating probability of defaults for the purpose of measuring expected credit losses.

The 30 days past due backstop indicator has not been rebutted by the group, albeit it is not a significant driver of stage movements as the opportunity for a counterparty to miss payment is low due to the fact that over the life of exposure, any interest and or principal is directly debited from the counterparty's investment balance and investment income which is in turn held as collateral under the bank's custody.

Materially all exposures in both the treasury book and IM loan book follow a bullet repayment structure; therefore, the exposure at any point in time reflects the outstanding balance of the instrument at that point in time.

### Definition of default

The group considers an investment management loan book exposure to be in default when a client fails to respond to three sets of default notices (every 30 days for a period of 90 days). A treasury book exposure is deemed to be in default when a payment is past due by more than one working day (grace period).

### Probability of default (PD)

The group uses a lifetime PD for each exposure, which is the probability-weighted result of considering three economic scenarios; a base case, an upside and a downside scenario. These scenarios include the forecast of the macroeconomic factors that have been identified as relevant to the Bank's exposures, namely GDP and UK unemployment rates, are incorporated into the estimation of lifetime PDs.

The methodology for estimating lifetime PDs and adjustments for macroeconomic scenarios used for identifying significant increases in credit risk are as follows:

### Treasury book assessment

The 12-month PD for each exposure is initially estimated as the historical 12-month PD sourced from Standard & Poors, by credit rating and country of exposure. In order to estimate the PDs occurring over the lifetime of an underlying exposure, the group applies its expectations of future progression in point in time ("PiT") default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to treasury assets, namely UK GDP, UK unemployment rates, UK inflation and UK interest rates.

Loss given default (LGD) for treasury book assets is dependent on the nature of the counterparty and the region in which the instrument was issued. For Sovereign exposures, the group applies a flat LGD rate, which is externally sourced from Moody's most recent 'Sovereign Default and Recovery Rates' research statistics, by country of issuer. For unsecured Corporate exposures, a time series of historical corporate recovery rates is sourced from Moody's annual publication on 'Corporate Defaults and Recovery' rates.

32 *Financial risk management continued*(i) *Credit risk continued*

The following table presents an analysis of the credit quality of treasury book exposures at amortised cost and FVTPL (2017: held-to-maturity, available-for-sale and loans and receivables). It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired:

	2018				2017		
	Fair value through profit or loss £'000	At amortised cost			Loans and receivables £'000	Available-for-sale £'000	Held-to-maturity £'000
		12-month ECL £'000	Lifetime ECL - not credit-impaired £'000	Lifetime ECL - credit-impaired £'000			
AAA	75,333	-	-	-	-	106,747	-
AA+ to AA-	-	1,655,155	-	-	1,375,380	-	264,569
A+ to A-	-	490,704	-	-	41,183	-	437,397
Gross carrying amounts	75,333	2,145,859	-	-	1,416,563	106,747	701,966
Loss allowance	-	(159)	-	-	-	-	-
<b>Carrying amount</b>	<b>75,333</b>	<b>2,145,700</b>	-	-	<b>1,416,563</b>	<b>106,747</b>	<b>701,966</b>
Cash and balances with central banks	-	1,198,478	-	-	1,375,380	-	-
Loans and advances to banks	-	39,997	-	-	41,183	-	-
Unlisted debt securities	-	907,225	-	-	-	-	701,966
Money market funds	75,333	-	-	-	-	106,747	-
<b>Carrying amount</b>	<b>75,333</b>	<b>2,145,700</b>	-	-	<b>1,416,563</b>	<b>106,747</b>	<b>701,966</b>

The movement in allowance for impairment for the treasury book during the year was as follows. Comparative amounts for 2017 represents the allowance for impairment losses under IAS 39.

	2018				2017	
	12-month ECL £'000	Lifetime ECL - not credit-impaired £'000	Lifetime ECL - credit-impaired £'000	Total ECL £'000	Impaired £'000	
Balance at 31 December	-	-	-	-	-	
IFRS 9 opening adjustment	-	-	-	126	-	
Balance at 1 January	126	-	-	126	-	
Net remeasurement of loss allowance	33	-	-	33	-	
<b>Balance at 31 December</b>	<b>159</b>	-	-	<b>159</b>	-	
Cash and balances with central banks	122	-	-	122	-	
Loans and advances to banks	3	-	-	3	-	
Unlisted debt securities	34	-	-	34	-	
<b>ECL provision</b>	<b>159</b>	-	-	<b>159</b>	-	

The reason for the increase in the loss allowance during 2018 is that, despite the reduction in the gross amount held with the Bank of England, the 12-month PD increased during the year, driven by small changes in macroeconomic factors.

**IM loan book assessment**

Due to the lack of historical defaults within the IM loan book, the model (see note 1.12) uses publicly available default data for UK secured lending as a starting point in order to obtain an initial estimate for PD. The 12-month PD is estimated as the historical long term default rate on lending in the UK as sourced from the Council of Mortgage Lending ("CML").

In order to estimate the PDs occurring over the lifetime of an underlying exposure, the group develops its expectations of future progression in PiT default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to the Bank's Lending portfolio, namely UK GDP ("GDP") and UK unemployment rates ("UR").

In order to develop and apply such forward looking expectations, a historical relationship between PD, GDP and UR is estimated statistically through a multi-factor regression analysis of past movements between these variables. The relationship resulting from this analysis reflects the relative quantitative behaviour of the regressed macroeconomic factors against PD.

Using the calculated 12-month PiT PD as a starting point, conditional PDs for each future period within the period of exposure are estimated by applying the GDP and UR coefficients to the group's forecasts of UK GDP and UK UR respectively, as sourced from International Monetary Fund ("IMF") forecast data. This analysis forms the base case scenario for estimating lifetime PD's. The same methodology is applied for separate upside and downside scenarios as required by the standard.

The following table presents an analysis of the credit quality of IM loan book exposures at amortised cost (2017: loans and receivables). It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	2018			2017
	At amortised cost			Loans and receivables £'000
	12-month ECL £'000	Lifetime ECL - not credit-impaired £'000	Lifetime ECL - credit-impaired £'000	
Very low	16,730	-	-	
Low	92,215	680	-	
Medium	20,743	-	-	
High	40	660	-	
Gross carrying amounts	129,728	1,340	-	120,509
Loss allowance	(11)	-	-	-
<b>Carrying amount</b>	<b>129,717</b>	<b>1,340</b>	<b>-</b>	<b>120,509</b>

The movement in allowance for impairment for the IM loan book during the year was as follows. Comparative amounts for 2017 represents the allowance for impairment losses under IAS 39.

	2018				2017
	12-month ECL £'000	Lifetime ECL - not credit-impaired £'000	Lifetime ECL - credit-impaired £'000	Total ECL £'000	Impaired £'000
Balance at 31 December				-	
IFRS 9 opening adjustment				1	
Balance at 1 January	1	-	-	1	-
Net remeasurement of loss allowance	10			10	
<b>Balance at 31 December</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>

#### Trust and financial planning debtors assessment

The group uses a provision matrix to measure the ECLs of trust and financial planning debtors, which comprise a large number of small balances. For such debts, a normal settlement period of up to 30 days is expected.

The following table provides information about the exposure to credit risk and ECLs for trust and financial planning debtors as at 31 December 2018:

	2018 £'000	2017 £'000
Rathbone Trust Company	734	804
Rathbone Trust & Legal Services	415	245
Rathbone Financial Planning	47	65
Gross carrying amounts (2017: amortised cost before impairment)	1,196	1,114
Loss allowance	(92)	(66)
<b>Carrying amount</b>	<b>1,104</b>	<b>1,048</b>

32 *Financial risk management continued*(i) *Credit risk continued*

Rathbone Trust Company	Weighted average loss rate	Gross carrying amount £'000	Loss allowance		Total £'000
			Not credit impaired £'000	Credit impaired £'000	
<90 days overdue	0.1%	485	(1)	-	(1)
90-180 days overdue	0.7%	60	-	-	-
180-270 days overdue	1.3%	71	(1)	-	(1)
270-365 days overdue	2.0%	67	-	(62)	(62)
>365 days overdue	29.0%	51	(10)	(17)	(27)
		734	(12)	(79)	(91)

Rathbone Trust & Legal Services	Weighted average loss rate	Gross carrying amount £'000	Loss allowance		Total £'000
			Not credit impaired £'000	Credit impaired £'000	
<90 days overdue	0.0%	389	-	-	-
90-180 days overdue	0.0%	18	-	-	-
180-270 days overdue	0.0%	5	-	-	-
270-365 days overdue	0.0%	1	-	-	-
>365 days overdue	0.0%	2	-	(1)	(1)
		415	-	(1)	(1)

The movement in allowance for impairment in respect of trust and financial planning debtors during the year is set out below. Comparative amounts for 2017 represents the allowance for impairment losses under IAS 39.

Movement in impairment provision during the year	Trust and financial planning debtors £'000
At 31 December 2017	66
IFRS 9 opening adjustment	21
<b>At 1 January 2018</b>	<b>87</b>
Amounts written off	(18)
Credit to profit or loss	23
<b>At 31 December 2018</b>	<b>92</b>

## Concentration of credit risk

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

### (a) Geographical sectors

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

	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
At 31 December 2018				
Cash and balances with central banks	1,198,478	-	-	1,198,478
Settlement balances	35,781	3,412	561	39,754
Loans and advances to banks	164,438	1,754	8	166,200
Loans and advances to customers:				
- overdrafts	5,529	67	500	6,096
- investment management loan book	122,522	191	9,017	131,730
- trust and financial planning debtors	1,104	-	-	1,104
- other debtors	29	-	-	29
Investment securities:				
- unlisted debt securities and money market funds	159,991	358,172	464,395	982,558
Other financial assets	65,463	2,058	2,977	70,498
	<b>1,753,335</b>	<b>365,654</b>	<b>477,458</b>	<b>2,596,447</b>
At 31 December 2017				
Cash and balances with central banks	1,375,380	-	-	1,375,380
Settlement balances	43,688	1,211	1,885	46,784
Loans and advances to banks	113,225	4,028	-	117,253
Loans and advances to customers:				
overdrafts	4,295	68	258	4,621
investment management loan book	112,286	269	7,954	120,509
trust and financial planning debtors	1,048	-	-	1,048
other debtors	35	-	-	35
Investment securities:				
unlisted debt securities and money market funds	205,000	306,751	296,962	808,713
Other financial assets	63,238	1,076	1,385	65,699
	<b>1,918,195</b>	<b>313,403</b>	<b>308,444</b>	<b>2,540,042</b>

At 31 December 2018, materially all eurozone exposures were to counterparties based in the Netherlands, France, Finland, Ireland and Luxembourg (2017: Netherlands and France) and materially all rest of the world exposures were to counterparties based in Switzerland, Sweden, Norway, Canada and Australia (2017: Switzerland, Sweden, Canada and Australia). At 31 December 2018, the group had no exposure to sovereign debt (2017: no exposure to sovereign debt).



