

Rathbone Brothers Plc  
Report and accounts 2014

Rathbones  
Look forward



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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. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services.

As at 31 December 2014, Rathbones managed £27.2 billion of client funds, of which £24.7 billion were managed by Rathbone Investment Management.

# Highlights of the year

## Financial highlights

<b>Funds under management</b>	p24 
<b>2014: £27.2bn</b> 2013: £22.0bn	<b>+23.6%</b>
<b>Underlying<sup>1</sup> operating income</b>	p24 
<b>2014: £200.8m</b> 2013: £176.4m	<b>+13.8%</b>
<b>Underlying<sup>2</sup> profit before tax</b>	p25 
<b>2014: £61.5m</b> 2013: £50.5m	<b>+21.8%</b>
<b>Profit before tax</b>	p25 
<b>2014: £45.7m</b> 2013: £44.2m	<b>+3.4%</b>
<b>Underlying operating margin<sup>3</sup></b>	p25 
<b>2014: 30.6%</b> 2013: 28.6%	<b>+7.0%</b>
<b>Underlying<sup>2</sup> earnings per share</b>	p26 
<b>2014: 102.4p</b> 2013: 86.7p	<b>+18.1%</b>
<b>Basic earnings per share</b>	p26 
<b>2014: 75.9p</b> 2013: 76.1p	<b>-0.3%</b>
<b>Dividends paid and proposed per share</b>	p28 
<b>2014: 52.0p</b> 2013: 49.0p	<b>+6.1%</b>

1 Underlying operating income excludes refund of levies for the Financial Services Compensation Scheme, gain on disposal of financial securities and gain on disposal of pension administration business

2 Underlying profit before tax and underlying earnings per share exclude refund of levies for the Financial Services Compensation Scheme, gain on disposal of financial securities, gain on disposal of pension administration business, charges in relation to client relationships and goodwill, contribution to legal settlement and transaction costs (see page 25 and note 3 to the financial statements)

3 Underlying profit before tax as a % of underlying operating income

## Business highlights

Philip Howell succeeds Andy Pomfret as Rathbones' chief executive.

Acquisition of Jupiter Asset Management Limited's private client and charity investment management business.

Acquisition of part of Deutsche Asset & Wealth Management's London-based private client investment management business.

Placing with existing institutional investors of 1,343,000 shares on 1 April 2014.

Settlement reached in the Jersey litigation.

Launch of Rathbones Online, our upgraded online valuation portal for clients and intermediaries.

Rathbone Investment Management attains full Global Investment Performance Standards (GIPS) accreditation, the highest independent indicator of investment performance reporting.

Move of our Liverpool-based data servers to a remote data centre marks the completion of our data centre strategy.

Rathbones won a variety of awards in 2014 including CityWealth Magic Circle Award, CityWealth International Finance Centre Award, and six unit trust awards.

# Chairman's statement




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## Overview of 2014

2014 was a challenging year for most investment markets, which became increasingly volatile in the second half. Despite this, Rathbone had another good year and achieved strong and broad-based growth. Our total funds under management grew by 23.6% over the year to £27.2 billion. We warmly welcomed more than 5,000 new clients during the year.

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“We made two significant acquisitions in 2014, which added £2.6 billion of funds under management, and throughout the year we continued to attract experienced investment managers.”

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We made two significant acquisitions in 2014, which added £2.6 billion of funds under management, and throughout the year we continued to attract experienced investment managers. The net organic growth rate in our investment management business was resilient and our unit trust business had a particularly strong year. We also reported an underlying operating margin of 30% for the year.

The board is recommending a final dividend of 33p per share. This brings the total dividend for the year to 52p per share, an increase of 6.1% over last year.

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“The development of our strategic thinking and processes was a priority for 2014.”

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We carried out a very successful share placing in April, which raised £23.6 million. We also continued to invest in the business to ensure that our people and infrastructure can support future growth. Important investments completed in 2014 were the upgrading of our online portal for clients and intermediaries, the development of our finance systems and the completion of our data centre outsourcing project. We continue to strengthen our investment process and have bolstered both our research function and our investment risk management framework.