32 *Financial risk management continued*(i) *Credit risk continued*

## (b) Industry sectors

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

At 31 December 2018	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	1,198,477	1	-	1,198,478
Settlement balances	-	39,674	80	39,754
Loans and advances to banks	-	166,200	-	166,200
Loans and advances to customers:				
- overdrafts	-	-	6,096	6,096
- investment management loan book	-	-	131,730	131,730
- trust and financial planning debtors	-	-	1,104	1,104
- other debtors	-	-	29	29
Investment securities:				
- unlisted debt securities and money market funds	-	982,558	-	982,558
Other financial assets	295	4,781	65,422	70,498
	<b>1,198,772</b>	<b>1,193,214</b>	<b>204,461</b>	<b>2,596,447</b>

At 31 December 2017	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	1,375,380	-	-	1,375,380
Settlement balances	-	46,784	-	46,784
Loans and advances to banks	-	117,253	-	117,253
Loans and advances to customers:				
- overdrafts	-	-	4,621	4,621
- investment management loan book	-	-	120,509	120,509
- trust and financial planning debtors	-	-	1,048	1,048
- other debtors	-	-	35	35
Investment securities:				
- unlisted debt securities and money market funds	-	808,713	-	808,713
Other financial assets	1,138	2,578	61,983	65,699
	<b>1,376,518</b>	<b>975,328</b>	<b>188,196</b>	<b>2,540,042</b>

(ii) *Liquidity risk*

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

The primary objective of the group's treasury policy is to manage short to medium term liquidity requirements. In addition to setting the treasury policy, Rathbone Investment Management ('the Bank') performs an annual assessment of liquidity adequacy in accordance with the regulatory requirements of the Prudential Regulation Authority (PRA) (our Individual Liquidity Adequacy Assessment). The Bank faces two principal risks, namely that a significant proportion of client funds are withdrawn over a short period of time (retail funding risk) and the risk that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

Retail funding risks are monitored by daily cash mismatch analyses and Basel Committee ratios using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market wide stresses. Marketable assets risk is primarily managed by holding cash and marketable instruments which are realisable at short notice. The group operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the board at least annually in conjunction with an amount prescribed by the PRA.

### Non-derivative cash flows

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

	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
<b>At 31 December 2018</b>							
Cash and balances with central banks	1,197,001	295	1,600	-	-	-	1,198,896
Settlement balances	-	39,754	-	-	-	-	39,754
Loans and advances to banks	126,073	10,512	30,333	-	-	-	166,918
Loans and advances to customers	6,796	21,638	51,097	64,582	-	-	144,113
Debt securities and money market funds	75,436	309,666	605,562	-	-	-	990,664
Other financial assets	406	59,090	3,871	4,348	2,295	-	70,010
<b>Cash flows arising from financial assets</b>	<b>1,405,712</b>	<b>440,955</b>	<b>692,463</b>	<b>68,930</b>	<b>2,295</b>	<b>-</b>	<b>2,610,355</b>
Deposits by banks	491	-	-	-	-	-	491
Settlement balances	-	36,692	-	-	-	-	36,692
Due to customers	2,065,029	153,229	7,422	-	-	-	2,225,680
Subordinated loan notes	-	586	586	21,171	-	-	22,343
Other financial liabilities	139	47,199	7,803	28,682	6,799	-	90,622
<b>Cash flows arising from financial liabilities</b>	<b>2,065,659</b>	<b>237,706</b>	<b>15,811</b>	<b>49,853</b>	<b>6,799</b>	<b>-</b>	<b>2,375,828</b>
<b>Net liquidity gap</b>	<b>(659,947)</b>	<b>203,249</b>	<b>676,652</b>	<b>19,077</b>	<b>(4,504)</b>	<b>-</b>	<b>234,527</b>
<b>Cumulative net liquidity gap</b>	<b>(659,947)</b>	<b>(456,698)</b>	<b>219,954</b>	<b>239,031</b>	<b>234,527</b>	<b>234,527</b>	
<b>At 31 December 2017</b>							
Cash and balances with central banks	1,374,002	1,138	1,380	-	-	-	1,376,520
Settlement balances	-	46,785	-	-	-	-	46,785
Loans and advances to banks	75,826	11,490	30,577	-	-	-	117,893
Loans and advances to customers	4,733	13,407	43,304	70,450	-	-	131,894
Debt securities and money market funds	106,816	263,385	442,503	-	-	-	812,704
Other financial assets	110	60,859	640	3,435	2,819	-	67,863
<b>Cash flows arising from financial assets</b>	<b>1,561,487</b>	<b>397,064</b>	<b>518,404</b>	<b>73,885</b>	<b>2,819</b>	<b>-</b>	<b>2,553,659</b>
Deposits by banks	1,338	-	-	-	-	-	1,338
Settlement balances	-	54,452	-	-	-	-	54,452
Due to customers	2,081,805	83,469	5,306	-	-	-	2,170,580
Subordinated loan notes	-	586	586	22,342	-	-	23,514
Other financial liabilities	1,192	52,612	3,587	38,023	5,985	-	101,399
<b>Cash flows arising from financial liabilities</b>	<b>2,084,335</b>	<b>191,119</b>	<b>9,479</b>	<b>60,365</b>	<b>5,985</b>	<b>-</b>	<b>2,351,283</b>
<b>Net liquidity gap</b>	<b>(522,848)</b>	<b>205,945</b>	<b>508,925</b>	<b>13,520</b>	<b>(3,166)</b>	<b>-</b>	<b>202,376</b>
<b>Cumulative net liquidity gap</b>	<b>(522,848)</b>	<b>(316,903)</b>	<b>192,022</b>	<b>205,542</b>	<b>202,376</b>	<b>202,376</b>	

Included in 'Other financial liabilities' as at 31 December 2017 were cash flows for lease payments under the group's agreement for leased space at 1 Curzon Street. These contractual payments comprised part of the onerous lease provision for that property (see note 26).

## 32 Financial risk management continued

### (ii) Liquidity risk continued

Liabilities which do not have a contractual maturity date are categorised as 'on demand'. Included within the amounts due to customers on demand are balances which historical experience shows are unlikely to be called in the short term. A prudent level of highly liquid assets is retained to cover reasonably foreseeable short term changes in client deposits. All debt securities are readily marketable and can be realised through disposals.

The group holds £3,205,000 of equity investments (2017: £2,565,000) which are subject to liquidity risk but are not included in the table above. These assets are held as fair value through profit or loss securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

### (iii) Market risk

#### Off-balance sheet items

Cash flows arising from the group's off-balance sheet financial liabilities (note 34) are summarised in the table below.

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

	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2018					
Loan commitments	32,854	-	-	-	32,854
Financial guarantees	-	-	117	-	117
Operating lease commitments	2,037	6,216	29,958	52,337	90,548
Capital commitments	603	-	-	-	603
<b>Total off-balance sheet items</b>	<b>35,494</b>	<b>6,216</b>	<b>30,075</b>	<b>52,337</b>	<b>124,122</b>

	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2017					
Loan commitments	30,025	-	-	-	30,025
Financial guarantees	-	-	117	-	117
Operating lease commitments	712	3,817	28,780	57,293	90,602
Capital commitments	48	-	-	-	48
<b>Total off-balance sheet items</b>	<b>30,785</b>	<b>3,817</b>	<b>28,897</b>	<b>57,293</b>	<b>120,792</b>

#### Total liquidity requirement

	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2018						
Cash flows arising from financial liabilities	2,065,659	237,706	15,811	49,853	6,799	2,375,828
Total off-balance sheet items	-	35,494	6,216	30,075	52,337	124,122
<b>Total liquidity requirement</b>	<b>2,065,659</b>	<b>273,200</b>	<b>22,027</b>	<b>79,928</b>	<b>59,136</b>	<b>2,499,950</b>

	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2017						
Cash flows arising from financial liabilities	2,084,335	191,119	9,479	60,365	5,985	2,351,283
Total off-balance sheet items	-	30,785	3,817	28,897	57,293	120,792
<b>Total liquidity requirement</b>	<b>2,084,335</b>	<b>221,904</b>	<b>13,296</b>	<b>89,262</b>	<b>63,278</b>	<b>2,472,075</b>

## Interest rate risk

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

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

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

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
<b>Assets</b>							
Cash and balances with central banks	1,196,878	-	-	-	-	1,601	1,198,479
Settlement balances	-	-	-	-	-	39,754	39,754
Loans and advances to banks	135,856	9,999	19,997	-	-	348	166,200
Loans and advances to customers	137,803	-	-	-	-	1,156	138,959
Investment securities:							
- equity securities	-	-	-	-	-	4,464	4,464
- unlisted debt securities and money market funds	382,589	174,993	424,976	-	-	-	982,558
Other financial assets	5,916	-	-	-	-	64,582	70,498
<b>Total financial assets</b>	<b>1,859,042</b>	<b>184,992</b>	<b>444,973</b>	<b>-</b>	<b>-</b>	<b>111,905</b>	<b>2,600,912</b>
<b>Liabilities</b>							
Deposits by banks	491	-	-	-	-	-	491
Settlement balances	-	-	-	-	-	36,692	36,692
Due to customers	2,188,761	7,380	-	-	-	29,395	2,225,536
Subordinated loan notes	-	-	-	19,807	-	-	19,807
Other financial liabilities	-	-	-	-	-	72,278	72,278
<b>Total financial liabilities</b>	<b>2,189,252</b>	<b>7,380</b>	<b>-</b>	<b>19,807</b>	<b>-</b>	<b>138,365</b>	<b>2,354,804</b>
<b>Interest rate repricing gap</b>	<b>(330,210)</b>	<b>177,612</b>	<b>444,973</b>	<b>(19,807)</b>	<b>-</b>	<b>(26,460)</b>	<b>246,108</b>

32 *Financial risk management continued*(iii) *Market risk continued*

At 31 December 2017	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non- interest- bearing £'000	Total £'000
<b>Assets</b>							
Cash and balances with central banks	1,374,000	-	-	-	-	1,382	1,375,382
Settlement balances	-	-	-	-	-	46,784	46,784
Loans and advances to banks	86,673	244	30,000	-	-	336	117,253
Loans and advances to customers	125,046	-	-	-	-	1,167	126,213
Investment securities:							
- equity securities	-	-	-	-	-	2,565	2,565
- unlisted debt securities and money market funds	368,708	85,005	355,000	-	-	-	808,713
Other financial assets	-	-	-	-	-	65,699	65,699
<b>Total financial assets</b>	<b>1,954,427</b>	<b>85,249</b>	<b>385,000</b>	<b>-</b>	<b>-</b>	<b>117,933</b>	<b>2,542,609</b>
<b>Liabilities</b>							
Deposits by banks	1,338	-	-	-	-	-	1,338
Settlement balances	-	-	-	-	-	54,452	54,452
Due to customers	2,139,188	5,285	-	-	-	26,025	2,170,498
Subordinated loan notes	-	-	-	19,695	-	-	19,695
Other financial liabilities	-	-	-	-	42	81,694	81,736
<b>Total financial liabilities</b>	<b>2,140,526</b>	<b>5,285</b>	<b>-</b>	<b>19,695</b>	<b>42</b>	<b>162,171</b>	<b>2,327,719</b>
<b>Interest rate repricing gap</b>	<b>(186,099)</b>	<b>79,964</b>	<b>385,000</b>	<b>(19,695)</b>	<b>(42)</b>	<b>(44,238)</b>	<b>214,890</b>

The banking committee has set an overall pre-tax interest rate exposure limit of £7,000,000 (2017: £6,000,000) for the total potential profit or loss resulting from an unexpected immediate and sustained 2% movement in sterling interest rates for the Bank, the principal operating subsidiary. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest-bearing liabilities compared with the period to repricing on a corresponding amount of interest-bearing assets.

At 31 December 2018, the Bank had a net present value sensitivity of £6,068,000 (2017: £4,310,000) for an upward 2% shift in rates. The group held no forward rate agreements at 31 December 2018 (2017: none).

### Foreign exchange risk

The group is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to foreign exchange rate fluctuations. The group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time-to-time, so as to reduce any currency exposure to a minimal amount. The group has no structural foreign currency exposure.

The group does not have any material exposure to transactional foreign exchange risk. The table below summarises the group's exposure to foreign currency translation risk at 31 December 2018. Included in the table are the group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2018	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
<b>Assets</b>					
Cash and balances with central banks	1,198,479	-	-	-	1,198,479
Settlement balances	38,860	592	100	202	39,754
Loans and advances to banks	110,361	25,781	22,270	7,788	166,200
Loans and advances to customers	130,580	5,128	3,231	20	138,959
Investment securities:					
- equity securities	3,205	-	1,259	-	4,464
- unlisted debt securities and money market funds	907,967	74,591	-	-	982,558
Other financial assets	69,287	566	95	550	70,498
<b>Total financial assets</b>	<b>2,458,739</b>	<b>106,658</b>	<b>26,955</b>	<b>8,560</b>	<b>2,600,912</b>
<b>Liabilities</b>					
Deposits by banks	-	-	375	116	491
Settlement balances	35,818	432	7	435	36,692
Due to customers	2,088,485	105,126	24,655	7,270	2,225,536
Subordinated loan notes	19,807	-	-	-	19,807
Other financial liabilities	72,097	73	106	2	72,278
<b>Total financial liabilities</b>	<b>2,216,207</b>	<b>105,631</b>	<b>25,143</b>	<b>7,823</b>	<b>2,354,804</b>
<b>Net on-balance sheet position</b>	<b>242,532</b>	<b>1,027</b>	<b>1,812</b>	<b>737</b>	<b>246,108</b>
<b>Loan commitments</b>	<b>32,854</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,854</b>

At 31 December 2017	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
<b>Assets</b>					
Cash and balances with central banks	1,375,382	-	-	-	1,375,382
Settlement balances	46,166	465	-	153	46,784
Loans and advances to banks	80,727	15,363	13,946	7,217	117,253
Loans and advances to customers	118,591	4,482	3,140	-	126,213
Investment securities:					
- equity securities	2,565	-	-	-	2,565
- unlisted debt securities and money market funds	720,005	88,708	-	-	808,713
Other financial assets	65,242	341	61	55	65,699
<b>Total financial assets</b>	<b>2,408,678</b>	<b>109,359</b>	<b>17,147</b>	<b>7,425</b>	<b>2,542,609</b>
<b>Liabilities</b>					
Deposits by banks	1,338	-	-	-	1,338
Settlement balances	52,431	950	958	113	54,452
Due to customers	2,039,156	109,453	14,773	7,116	2,170,498
Subordinated loan notes	19,695	-	-	-	19,695
Other financial liabilities	81,580	26	130	-	81,736
<b>Total financial liabilities</b>	<b>2,194,200</b>	<b>110,429</b>	<b>15,861</b>	<b>7,229</b>	<b>2,327,719</b>
<b>Net on-balance sheet position</b>	<b>214,478</b>	<b>(1,070)</b>	<b>1,286</b>	<b>196</b>	<b>214,890</b>
<b>Loan commitments</b>	<b>31,642</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,642</b>

A 10% weakening of the US dollar against sterling, occurring on 31 December 2018, would have reduced equity and profit after tax by £83,000 (2017: reduced by £86,000). A 10% weakening of the euro against sterling, occurring on 31 December 2018, would have increased equity and profit after tax by £147,000 (2017: reduced by £104,000). A 10% strengthening of the US dollar or euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.



## 32 Financial risk management continued

### (iii) Market risk continued

#### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The group is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 18).

At 31 December 2018, the fair value of equity securities recognised on the balance sheet was £3,205,000 (2017: £2,565,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax decrease to net assets of £133,000 (2017: £133,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

#### Fair values

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

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

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Fair value through profit or loss:				
– equity securities	3,205	–	1,259	4,464
– money market funds	–	75,333	–	75,333
	<b>3,205</b>	<b>75,333</b>	<b>1,259</b>	<b>79,797</b>

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
– equity securities	2,565	–	–	2,565
– money market funds	–	106,747	–	106,747
	<b>2,565</b>	<b>106,747</b>	<b>–</b>	<b>109,312</b>

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2017: none).

The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of the following:

- Investment debt securities measured at amortised cost (note 18) comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2018 was £911,190,000 (2017: £704,002,000) and the carrying value was £907,259,000 (2017: £701,966,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes (note 27) comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2018 was £20,217,000 (2017: £20,478,000) and the carrying value was £19,807,000 (2017: £19,695,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

### Level 3 financial instruments

#### Fair value through profit or loss

As part of the acquisition of Speirs & Jeffrey, the group acquired 1,809 shares in Euroclear Holdings SA, which are classed as level 3 in the fair value hierarchy since no observable market data is available. The fair value of these shares is calculated by reference to the last buy back event on 23 May 2017, when shares were sold at €774. The valuation at the balance sheet date has been adjusted for movements in exchange rates since the acquisition date. A 10% weakening of the euro against sterling, occurring on 31 December 2018, would have reduced equity and profit after tax by £102,000 (2017: £nil). A 10% strengthening of the euro against sterling would have an equal and opposite effect.

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2018 £'000	2017 £'000
At 1 January	-	-
Acquired in the year (note 35)	1,254	-
Total unrealised gains recognised in profit or loss	5	-
At 31 December	1,259	-

The gain relating to the fair value through profit or loss equity securities is included within 'other operating income' in the consolidated statement of comprehensive income.

There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

## 33 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as total equity. As at 31 December 2018 this totalled £464,140,000 (2017: £363,278,000).

Rathbone Investment Management has issued 10 year subordinated Tier 2 loan notes (note 27). As at 31 December 2018, the carrying value of the notes was £19,675,000 (2017: £19,590,000). From time to time, the group also runs small overnight overdraft balances as part of working capital.

The group's objectives when managing capital are to:

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

Rathbones is classified for capital purposes as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP), which is presented to the PRA on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with published rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the PRA's Pillar 1 and Pillar 2 methodology. The group has adopted the standardised approach to calculating its Pillar 1 credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both group and entity level.

At 31 December 2018 the group's regulatory capital resources, including retained earnings for 2018, were £251,329,000 (2017: £216,838,000). The increase in reserves during 2018 is due an increase in the group's retained earnings on account of profits generated in the year and the gain on remeasurement of the defined benefit liabilities.

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

No breaches were reported to the PRA during the financial years ended 31 December 2017 and 2018.

The group has not applied transitional relief in recognising expected credit losses (ECLs) in regulatory capital resources. As such, there is no difference between accounting ECLs and regulatory capital ECLs.

### 34 Contingent liabilities and commitments

- (a) Capital expenditure authorised and contracted for at 31 December 2018 but not provided in the financial statements amounted to £603,000 (2017: £48,000).
- (b) The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	2018 £'000	2017 £'000
<b>Guarantees</b>	<b>117</b>	117
Undrawn commitments to lend of 1 year or less	<b>26,803</b>	20,985
Undrawn commitments to lend of more than 1 year	<b>6,051</b>	9,040
	<b>32,971</b>	30,142

The fair value of the guarantees is £nil (2017: £nil).

- (c) The group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. At 31 December 2018, the group's agreements to lease space at 8 Finsbury Circus had remaining lease terms of 14 years; total payments due over this period are £74,134,000. The leases provide for rent reviews every 5 years.

<b>Payments under non-cancellable operating leases</b>	2018 £'000	2017 £'000
No later than 1 year	<b>8,253</b>	4,529
Later than 1 year and no later than 5 years	<b>29,958</b>	28,780
Later than 5 years	<b>52,337</b>	57,293
	<b>90,548</b>	90,602

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

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The group contributes to the deposit class, investment fund management class and investment intermediation levy classes and accrues levy costs for future levy years when the obligation arises.

### 35 Business combinations

#### Speirs & Jeffrey

On 31 August 2018, the group acquired 100% of the ordinary share capital of Speirs & Jeffrey Limited ('Speirs & Jeffrey').

Speirs & Jeffrey has operated as an independent investment management firm for over a century and has established many long term client relationships, with nearly three quarters of clients having been with the company for over 10 years. All of Speirs & Jeffrey's current directors and investment managers have joined the group.

The acquisition of Speirs & Jeffrey will enable Rathbones to establish a much stronger presence in Scotland, with Glasgow becoming the group's largest office after London following the transaction. In turn, Speirs & Jeffrey's clients will benefit from access to Rathbones' broader product and service offering including lending, financial planning and dedicated specialist offerings such as Rathbones' charities team and ethical investment capability.

The group expects to capture scale benefits from ongoing investment in technology and the management of regulatory change for the benefit of its clients, staff and shareholders. Meaningful revenue synergies are expected to be achieved over time by leveraging the strength of Rathbones' brand and complementary product offering and aligning the Speirs & Jeffrey service proposition with that of Rathbones.

## Consideration transferred

The following table summarises the acquisition date fair value of each class of consideration transferred:

	£'000
Cash consideration	<b>88,374</b>
Contingent consideration (see below)	<b>1,050</b>
<b>Total consideration</b>	<b>89,424</b>

Cash consideration comprises an initial cash payment of £78,725,000, paid on 31 August 2018, and a payment for regulatory capital surplus of £9,649,000, paid in two parts on 31 August 2018 and 25 October 2018.

## Contingent consideration

Contingent consideration of £1,050,000 is payable during 2019 to vendors who are not required to remain in employment with the group. The payment is subject to performance against certain operational targets, and is either payable in full or not at all, dependent on whether the targets are met. The amount capitalised represents the maximum amount payable, as the group believe the targets will be met.