In accordance with our succession plan, Philip Howell became chief executive on 1 March 2014. The handover from Andy Pomfret went very smoothly and reflects well on them both. Philip has made a strong start as chief executive and has set a clear course for the business both internally and externally. Also in our plans, James Dean succeeded Oliver Corbett as chairman of the audit committee on 3 June 2014 and we are already benefiting from his considerable skill and experience.

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## Strategy

As I mentioned last year, the development of our strategic thinking and processes was a priority for 2014. Since the appointment of a new chief executive we have spent considerable time developing our strategy for the medium term. We have agreed that we will not change or dilute our core discretionary investment management model but will proactively seek related opportunities for growth. In particular, we will provide more services for high net worth clients and will widen our distribution capability. This evolutionary strategy has been presented to all staff in ‘town hall’ meetings. It was also the focus of separate presentations to investment analysts and major shareholders. The strategy, presented on pages 16 and 17 of this report, provides clarity in articulating both what we will do, and what we will not do. Delivery of our strategic objectives is a major task and we are fully committed to achieving our goals.

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“The delivery of our strategic objectives is a major task and we are fully committed to achieving our goals.”

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## Governance, the board and senior management

Good culture and ethics are the best guardians of sound corporate governance and of course we continue to respond to ever-changing governance codes and standards. The board is well aware of the importance of setting the right 'tone from the top', and thereby ensuring that not only our clients but all our stakeholders benefit from a long-standing ethical culture. This culture must be nurtured.

During the year, in addition to regulatory matters, the board spent considerable time discussing strategy, risk management, potential acquisitions and the resolution of the Jersey legal proceedings referred to below. The discussions in the board meetings were robust, thorough and constructive. A third party board effectiveness review was carried out towards the end of the year by an independent assessor, which confirmed that the board was effective and working well. The review suggested some further refinements, albeit there were no surprises in these suggestions. We will be working on the recommendations made during the current year.

I mentioned in last year's report that we were intending to appoint an additional female non-executive director by 2015. I am delighted to report that on 21 January 2015 Sarah Gentleman was appointed as a non-executive director. Sarah has had a career embracing both technology and financial services and I am sure she will make a significant contribution.

Philip Howell outlines in his report how the growth in our business has necessitated strengthening our senior management team in the areas of risk, strategy and organisation development. We have made some strong appointments and are now well placed for further growth.

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## Risk and litigation

The report of the chairman of the risk committee, Kathryn Matthews, is set out on page 60. We have made good progress in developing a risk management framework and we look forward to the arrival of a chief risk officer, whom we expect to join us in March 2015. We continue to believe that the most significant risks to our business are operational risks that arise from the growth in our business and regulatory risks that may arise from continual changes to rules and standards in our sector.

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It is important to maintain and develop good relations with all our regulators and this is a high priority for our senior management. Increasing attention has been paid by the Financial Conduct Authority to 'conduct risk' and conflicts of interest in relation to the outcomes for clients. The long-standing culture of Rathbones in putting the interests of our clients first is our best protection here, but we will remain vigilant. A new board conflicts of interest committee has been established, chaired by James Dean.

As reported on page 26, in July we announced that we had entered into an agreement to settle legal proceedings in Jersey involving a former director and employee of a former subsidiary and in respect of our legal proceedings against certain of our insurers. Although our case was strong (and indeed judgement was given subsequently in our favour by the Court of Appeal in the insurance proceedings), the continuing costs and uncertainty of litigation, together with the management time taken, led the board to conclude that this settlement was in the best interest of shareholders.

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## Remuneration

The report from the chairman of the remuneration committee, David Harrel, is set out on pages 62 to 67. It includes our new remuneration policy, which shareholders are asked to approve at the Annual General Meeting (AGM). This is intended to ensure that the executive directors' remuneration is aligned both to our strategy and to the interests of Rathbones' shareholders. During the year we appointed New Bridge Street to advise the remuneration committee. The new and simplified remuneration policy described on pages 61 to 65 complies fully with the latest financial services regulations on deferral, clawback and malus.

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"The new and simplified remuneration scheme complies fully with the latest financial services regulations on deferral, clawback and malus."

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## Employees

The high calibre of our employees makes Rathbones a very enjoyable place to work, and a quality firm to do business with. Our employees have worked hard in a year of considerable change, to secure the very smooth integration of two significant new businesses.