As the payment is due within one year, the consideration has not been discounted. The contingent consideration payment will be made 100% in shares.

## Other deferred payments

The sale and purchase agreement details other deferred and contingent payments to be made to vendors for the sale of the shares of Speirs and Jeffrey. However, these payments require the vendors to remain in employment with the group for the duration of the respective deferral periods. Hence, they are being treated as remuneration for post-combination services and the cost charged to profit and loss over the respective vesting periods. Details of each of these elements is as follows:

	Gross amount £'000	Grant date	Grant date fair value £'000	Expected vesting date
<b>Initial share consideration</b>	<b>25,000</b>	<b>31 August 2018</b>	<b>23,462</b>	<b>31 August 2021</b>
<b>Contingent consideration</b>	<b>13,950</b>	<b>31 August 2018</b>	<b>14,036</b>	<b>31 March 2019</b>
<b>Earn Out consideration</b>	<b>16,320</b>	<b>31 August 2018</b>	<b>16,570</b>	<b>31 December 2020/21</b>

All of these payments are to be made 100% in shares and are being accounted for as equity-settled share-based payments under IFRS 2.

- Initial share consideration of £25,000,000 was payable on completion. However, although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date.
- Contingent consideration of £13,950,000 is payable subject to the performance against the same operational targets described above, as well as the vendors remaining in employment with the group until the targets are met.
- Earn Out consideration of £16,320,000 is payable in two parts in the third and fourth years following the acquisition date. Payment is subject to the delivery of certain operational and financial performance targets. The gross amount represents management's best estimate as to the extent to which these targets will be achieved. The maximum amount payable under this element, which represents a considerable stretch against the targets, is £98,210,000.

Incentive plans are also in place for non-sellers, which are subject to the same operational and financial performance targets as the earn out consideration for the vendors.

**35 Business combinations continued**

The charge recognised in profit or loss for the year ended 31 December 2018 for the above elements is as follows:

	£'000
Initial share consideration	<b>2,607</b>
Contingent consideration	<b>8,021</b>
Earn Out consideration and incentivisation awards	<b>4,086</b>
	<b>14,714</b>

These costs are being reported as staff costs within acquisition-related costs (see note 9).

**Acquisition-related costs**

Costs of £2,465,000 for legal and advisory fees and £653,000 for stamp duty have been recognised in acquisition-related costs (note 9) in the year in relation to this transaction.

**Identifiable assets acquired and liabilities assumed**

The acquired business' identifiable net assets at the acquisition date were as follows:

31 August 2018	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Property, plant and equipment	<b>943</b>	-	<b>943</b>
Trade and other receivables	<b>3,318</b>	-	<b>3,318</b>
Intangible assets (note 22)	-	<b>54,337</b>	<b>54,337</b>
Loans and advances to banks	<b>15,462</b>	-	<b>15,462</b>
Loans and advances to customers	<b>2,274</b>	-	<b>2,274</b>
Investment securities – fair value through profit or loss	<b>1,254</b>	-	<b>1,254</b>
Trade and other payables	-	-	-
Accruals and other liabilities	<b>(6,850)</b>	-	<b>(6,850)</b>
Deferred tax liabilities (note 21)	<b>(140)</b>	<b>(9,261)</b>	<b>(9,401)</b>
Contingent liabilities	-	-	-
<b>Total net assets acquired</b>	<b>16,261</b>	<b>45,076</b>	<b>61,337</b>

The fair value of acquired trade and other receivables and loans and advances to banks is equal to the contractual amounts receivable, all of which were expected to be collected at the acquisition date.

The fair value of Speirs & Jeffrey's client relationship intangible assets has been measured using a multi-period excess earnings method (note 22). The model uses estimates of client longevity, investment performance and the level of activity driving commission income to derive a forecast series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired.

The fair value of all other net assets acquired were equal to their carrying value.

**Goodwill**

Goodwill arising from the acquisition has been recognised as follows:

	£'000
Total consideration (see above)	<b>89,424</b>
Fair value of identifiable net assets acquired (see above)	<b>(61,337)</b>
	<b>28,087</b>

Goodwill of £28,087,000 arises as a result of the acquired workforce, expected future growth as well as operational and revenue synergies arising post integration. Any impairment of goodwill in future periods is not expected to be deductible for tax purposes.

During the 4 months to 31 December 2018, Speirs & Jeffrey contributed to the group's operating income of £8,682,000 and profit before tax of £2,846,000 to the group's consolidated statement of comprehensive income for the year ended 31 December 2018.

If the group had made the acquisition on 1 January 2018, the group operating income and profit before tax would have been £332,626,000 and £64,925,000 respectively.

## 36 Related party transactions

### Transactions with key management personnel

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below.

Gains on options exercised by directors during the year totalled £19,000 (2017: £nil). Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on page 84.

	2018 £'000	2017 £'000
Short term employee benefits	12,434	10,951
Post-employment benefits	184	327
Other long term benefits	2,934	2,425
Share-based payments	5,640	2,187
	<b>21,192</b>	<b>15,890</b>

Dividends totalling £247,000 were paid in the year (2017: £408,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2018, the group had outstanding interest-free season ticket loans of £nil (2017: £6,000) issued to key management personnel.

At 31 December 2018, key management personnel and their close family members had gross outstanding deposits of £778,000 (2017: £4,059,000) and gross outstanding banking loans of £nil (2017: £728,000), all of which (2017: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

### Other related party transactions

The group's transactions with the pension funds are described in note 28. At 31 December 2018, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2017: £nil).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2018, the group managed 27 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2017: 27 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

The following transactions and balances relate to the group's interest in the unit trusts:

Year ended 31 December	2018 £'000	2017 £'000
<b>Total management fees</b>	<b>37,608</b>	<b>35,525</b>

As at 31 December	2018 £'000	2017 £'000
<b>Management fees owed to the group</b>	<b>3,629</b>	<b>3,266</b>
<b>Holdings in unit trusts (note 18)</b>	<b>3,205</b>	<b>2,565</b>
	<b>6,834</b>	<b>5,831</b>

Total management fees are included within 'fee and commission income' in the consolidated statement of comprehensive income.

Management fees owed to the group are included within 'accrued income' and holdings in unit trusts are classified as 'fair value through profit or loss equity securities' in the consolidated balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.



### 37 Interest in unconsolidated structured entities

As described in note 36, at 31 December 2018, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £3,205,000 (2017: £2,565,000), representing 0.06% (2017: 0.05%) of the total value of the collectives managed by the group. These assets are held to hedge the group's exposure to deferred remuneration schemes for employees of Unit Trusts.

The group's primary risk associated with its interest in the unit trusts is from changes in fair value of its holdings in the funds.

The group is not judged to control, and therefore does not consolidate, the collectives. Although the fund trustees have limited rights to remove Rathbone Unit Trust Management as manager, the group is exposed to very low variability of returns from its management and share of ownership of the funds and is therefore judged to act as an agent rather than having control under IFRS 10.

### 38 Consolidated statement of cash flows

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

	2018 £'000	2017 £'000
Cash and balances at central banks (note 15)	1,197,001	1,374,002
Loans and advances to banks (note 16)	136,203	87,009
Fair value through profit or loss investment securities (note 18)	75,333	106,747
<b>At 31 December</b>	<b>1,408,537</b>	<b>1,567,758</b>

Fair value through profit or loss investment securities are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from issuing ordinary shares comprise:

	2018 £'000	2017 £'000
Share capital issued (note 29)	194	31
Share premium on shares issued (note 29)	87,134	3,098
Shares issued in relation to share-based schemes for which no cash consideration was received	(29,888)	(441)
	<b>57,440</b>	<b>2,688</b>

A reconciliation of the movements of liabilities to cash flows arising from financing activities were as follows:

	Liabilities		Equity		Total £'000
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	
At 31 December 2017	19,695	145,655	27,221	190,402	382,973
Adjustment on initial application of IFRS 9 (net of tax)	-	-	(250)	102	(148)
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	8,443	8,443
<b>At 1 January 2018</b>	<b>19,695</b>	<b>145,655</b>	<b>26,971</b>	<b>198,947</b>	<b>391,268</b>
<b>Changes from financing cash flows</b>					
Proceeds from issue of share capital	-	87,328	-	-	87,328
Proceeds from sale of treasury shares	-	-	(27,873)	(2,015)	(29,888)
Dividends paid	-	-	-	(32,691)	(32,691)
<b>Total changes from financing cash flows</b>	<b>-</b>	<b>87,328</b>	<b>(27,873)</b>	<b>(34,706)</b>	<b>24,749</b>
<b>The effect of changes in foreign exchange rates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Changes in fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other changes</b>					
<b>Liability-related</b>					
Interest expense	1,283	-	-	-	1,283
Interest paid	(1,171)	-	-	-	(1,171)
<b>Total liability-related changes</b>	<b>112</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112</b>
<b>Total equity-related other changes</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67,818</b>	<b>67,818</b>
<b>At 31 December 2018</b>	<b>19,807</b>	<b>232,983</b>	<b>(902)</b>	<b>232,059</b>	<b>483,947</b>

	Liabilities		Equity		Total £'000
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	
At 1 January 2017	19,590	142,526	25,742	156,545	344,403
<b>Changes from financing cash flows</b>					
Proceeds from issue of share capital	-	3,129	-	-	3,129
Proceeds from sale of treasury shares	-	-	1,379	(1,820)	(441)
Dividends paid	-	-	-	(29,420)	(29,420)
<b>Total changes from financing cash flows</b>	-	3,129	1,379	(31,240)	(26,732)
<b>The effect of changes in foreign exchange rates</b>	-	-	-	-	-
<b>Changes in fair value</b>	-	-	-	-	-
<b>Other changes</b>					
<b>Liability-related</b>					
Interest expense	1,276	-	-	-	1,276
Interest paid	(1,171)	-	-	-	(1,171)
<b>Total liability-related changes</b>	105	-	-	-	105
<b>Total equity-related other changes</b>	-	-	100	65,097	65,197
<b>At 31 December 2017</b>	<b>19,695</b>	<b>145,655</b>	<b>27,221</b>	<b>190,402</b>	<b>382,973</b>

### 39 Events after the balance sheet date

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

## 40 Country-by-country reporting

### Introduction

HM Treasury has transposed the requirements set out under Capital Requirements Directive IV (CRD IV) and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Rathbone Brothers Plc (together with its subsidiaries, 'the group') to publish certain additional information, on a consolidated basis, for the year ended 31 December 2018.

### Basis of preparation:

<b>Country</b>	In most cases, we have determined the country by reference to the country of tax residence. Where an entity is not subject to tax (e.g. a partnership) we have considered the location of management or the jurisdiction in which the revenues are generated. In these cases it is possible that tax is paid in a different country to the one in which profits are reported.
<b>Nature of activities</b>	The nature of activities within the United Kingdom are described within our services on pages 4 to 5. Discretionary investment management is the sole activity which occurs in Jersey.
<b>Turnover</b>	Turnover is defined as operating income. As the consolidated results are split by country, there is an element of double counting when inter-jurisdictional transactions (for example, the payment of dividends) occur. The entries to eliminate this double counting are included at the bottom of the table to enable the disclosed figures to agree to the published consolidated accounts of the group.
<b>Profit/(loss) before taxation</b>	These are accounting profits. As with turnover some double counting may arise and again this has been eliminated at the bottom of the table. The majority of the total relates to the elimination of inter-jurisdictional dividends which are reflected as profits in the United Kingdom.
<b>Tax paid</b>	This column reflects corporation tax actually paid in the year. Note that it is rare that tax paid in any given year relates directly to the profits earned in the same period.
<b>Public subsidies received</b>	The group received no public subsidies in the year.
<b>Number of employees</b>	The number of employees reported is the average number of full time employees who were permanently employed by the group, or one of its subsidiaries, during the year. Contractors are excluded.
<b>Subsidiaries</b>	A list of the subsidiaries of the group, including their main activity and country of incorporation, is shown within note 46.

Country	Turnover £'000	Profit/(loss) before taxation £'000	Tax paid £'000	Number of employees
United Kingdom	<b>304,870</b>	<b>63,208</b>	<b>14,397</b>	<b>1,311</b>
Jersey	<b>11,081</b>	<b>2,113</b>	<b>300</b>	<b>18</b>
<b>Sub-total</b>	<b>315,951</b>	<b>65,321</b>	<b>14,697</b>	<b>1,329</b>
Intergroup eliminations and other entries arising on consolidation	<b>(3,988)</b>	<b>(4,015)</b>	-	-
<b>Total</b>	<b>311,963</b>	<b>61,306</b>	<b>14,697</b>	<b>1,329</b>

# Company statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017		2,535	139,991	150	(6,243)	48,906	185,339
Profit for the year						32,614	32,614
Net remeasurement of defined benefit liability	52					17,288	17,288
Revaluation of available for sale investment securities:							
Net gain from changes in fair value	18			163			163
Net profit on disposal transferred to profit or loss during the year				(43)			(43)
Deferred tax relating to components of other comprehensive income	49			(20)		(2,939)	(2,959)
Other comprehensive income net of tax		-	-	100	-	14,349	14,449
Dividends paid	45					(29,420)	(29,420)
Issue of share capital	53	31	3,098				3,129
Share-based payments:							
- value of employee services						3,591	3,591
- cost of own shares acquired	53				(441)		(441)
- cost of own shares vesting	53				1,820	(1,820)	-
- tax on share-based payments						328	328
<b>At 31 December 2017</b>		<b>2,566</b>	<b>143,089</b>	<b>250</b>	<b>(4,864)</b>	<b>68,548</b>	<b>209,589</b>
Adjustment on initial application of IFRS 9 (net of tax)				(250)		250	-
Adjustment on initial application of IFRS 15 (net of tax)						-	-
<b>Adjusted balance at 1 January 2018</b>		<b>2,566</b>	<b>143,089</b>	<b>-</b>	<b>(4,864)</b>	<b>68,798</b>	<b>209,589</b>
Profit for the year						45,883	45,883
Net remeasurement of defined benefit liability	52					1,219	1,219
Deferred tax relating to components of other comprehensive income	49					(207)	(207)
Other comprehensive income net of tax		-	-	-	-	1,012	1,012
Dividends paid	45					(32,691)	(32,691)
Issue of share capital	53	194	87,134				87,328
Share-based payments:							
- value of employee services						20,279	20,279
- cost of own shares acquired	53				(29,888)		(29,888)
- cost of own shares vesting	53				2,015	(2,015)	-
- tax on share-based payments						358	358
<b>At 31 December 2018</b>		<b>2,760</b>	<b>230,223</b>	<b>-</b>	<b>(32,737)</b>	<b>101,624</b>	<b>301,870</b>

The accompanying notes form an integral part of the company financial statements.

# Company balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	46	273,055	180,503
Other investments	47	13,205	12,565
Deferred tax	49	4,067	4,455
		<b>290,327</b>	197,523
<b>Current assets</b>			
Trade and other receivables	48	102,440	114,597
Current tax asset		-	1,616
Cash and cash equivalents		5,386	7,400
		<b>107,826</b>	123,613
<b>Total assets</b>		<b>398,153</b>	321,136
<b>Current liabilities</b>			
Trade and other payables	50	(74,387)	(73,018)
Current tax liability		(476)	-
Provisions for liabilities and charges	51	(10,223)	(22,929)
		<b>(85,086)</b>	(95,947)
<b>Net current assets</b>		<b>22,740</b>	27,666
<b>Non-current liabilities</b>			
Retirement benefit obligations	52	(11,197)	(15,600)
<b>Total liabilities</b>		<b>(96,283)</b>	(111,547)
<b>Net assets</b>		<b>301,870</b>	209,589
<b>Equity</b>			
Share capital	53	2,760	2,566
Share premium	53	230,223	143,089
Available for sale reserve		-	250
Own shares	53	(32,737)	(4,864)
Retained earnings		101,624	68,548
<b>Equity shareholders' funds</b>		<b>301,870</b>	209,589

The financial statements were approved by the board of directors and authorised for issue on 20 February 2019 and were signed on their behalf by:

Philip Howell  
Chief Executive

Paul Stockton  
Finance Director

Company registered number: 01000403

The accompanying notes form an integral part of the company financial statements.

# Company statement of cash flows

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		46,980	30,390
Net profit on disposal of available for sale investment securities		-	(43)
Change in fair value through profit or loss		189	-
Net interest and dividends receivable		(58,818)	(47,576)
Net charge for provisions	51	(1,936)	16,523
Defined benefit pension scheme charges	52	491	(2,948)
Defined benefit pension scheme contributions paid	52	(3,673)	(3,619)
Share-based payment charges	53	19,838	3,871
		<b>3,071</b>	<b>(3,402)</b>
Changes in operating assets and liabilities:			
- net decrease in prepayments, accrued income and other assets		12,407	16,712
- net (decrease)/increase in accruals, deferred income, provisions and other liabilities		(9,297)	5,590
<b>Cash generated from operations</b>		<b>6,181</b>	<b>18,900</b>
Tax received		1,535	1,747
<b>Net cash inflow from operating activities</b>		<b>7,716</b>	<b>20,647</b>
<b>Cash flows from investing activities</b>			
Interest received		79	24
Interest paid		(182)	(208)
Inter-company dividends received		59,250	48,000
Acquisition of subsidiaries		(92,552)	-
Disposal of subsidiary, net of cash transferred		5,205	-
Investment in subsidiaries	46	(5,205)	(40,000)
Purchase of other investments		(1,065)	(698)
Proceeds from sale of investments		235	160
<b>Net cash (used in)/generated from investing activities</b>		<b>(34,235)</b>	<b>7,278</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	53	57,440	2,688
Dividends paid	45	(32,691)	(29,420)
<b>Net cash generated from/(used in) financing activities</b>		<b>24,749</b>	<b>(26,732)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,770)</b>	<b>1,193</b>
Cash and cash equivalents at the beginning of the year		7,156	5,963
<b>Cash and cash equivalents at the end of the year</b>	58	<b>5,386</b>	<b>7,156</b>

The accompanying notes form an integral part of the company financial statements.



# Notes to the company financial statements

## 41 Significant accounting policies

### Statement of compliance

The separate financial statements of the company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and IAS 27 'Separate Financial Statements'.

On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

### Developments in reporting standards and interpretations

This is the first set of the Company's financial statements where IFRS 9 and IFRS 15 have been applied. These new standards were adopted from 1 January 2018. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 43.

Other developments in reporting standards and interpretations are set out in note 1.3 to the consolidated financial statements.

### Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are as set out below.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

### Management charges

Intra-group management charges arise in relation to staff costs and other administrative expenses that are initially borne by the company and then recharged to other group companies, when incurred.

Accounting policies in relation to impairment, interest income, dividend income, operating leases, foreign currency, retirement benefit obligations, taxation, cash and cash equivalents and share-based payments are set out in note 1 to the consolidated financial statements.

## 42 Critical accounting judgements and key sources of estimation and uncertainty

The critical accounting judgement and key sources of estimation and uncertainty arise from the company's defined benefit pension schemes. These are described in note 3 to the consolidated financial statements.

## 43 Changes in significant accounting policies

The Company has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018.

The effect of applying these standards is mainly attributed to the following:

- a change in classification and measurement of certain financial assets (IFRS 9); and
- an increase in provisions for payments to acquire client relationship intangible assets (IFRS 15).

### IFRS 9 'Financial Instruments'

IFRS 9 governs the accounting treatment for the classification and measurement of financial instruments and the timing and extent of credit provisioning. The standard replaces IAS 39.

#### Transition

The Company has taken advantage of the exemption from restating comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Under the requirements of IFRS 9, the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The nature of the business model under which a financial asset is managed.
- Whether the SPPI (solely payments of principal and interest) criterion is met.
- The designation of certain financial assets as measured at fair value through profit or loss.
- If an investment in a debt instrument had a low credit risk at the date of initial application of IFRS 9, then the company assumes that the credit risk on the asset has not increased significantly since its initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

	Impact of adopting IFRS 9 on opening balance	
	Available for sale reserve £'000	Retained earnings £'000
Recycle to retained earnings of available for sale reserve	(250)	250
<b>Impact at 1 January 2018</b>	<b>(250)</b>	<b>250</b>

The hedge accounting requirements of IFRS 9 have not been applied, as the company was not party to any hedging relationships as at 1 January 2018.

#### Classification and measurement of financial assets and financial liabilities

The basis of classification for financial assets under IFRS 9 is different from that under IAS 39. Financial assets are classified into one of three categories: amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed.

The classification criteria for allocating financial assets between categories under IFRS 9 require the company to document the business models under which its assets are managed and review contractual terms and conditions.

All of the company's financial assets as at 1 January 2018 were managed within business models whose objective is solely to collect contractual cash flows, except money market funds, which are equity instruments not held for trading and were classified as fair value through profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets as at 1 January 2018.

Financial assets	Original classification under IAS 39	Original carrying amount under IAS 39 £'000	New carrying amount under IFRS 9	
			New classification under IFRS 9	£'000
Equity securities	Available for sale	2,565	Fair value through profit or loss	2,565
Money market funds	Available for sale	10,000	Fair value through profit or loss	10,000
Cash and cash equivalents	Loans and receivables	7,400	Amortised cost	7,400
Amounts owed by group undertakings	Loans and receivables	110,194	Amortised cost	110,194
Other financial assets	Loans and receivables	1,635	Amortised cost	1,635
<b>Total financial assets</b>		<b>131,794</b>		<b>131,794</b>

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39.