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## Shareholders

The successful share placing in April 2014, which was carried out at no discount to the prevailing market price, was evidence of the strong relationship we have developed with our shareholder base. We are fortunate to have several engaged institutional shareholders with a significant investment in the company. We have, and will continue to maintain, a regular and constructive dialogue with them.

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## Outlook

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"I look forward to seeing the full benefit of our 2014 acquisitions in 2015, and working with our board in the coming years to develop and grow the business."

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Rathbones looks forward to future growth opportunities in the sector, but remains aware of the possible adverse market effects that current political and economic uncertainty may have, both in this country and overseas. I look forward to seeing the full benefit of our 2014 acquisitions in 2015, and working with our board in the coming years to develop and grow the business.

**Mark Nicholls**  
Chairman

18 February 2015

# Chief Executive's statement



Having taken over as chief executive on 1 March 2014, this is my first report and I am very pleased to start with what has been a particularly busy and successful year for Rathbones.

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## 2014 financial performance

Aside from a degree of volatility in the last quarter of 2014, financial markets were reasonably stable during the year. The FTSE 100 Index ended the year in broadly the same place it started and interest rates did not move from historical lows. Notwithstanding this backdrop, we continued to grow organically, which, together with a number of significant acquisitions and a strong performance in our unit trust business, increased our total funds under management by 23.6% to £27.2 billion at 31 December 2014 from £22.0 billion a year ago.

The purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business was completed in June, adding £0.6 billion of funds under management, and the acquisition of Jupiter Asset Management's private client and charity investment management business added a further £2.0 billion in September. We continue to be successful in attracting investment managers to Rathbones, with both individuals and their clients settling in well. Total new acquired business in Rathbone Investment Management for 2014 was up substantially to £3.2 billion from £0.6 billion in 2013.

In addition, Rathbone Investment Management posted a net organic growth rate of 4.0% (2013: 5.4%), which is a resilient performance albeit below our 5% target. Our unit trust business continues to gain momentum, with £2.5 billion of funds under management at 31 December 2014 (2013: £1.8 billion). It attracted some £554 million of net funds in 2014, an increase of 69.4% on the £327 million reported last year.

This growth is only partially reflected in the 13.8% increase in our underlying operating income to £200.8 million from £176.4 million in 2013, due to the timing of acquisitions. Net interest income of £9.2 million increased by 7.0% on the £8.6 million in 2013, largely reflecting higher cash balances in the year. Our client loan book grew 9.2% to £97.4 million from

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"A lot of hard work went into making our 2014 acquisitions a success, proving that we have the capability not only to attract new teams and clients, but also to make their journey to Rathbones as smooth and efficient as possible."

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£89.2 million at the end of 2013. Underlying operating expenses of £139.3 million grew very much in line with the growth in the business.

Underlying profit before tax was £61.5 million, up 21.8% on the £50.5 million earned last year, representing an underlying operating margin of 30.6%, which is consistent with our intent to deliver an underlying operating margin of around 30% throughout the economic cycle (2013: 28.6%). Underlying earnings per share of 102.4p were up 18.1% on the 86.7p earned in 2013 and also reflect the impact of the successful placing of 1,343,000 shares at no discount on 1 April 2014.

Profit before tax of £45.7 million was marginally up on the £44.2 million reported last year and reflects a number of one-off items, the most significant being the cost of the settlement of legal proceedings involving a former director and employee of a former subsidiary Rathbone Trust Company Jersey Limited and the realisation of gains from sales of equity securities. We welcome the £1.0 million Financial Services Compensation Scheme levy refund received in December for costs of Keydata claims. A full list of items excluded from underlying results is shown on pages 25 and 26.

Our consolidated Common Equity Tier 1 ratio at 31 December 2014 (including verified profits for the year) stood at 17.7%, as compared to 21.0% at 31 December 2013. This reflects the cost of the Jupiter Asset Management and Deutsche Asset & Wealth Management transactions which completed during the year, offset by the impact of the placing in April 2014.