#### Impairment of financial assets

Under IFRS 9, an expected credit loss (ECL) model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred.

No additional impairment has been recognised under the new standard as at 1 January 2018.

### 43 Changes in significant accounting policies continued

#### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 changes how and when revenue is recognised from contracts with customers and the treatment of the costs of obtaining a contract with a customer. The standard requires that the recognition of revenue is linked to the fulfilment of identified performance obligations that are enshrined in the customer contract. It also requires that the incremental cost of obtaining a customer contract should be capitalised if that cost is expected to be recovered. The standard replaces existing revenue recognition guidance, in particular under IAS 18.

#### Transition

The company has adopted IFRS 15 using the cumulative effect method, with the effect of applying the standard recognised at the date of adoption, with no restatement of the comparative period. The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 15 on opening balance £'000
<b>Retained earnings</b>	
Reduction in amounts owed to group undertakings	<b>(4,075)</b>
Recognition of provisions	<b>4,075</b>
<b>Impact at 1 January 2018</b>	<b>-</b>

The impact on transition is due to a change in the group's accounting policy for capitalising contract costs under IFRS 15 (see note 2). There is an increase in provisions for amounts payable as at 1 January 2018 in respect of additional contract costs capitalised for the acquisition of client relationship intangible assets (recognised in a group undertaking to which the related costs of the earn out contracts are recharged).

#### Impact on financial statements for the year ended 31 December 2018

The company has considered the impact of adopting the standard, in particular the group's policy of capitalising the cost of obtaining customer contracts, and expects provisions for costs to acquire client relationship intangible assets to increase as a result. Otherwise, there is no impact of adopting IFRS 15.

### 44 Profit for the year

As permitted by Section 408 of the Companies Act 2006 the company has elected not to present its own statement of comprehensive income for the year. Rathbone Brothers Plc reported a profit after tax for the financial year ended 31 December 2018 of £45,883,000 (2017: £32,614,000).

Auditor's remuneration for audit and other services to the company are set out in note 8 to the financial statements.

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2018	2017
<b>Investment Management:</b>		
- investment management services	<b>771</b>	715
- advisory services	<b>107</b>	92
Unit Trusts	<b>33</b>	28
Shared services	<b>334</b>	293
	<b>1,245</b>	1,128

## 45 Dividends

Details of the company's dividends paid and proposed for approval at the Annual General Meeting are set out in note 13 to the consolidated financial statements.

The company's dividend policy is described in the directors' report on page 92.

Reserves available for distribution as at 31 December were comprised as follows:

	2018 £'000	2017 £'000
Net assets	<b>301,870</b>	209,589
Less:		
– share capital	<b>(2,760)</b>	(2,566)
– share premium	<b>(230,223)</b>	(143,089)
<b>Distributable reserves</b>	<b>68,887</b>	63,934

Movements in reserves available for distribution were as follows:

	2018 £'000	2017 £'000
As at 1 January	<b>63,934</b>	42,813
Profit for the year	<b>45,883</b>	32,614
Net remeasurement of defined benefit liability	<b>1,012</b>	14,349
Net gain on revaluation of available for sale investment securities	–	100
Dividends paid	<b>(32,691)</b>	(29,420)
Other movements	<b>(9,251)</b>	3,478
<b>As at 31 December</b>	<b>68,887</b>	63,934

## 46 Investment in subsidiaries

	Equities £'000	Total £'000
At 1 January 2017	140,503	140,503
Additions	40,000	40,000
Disposals	–	–
<b>At 1 January 2018</b>	<b>180,503</b>	<b>180,503</b>
Additions	<b>97,757</b>	<b>97,757</b>
Disposals	<b>(5,205)</b>	<b>(5,205)</b>
<b>At 31 December 2018</b>	<b>273,055</b>	<b>273,055</b>

#### 46 Investment in subsidiaries continued

##### Equities

On 1 January 2018, 17,645 ordinary shares of 5p each in Vision Independent Financial Planning were issued to the company at a price of £295 per share in exchange for the company's equity holding in Castle Investment Solutions.

On 31 August 2018, the company acquired 100% of the share capital of Speirs & Jeffrey Limited, Speirs & Jeffrey Client Nominees Limited, Speirs & Jeffrey Fund Management Limited and Speirs & Jeffrey Portfolio Management Limited.

The cost of the acquisition comprised the following:

	£'000
Cash consideration	89,424
Directly attributable costs	3,128
	<b>92,552</b>

Further details of the acquisition are provided in note 35 to the consolidated financial statements.

At 31 December 2018 the company's subsidiary undertakings were as follows:

Subsidiary undertaking	Activity and operation
Rathbone Investment Management Limited	Investment management and banking services
Rathbone Investment Management International Limited*	Investment management
Rathbone Trust Company Limited	Trust and tax services
Rathbone Unit Trust Management Limited*	Unit trust management
Arcticstar Limited	Introducer of private clients
Vision Independent Financial Planning Limited	Financial planning services
Castle Investment Solutions Limited	Investment support services
Rathbone Trust Legal Services Limited*	Trust and legal services
Speirs & Jeffrey Limited	Investment management
Laurence Keen Holdings Limited	Intermediate holding company
Rathbone Directors Limited*	Corporate director services
Rathbone Secretaries Limited*	Corporate secretarial services
Laurence Keen Nominees Limited*	Corporate nominee
Neilson Cobbold Client Nominees Limited*	Corporate nominee
Rathbone Nominees Limited*	Corporate nominee
Citywall Nominees Limited*	Corporate nominee
Penchart Nominees Limited*	Corporate nominee
Argus Nominee Limited	Corporate nominee
Speirs & Jeffrey Client Nominees Limited*	Corporate nominee
Speirs & Jeffrey Fund Management Limited*	Corporate nominee
Speirs & Jeffrey Portfolio Management Limited*	Corporate nominee
Rathbone Pension & Advisory Services Limited	Non-trading
Rathbone Stockbrokers Limited*	Non-trading
Dean River Asset Management Limited*	Non-trading
R.M. Walkden & Co. Limited*	Non-trading

\* Held by subsidiary undertaking

The registered office for all subsidiary undertakings is 8 Finsbury Circus, London, EC2M 7AZ except for the following:

Subsidiary undertaking	Registered office
Rathbone Investment Management Limited	Port of Liverpool Building, Pier Head, Liverpool, L3 1NW
Rathbone Investment Management International Limited	26 Esplanade, St Helier, Jersey, JE1 2RB
Vision Independent Financial Planning Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall, TR11 4SZ
Castle Investment Solutions Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall, TR11 4SZ
Speirs & Jeffrey Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Client Nominees Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Fund Management Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Portfolio Management Limited	George House, 50 George Square, Glasgow, G2 1EH

The company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiary undertakings.

## 47 Other investments

### Fair value through profit or loss securities

	2018 £'000	2017* £'000
Equity securities:		
– listed	3,205	2,565
Money market funds:		
– unlisted	10,000	10,000
	<b>13,205</b>	<b>12,565</b>

\* Fair value through profit or loss investments as at 31 December 2017 were classified under IAS 39 as available for sale securities

## 48 Trade and other receivables

	2018 £'000	2017 £'000
Prepayments and other receivables	11,833	4,403
Amounts owed by group undertakings	90,607	110,194
	<b>102,440</b>	<b>114,597</b>
Current	102,440	114,597
Non-current	–	–
	<b>102,440</b>	<b>114,597</b>



## 49 Deferred tax

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Pensions £'000	Share-based payments £'000	Staff- related costs £'000	Fair value through profit or loss £'000	Total £'000
<b>As at 1 January 2018</b>	<b>2,650</b>	<b>1,539</b>	<b>316</b>	<b>(50)</b>	<b>4,455</b>
Recognised in profit or loss in respect of:					
- current year	(605)	400	(7)	33	(179)
- prior year	-	(29)	(6)	-	(35)
- change in rate	64	-	1	(4)	61
<b>Total recognised in profit or loss</b>	<b>(541)</b>	<b>371</b>	<b>(12)</b>	<b>29</b>	<b>(153)</b>
Recognised in other comprehensive income in respect of:					
- current year	(231)	-	-	-	(231)
- prior year	-	-	-	-	-
- change in rate	24	-	-	-	24
<b>Total recognised in other comprehensive income</b>	<b>(207)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(207)</b>
Recognised in equity in respect of:					
- current year	-	80	-	-	80
- prior year	-	(108)	-	-	(108)
- change in rate	-	-	-	-	-
<b>Total recognised in equity</b>	<b>-</b>	<b>(28)</b>	<b>-</b>	<b>-</b>	<b>(28)</b>
<b>As at 31 December 2018</b>	<b>1,902</b>	<b>1,882</b>	<b>304</b>	<b>(21)</b>	<b>4,067</b>
	Pensions £'000	Share-based payments £'000	Staff- related costs £'000	Fair value through profit or loss £'000	Total £'000
Deferred tax assets	1,902	1,882	304	-	4,088
Deferred tax liabilities	-	-	-	(21)	(21)
<b>As at 31 December 2018</b>	<b>1,902</b>	<b>1,882</b>	<b>304</b>	<b>(21)</b>	<b>4,067</b>

	Pensions £'000	Share-based payments £'000	Staff- related costs £'000	Available for sale securities £'000	Total £'000
As at 1 January 2017	6,705	1,264	189	(30)	8,128
Recognised in profit or loss in respect of:					
- current year	(1,264)	(57)	144	-	(1,177)
- prior year	-	-	-	-	-
- change in rate	148	4	(17)	-	135
Total recognised in profit or loss	(1,116)	(53)	127	-	(1,042)
Recognised in other comprehensive income in respect of:					
- current year	(3,327)	-	-	(23)	(3,350)
- prior year	-	-	-	-	-
- change in rate	388	-	-	3	391
Total recognised in other comprehensive income	(2,939)	-	-	(20)	(2,959)
Recognised in equity in respect of:					
- current year	-	318	-	-	318
- prior year	-	10	-	-	10
- change in rate	-	-	-	-	-
Total recognised in equity	-	328	-	-	328
As at 31 December 2017	2,650	1,539	316	(50)	4,455
	Pensions £'000	Share-based payments £'000	Staff- related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	2,650	1,539	316	-	4,505
Deferred tax liabilities	-	-	-	(50)	(50)
As at 31 December 2017	2,650	1,539	316	(50)	4,455

## 50 Trade and other payables

	2018 £'000	2017 £'000
Trade creditors	211	355
Accruals, deferred income and other creditors	66,633	64,672
Amounts owed to group undertakings	99	230
Other taxes and social security costs	7,444	7,761
	<b>74,387</b>	73,018

The fair value of trade and other payables is not materially different from their carrying amount.

## 51 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Property- related £'000	Total £'000
As at 1 January 2017	10,210	1,136	2,705	14,051
Charged to profit or loss	-	-	16,523	16,523
Other movements	2,743	84	-	2,827
Utilised/paid during the year	(4,883)	-	(5,589)	(10,472)
<b>At 31 December 2017</b>	<b>8,070</b>	<b>1,220</b>	<b>13,639</b>	<b>22,929</b>
Adjustment on initial application of IFRS 15 (note 43)	4,075	-	-	4,075
<b>At 1 January 2018</b>	<b>12,145</b>	<b>1,220</b>	<b>13,639</b>	<b>27,004</b>
Charged to profit or loss	-	-	1,790	1,790
Unused amount credited to profit or loss	-	-	(3,726)	(3,726)
Net credit to profit or loss	-	-	(1,936)	(1,936)
Other movements	(3,641)	3,158	-	(483)
Utilised/paid during the year	(7,445)	(2,000)	(4,917)	(14,362)
<b>As at 31 December 2018</b>	<b>1,059</b>	<b>2,378</b>	<b>6,786</b>	<b>10,223</b>
Payable within 1 year	509	2,378	5,954	8,841
Payable after 1 year	550	-	832	1,382
	<b>1,059</b>	<b>2,378</b>	<b>6,786</b>	<b>10,223</b>

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year. The value of certain awards related to client relationships reduced during the year as not all performance conditions were ultimately met. There was a net release of £3,641,000 (2017: net increase of £2,743,000) in relation to other movements for deferred, variable costs to acquire client relationship intangibles

Deferred and contingent consideration includes £1,050,000 (2017: £nil) payable to vendors following the acquisition of Speirs & Jeffrey. The payment is contingent on certain operational targets being met (see note 35). It also includes £1,328,000 (2017: £1,220,000) which is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Property-related provisions of £6,786,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the company (2017: £13,639,000).

On 6 June 2018, the group completed assignment of its leases on surplus property at 1 Curzon Street, which triggered a release of £3,726,000 from the onerous lease provision held over the property. The timing of cash flows from the group relating to monies due under the contract with the assignee are subject to the level of rent paid by the assignee following the rent review that was due in the third quarter of 2018 but remains outstanding.

Dilapidation provisions are calculated using a discounted cash flow model; during the year, provisions have increased by £803,000 (2017: decreased by £544,000). The group utilised £912,000 (2017: £802,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. During the year, management have reviewed the potential cost and timing of dilapidation provisions, which has resulted in an increase in provisions of £1,588,000 (2017: £nil). The impact of discounting led to an additional £127,000 (2017: £71,000) being provided for over the year.

Provisions payable after one year are expected to be settled within two years of the balance sheet date (2017: two years), except for the property-related provisions of £6,786,000 (2017: £7,845,000). These are expected to be settled within 15 years of the balance sheet date (2017: 19 years).

## 52 Long term employee benefits

Details of the defined benefit pension schemes operated by the company are provided in note 28 to the consolidated financial statements.

## 53 Share capital, own shares and share-based payments

Details of the share capital of the company and ordinary shares held by the company together with changes thereto are provided in notes 29 and 30 to the consolidated financial statements. Details of options on the company's shares and share-based payments are set out in note 31 to the consolidated financial statements.

## 54 Financial instruments

The company's risk management policies and procedures are integrated with the wider Rathbones group's risk management process. The Rathbones group has identified the risks arising from all of its activities, including those of the company, and has established policies and procedures to manage these items in accordance with its risk appetite. The company categorises its financial risks into the following primary areas:

- (i) credit risk;
- (ii) liquidity risk;
- (iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk); and
- (iv) pension risk.

The company's exposures to pension risk are set out in note 28 to the consolidated financial statements.

The sections below outline the group risk appetite, as applicable to the company, and explain how the company defines and manages each category of financial risk.

The company's financial risk management policies are designed to identify and analyse the financial risks that the company faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in the business and the wider industry.

The company's overall strategy and policies for monitoring and management of financial risk are set by the board of directors (the board). The board has embedded risk management within the business through the executive committee and senior management.

### (i) Credit risk

The company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its trading activities. The principal sources of credit risk arise from depositing funds with banks and through providing long term and working capital financing for subsidiaries.

The company's financial assets are categorised as follows:

#### Trade and other receivables

Trade and other receivables relate to amounts placed with subsidiaries, amounts held in escrow following the assignment of leases on 1 Curzon Street and staff advances.

The collection and ageing of trade and other receivables are reviewed on a periodic basis by management.

The company places surplus funds with its banking subsidiary, which operates under the group's credit risk management policies. Group policy requires that funds are placed with a range of high-quality financial institutions. Investments are spread to avoid excessive exposure to any individual counterparty.

For the purposes of financial reporting the company categorises its exposures based on the long term ratings awarded to counterparties by Fitch or Moody's.

## 54 Financial instruments continued

### (i) Credit risk continued

#### Cash and cash equivalents (balances at banks)

The company has exposure to financial institutions through its bank deposits (reported within cash equivalents).

#### Maximum exposure to credit risk

	2018 £'000	2017 £'000
Other investments:		
– money market funds	10,005	10,002
Trade and other receivables:		
– amounts owed by group undertakings	90,607	110,194
– other financial assets	12,570	7,500
Balances at banks	5,386	7,400
	<b>118,568</b>	<b>135,096</b>

The above table represents the gross credit risk exposure of the company at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached.

#### Other investments

The table below presents an analysis of other investments by rating agency designation, as at 31 December 2018, based on Fitch or Moody's long term rating designation.

	2018		2017	
	Money market funds £'000	Total £'000	Money market funds £'000	Total £'000
AAA	10,000	10,000	10,000	10,000

#### Trade and other receivables

No trade and other receivables have been written off or are credit impaired at the reporting date.

Amounts owed by group undertakings do not have specific repayment dates and are paid down periodically as trading requires.

#### Balances at banks

The credit quality of balances at banks is analysed below by reference to the long term credit rating awarded by Fitch, or equivalent rating by Moody's, as at the balance sheet date.

	2018 £'000	2017 £'000
A	5,386	5,733
Other*	-	1,667
	<b>5,386</b>	<b>7,400</b>

\* Cash held within the Employee Benefit Trust

#### Concentration of credit risk

The company has counterparty credit risk within its balances at banks in that the principal exposure is to its banking subsidiary. The board sets and monitors the group policy for the management of group funds, which include the placement of funds with a range of high-quality financial institutions.

### (a) Geographical sectors

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

At 31 December 2018	United Kingdom £'000	Rest of the World £'000	Total £'000
Other investments:			
- money market funds	10,000	-	10,000
Trade and other receivables:			
- amounts owed by group undertakings	90,264	343	90,607
- other financial assets	7,609	469	8,078
Balances at banks	5,386	-	5,386
	<b>113,259</b>	<b>812</b>	<b>114,071</b>

At 31 December 2017	United Kingdom £'000	Rest of the World £'000	Total £'000
Other investments:			
- money market funds	10,000	-	10,000
Trade and other receivables:			
- amounts owed by group undertakings	109,906	288	110,194
- other financial assets	1,196	439	1,635
Balances at banks	7,400	-	7,400
	<b>128,502</b>	<b>727</b>	<b>129,229</b>

At 31 December 2018, all rest of the world exposures were to counterparties based in Jersey and the United States of America (2017: Jersey and the United States of America). At 31 December 2018, the company had no exposure to sovereign debt (2017: none).

### (b) Industry sectors

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

At 31 December 2018	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
- money market funds	10,000	-	10,000
Trade and other receivables:			
- amounts owed by group undertakings	50,214	40,393	90,607
- other financial assets	5	8,073	8,078
Balances at banks	5,386	-	5,386
	<b>65,605</b>	<b>48,466</b>	<b>114,071</b>

At 31 December 2017	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
- money market funds	10,000	-	10,000
Trade and other receivables:			
- amounts owed by group undertakings	82,131	28,063	110,194
- other financial assets	2	1,633	1,635
Balances at banks	7,400	-	7,400
	<b>99,533</b>	<b>29,696</b>	<b>129,229</b>



54 *Financial instruments continued*

## (ii) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company places its funds in short term or demand facilities with financial institutions to ensure liquidity. The company has no bank loans (2017: £nil) and does not rely on external funding for its activities.

## Non-derivative cash flows

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

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	10,005	-	-	-	-	-	10,005
Trade and other receivables:							
– amounts owed by group undertakings	90,607	-	-	-	-	-	90,607
– other financial assets	10	2,046	3,871	4,348	2,295	-	12,570
Balances at banks	5,255	131	-	-	-	-	5,386
<b>Cash flows arising from financial assets</b>	<b>105,877</b>	<b>2,177</b>	<b>3,871</b>	<b>4,348</b>	<b>2,295</b>	<b>-</b>	<b>118,568</b>
Trade and other payables:							
– amounts owed to group undertakings	99	-	-	-	-	-	99
– other financial liabilities	131	35,627	4,921	27,853	6,028	-	74,560
<b>Cash flows arising from financial liabilities</b>	<b>230</b>	<b>35,627</b>	<b>4,921</b>	<b>27,853</b>	<b>6,028</b>	<b>-</b>	<b>74,659</b>
<b>Net liquidity gap</b>	<b>105,647</b>	<b>(33,450)</b>	<b>(1,050)</b>	<b>(23,505)</b>	<b>(3,733)</b>	<b>-</b>	<b>43,909</b>
<b>Cumulative net liquidity gap</b>	<b>105,647</b>	<b>72,197</b>	<b>71,147</b>	<b>47,642</b>	<b>43,909</b>	<b>43,909</b>	

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	10,002	-	-	-	-	-	10,002
Trade and other receivables:							
– amounts owed by group undertakings	110,194	-	-	-	-	-	110,194
– other financial assets	7	600	639	3,435	2,819	-	7,500
Balances at banks	7,156	-	244	-	-	-	7,400
<b>Cash flows arising from financial assets</b>	<b>127,359</b>	<b>600</b>	<b>883</b>	<b>3,435</b>	<b>2,819</b>	<b>-</b>	<b>135,096</b>
Trade and other payables:							
– amounts owed to group undertakings	230	-	-	-	-	-	230
– other financial liabilities	244	42,858	3,404	37,746	5,873	-	90,125
<b>Cash flows arising from financial liabilities</b>	<b>474</b>	<b>42,858</b>	<b>3,404</b>	<b>37,746</b>	<b>5,873</b>	<b>-</b>	<b>90,355</b>
<b>Net liquidity gap</b>	<b>126,885</b>	<b>(42,258)</b>	<b>(2,521)</b>	<b>(34,311)</b>	<b>(3,054)</b>	<b>-</b>	<b>44,741</b>
<b>Cumulative net liquidity gap</b>	<b>126,885</b>	<b>84,627</b>	<b>82,106</b>	<b>47,795</b>	<b>44,741</b>	<b>44,741</b>	

Included within trade and other payables disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

Included within other financial liabilities disclosed above are cash flows for lease payments under the company's agreement for leased space at 1 Curzon Street. These contractual payments comprise part of the onerous lease provision for that property (see note 26).

The company holds £3,205,000 of equity investments (2017: £2,565,000) which are subject to liquidity risk but are not included in the table above. These assets are held as fair value through profit or loss securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

#### Off-balance sheet items

Cash flows arising from the company's off-balance sheet financial liabilities arise solely from operating leases (note 56) and are summarised in the table below. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates.

	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Operating lease commitments					
<b>At 31 December 2018</b>	<b>1,884</b>	<b>5,753</b>	<b>27,662</b>	<b>50,732</b>	<b>86,031</b>
At 31 December 2017	658	3,651	27,973	57,002	89,284

#### Total liquidity requirement

	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2018						
Cash flows arising from financial liabilities	230	35,627	4,921	27,853	6,028	74,659
Total off-balance sheet items	-	1,884	5,753	27,662	50,732	86,031
<b>Total liquidity requirement</b>	<b>230</b>	<b>37,511</b>	<b>10,674</b>	<b>55,515</b>	<b>56,760</b>	<b>160,690</b>

	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2017						
Cash flows arising from financial liabilities	474	42,858	3,404	37,746	5,873	90,355
Total off-balance sheet items	-	658	3,651	27,973	57,002	89,284
<b>Total liquidity requirement</b>	<b>474</b>	<b>43,516</b>	<b>7,055</b>	<b>65,719</b>	<b>62,875</b>	<b>179,639</b>

54 *Financial instruments continued*

## (iii) Market risk

## Interest rate risk

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

The company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities.

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

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
<b>Assets</b>							
Other investments:							
– equity securities	-	-	-	-	-	3,205	3,205
– money market funds	10,000	-	-	-	-	-	10,000
Trade and other receivables:							
– amounts owed by group undertakings	-	-	-	-	-	90,607	90,607
– other financial assets	5,916	-	-	-	-	2,162	8,078
Balances at banks	5,381	-	-	-	-	5	5,386
<b>Total financial assets</b>	<b>21,297</b>	-	-	-	-	<b>95,979</b>	<b>117,276</b>
<b>Liabilities</b>							
Trade and other payables:							
– amounts owed to group undertakings	-	-	-	-	-	99	99
– other financial liabilities	-	-	-	-	-	56,325	56,325
<b>Total financial liabilities</b>	-	-	-	-	-	<b>56,424</b>	<b>56,424</b>
<b>Interest rate repricing gap</b>	<b>21,297</b>	-	-	-	-	<b>39,555</b>	<b>60,852</b>

At 31 December 2017	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
<b>Assets</b>							
Other investments:							
– equity securities	-	-	-	-	-	2,565	2,565
– money market funds	10,000	-	-	-	-	-	10,000
Trade and other receivables:							
– amounts owed by group undertakings	-	-	-	-	-	110,194	110,194
– other financial assets	-	-	-	-	-	1,635	1,635
Balances at banks	7,150	244	-	-	-	6	7,400
<b>Total financial assets</b>	<b>17,150</b>	<b>244</b>	-	-	-	<b>114,400</b>	<b>131,794</b>
<b>Liabilities</b>							
Trade and other payables:							
– amounts owed to group undertakings	-	-	-	-	-	230	230
– other financial liabilities	-	-	-	-	-	70,520	70,520
<b>Total financial liabilities</b>	-	-	-	-	-	<b>70,750</b>	<b>70,750</b>
<b>Interest rate repricing gap</b>	<b>17,150</b>	<b>244</b>	-	-	-	<b>43,650</b>	<b>61,044</b>

A 1% parallel increase/decrease in the sterling yield curve would have no impact on profit after tax or equity (2017: no impact).

## Foreign exchange risk

The company does not have any material exposure to transactional foreign exchange risk. The table below summarises the company's exposure to foreign currency translation risk at 31 December 2018. Included in the table are the company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2018	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
<b>Assets</b>				
Other investments:				
- equity securities	3,205	-	-	3,205
- money market funds	10,000	-	-	10,000
Trade and other receivables:				
- amounts owed by group undertakings	90,607	-	-	90,607
- other financial assets	7,794	284	-	8,078
Balances at banks	5,386	-	-	5,386
<b>Total financial assets</b>	<b>116,992</b>	<b>284</b>	<b>-</b>	<b>117,276</b>
<b>Liabilities</b>				
Trade and other payables:				
- amounts owed to group undertakings	99	-	-	99
- other financial liabilities	56,325	-	-	56,325
<b>Total financial liabilities</b>	<b>56,424</b>	<b>-</b>	<b>-</b>	<b>56,424</b>
<b>Net on-balance sheet position</b>	<b>60,568</b>	<b>284</b>	<b>-</b>	<b>60,852</b>

At 31 December 2017	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
<b>Assets</b>				
Other investments:				
- equity securities	2,565	-	-	2,565
- money market funds	10,000	-	-	10,000
Trade and other receivables:				
- amounts owed by group undertakings	110,194	-	-	110,194
- other financial assets	1,383	252	-	1,635
Balances at banks	7,400	-	-	7,400
<b>Total financial assets</b>	<b>131,542</b>	<b>252</b>	<b>-</b>	<b>131,794</b>
<b>Liabilities</b>				
Trade and other payables:				
- amounts owed to group undertakings	230	-	-	230
- other financial liabilities	70,520	-	-	70,520
<b>Total financial liabilities</b>	<b>70,750</b>	<b>-</b>	<b>-</b>	<b>70,750</b>
<b>Net on-balance sheet position</b>	<b>60,792</b>	<b>252</b>	<b>-</b>	<b>61,044</b>

A 10% weakening of the US dollar against sterling, occurring on 31 December 2018, would have reduced equity and profit after tax by £23,000 (2017: £20,000). A 10% strengthening of the US dollar would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

## Price risk

The group's exposure to price risk, all of which is through the company's holdings of equity investment securities, is described in note 32.

## 54 Financial instruments continued

### (iii) Market risk continued

#### Fair values

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

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

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Fair value through profit or loss:				
– equity securities	3,205	-	-	3,205
– money market funds	-	10,000	-	10,000
	<b>3,205</b>	<b>10,000</b>	-	<b>13,205</b>

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
– equity securities	2,565	-	-	2,565
– money market funds	-	10,000	-	10,000
	<b>2,565</b>	<b>10,000</b>	-	<b>12,565</b>

The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2017: none).

Details of the methods and assumptions used to determine the fair values of the financial assets in the above table, along with how reasonably possible changes to the assumptions affect these fair values, are provided in note 32 to the consolidated financial statements.

The fair values of the company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries, which are carried at historical cost (note 46).

## 55 Capital management

The company's objectives when managing capital are to:

- safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain a strong capital base to support the development of its business.

For monitoring purposes, the company defines capital as distributable reserves (see note 45). The company monitors the level of distributable reserves on a monthly basis and compares this to forecast dividends. Capital is distributed to the company from operating subsidiaries on a timely basis to ensure sufficient capital is maintained. The board of directors considers the level of capital held in relation to forecast performance, dividend payments and wider plans for the business, although formal quantitative targets are not set.

There were no changes in the company's approach to capital management during the year.

## 56 Contingent liabilities and commitments

The group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. At 31 December 2018, the company's agreements to lease space at 8 Finsbury Circus had remaining lease terms of 15 years; total payments due over this period are £74,134,000. The leases provide for rent reviews every five years.

Payments under non-cancellable operating leases	2018 £'000	2017 £'000
No later than 1 year	7,637	4,310
Later than 1 year and no later than 5 years	27,662	27,973
Later than 5 years	50,732	57,002
	<b>86,031</b>	<b>89,285</b>

## 57 Related party transactions

### Transactions with key management personnel

The remuneration of the key management personnel of the company, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the company, is set out below.

	2018 £'000	2017 £'000
Short term employee benefits	1,777	1,569
Post-employment benefits	-	-
Other long term benefits	56	-
Share-based payments	1,017	602
	<b>2,850</b>	<b>2,171</b>

Dividends totalling £247,000 were paid in the year (2017: £408,000) in respect of ordinary shares held by key management personnel and their close family members.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

### Other related party transactions

During the year, the company entered into the following transactions with its subsidiaries:

	2018		2017	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Interest	-	-	-	-
Charges for management services	157,217	-	152,708	-
Dividends received	59,250	-	48,000	-
	<b>216,467</b>	<b>-</b>	<b>200,708</b>	<b>-</b>

The company's balances with fellow group companies at 31 December 2018 are set out in notes 48 and 50.

The company's transactions with the pension funds are described in note 52. At 31 December 2018, no amounts were due from the pension schemes (2017: £nil).

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

## 58 Cash and cash equivalents

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

	2018 £'000	2017 £'000
Cash at bank (excluding amounts held at employee benefit trust)	<b>5,386</b>	<b>7,156</b>

A reconciliation of the movements of liabilities to cash flows arising from financing activities is provided in note 38 to the consolidated financial statements.

## 59 Events after the balance sheet date

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



# Further information



# Further information

## Five year record

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Underlying operating income	<b>311,963</b>	286,049	251,283	229,178	200,803
Underlying profit before tax	<b>91,558</b>	87,520	74,880	70,365	61,556
Profit before tax	<b>61,306</b>	58,901	50,129	58,632	45,710
Profit after tax	<b>46,169</b>	46,829	38,157	46,371	35,678
Equity dividends paid and proposed	<b>35,204</b>	30,429	28,267	26,305	24,863
Basic earnings per share	<b>88.7p</b>	92.7p	78.9p	97.4p	76.0p
Diluted earnings per share	<b>86.2p</b>	91.9p	78.2p	96.6p	75.4p
Underlying earnings per share	<b>142.5p</b>	138.8p	122.1p	117.0p	102.4p
Dividends per ordinary share	<b>66.0p</b>	61.0p	57.0p	55.0p	52.0p
Equity shareholders' funds	<b>464,140</b>	363,278	324,813	300,192	271,271
Total funds under management and administration	<b>£44.1bn</b>	£39.1bn	£34.2bn	£29.2bn	£27.2bn

## Corporate information

	Investment Management	Unit Trusts
<b>Principal trading names</b>	Rathbone Investment Management Rathbone Investment Management International Rathbone Greenbank Investments Rathbone Trust Company Rathbone Trust Legal Services Vision Independent Financial Planning Castle Investment Solutions Speirs & Jeffrey	Rathbone Unit Trust Management
<b>Offices</b>	16	1
<b>Websites</b>	rathbones.com rathboneimi.com rathbonegreenbank.com speirsjeffrey.co.uk	rathbones.com rathbonefunds.com

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ali.johnson@rathbones.com

### Registrars and transfer office

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