Our consolidated leverage ratio (including verified profits for the year) at 31 December 2014 was 7.5% compared with 11.5% at 31 December 2013; this fall was due to growth in the balance sheet and the increase in intangible assets which have reduced Common Equity Tier 1 capital.

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## Key events in 2014

A lot of hard work went into making our 2014 acquisitions a success, proving that we have the capability not only to attract new teams and clients, but also to make their journey to Rathbones as smooth and efficient as possible. Once again, staff from across the business worked tirelessly to ensure that the transfer of client accounts was seamless. More details on the specifics of our 2014 acquisitions can be found on page 28.

#### Key events in 2014

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“We remain committed to ensuring that clients receive a quality experience at Rathbones, and this has been clearly demonstrated by the positive client survey feedback we received this year.”

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We remain committed to ensuring that clients receive a quality experience at Rathbones, and this has been clearly demonstrated by the positive client survey feedback we received this year. Highlights of this are reported on page 30. We also made improvements to our online client and advisor portal and other client communications that were well received, as were the key client events we held at the Royal Academy, Imperial War Museum and our annual charity symposium at the Saatchi Gallery. We gratefully received a number of investment awards in 2014, including a Gold Standard award for discretionary portfolio management by Incisive Media, CityWealth Magic Circle's award for charity investment manager of the year, six separate awards for Rathbone Unit Trust Management and the CityWealth International Financial Centre Award for the Investment Management Company of the Year, Channel Islands, awarded to Rathbone Investment Management International.

In 2014, we combined the intermediary distribution teams in our investment management and unit trust businesses. This will allow us to provide the relationship and service structure that larger intermediaries and IFA networks demand. We continue to hold a 19.9% interest in Vision Independent Financial Planning Limited. Our relationship with Vision continues to bear fruit and we will consider whether to exercise our option to acquire the remaining 80.1% of the company in 2015.

As we grow, we continue to invest in our infrastructure, spending some £4.6 million in capital expenditure in 2014 compared to £4.5 million in 2013. In addition to upgrading our front office workflow, online portal and finance systems, in May 2014 we successfully completed our planned data centre move in the North West, which was the last stage of a programme to materially upgrade the resilience and flexibility of our IT systems.

Full time equivalent headcount in Rathbones has grown from 833 at the start of the year to 880 at the end. This increase is a result of adding a mix of investment management teams and support roles, but also a select number of senior roles that we believe are necessary to manage future growth. In the second half of 2014 for example, we added a head of strategy and organisational development and strengthened our research and investment risk teams. We expect a chief risk officer to join us in March 2015.

As I reported in July, we were pleased to have closed off the long-running legal proceedings, which avoided the prospect of several more years of very substantial legal expenses and allowed our senior management team to apply its full focus to executing our strategic plan.

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#### Key initiatives for 2015

We launched our strategy in November through a series of 'town hall' presentations to all Rathbones staff, an analyst dinner and an investor day. All these events were well attended and we were encouraged by the positive feedback.

Our strategy recognises that we are building on a successful track record and sets out a package of incremental initiatives that will drive growth in the medium term. These initiatives aspire to a net organic growth rate of 5% on average across the cycle in our core private client and charity businesses. This will be supplemented by the establishment of a Rathbones Private Office serving clients at the higher end of the wealth spectrum towards the end of 2015. We will also continue to enhance our distribution capability to position us more favourably with the professional intermediary market and plan to continue to grow our unit trust business. More detail on our strategy can be found on pages 16 and 17.

We have a strong culture within Rathbones that we will continue to nurture. Our management approach reaffirms our commitment to retaining our individualism and independence whilst making sure that our people are well informed and focused on delivering quality service. We also intend to launch a new Rathbones brand identity in 2015 that reflects the progressive company that Rathbones has become. This is highlighted on page 32.

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#### Outlook

We will continue to invest in both people and infrastructure, working within the financial disciplines required to deliver a 30% underlying operating margin throughout the economic cycle.

In 2015, the heightened geopolitical and economic risks we face will almost certainly result in greater market volatility.

Notwithstanding this challenging environment, we will continue to focus on delivering organic growth whilst remaining alert to sensible acquisition opportunities. There is strong momentum in the business to maintain our position as one of the leading providers of investment management services in the UK wealth market.

**Philip Howell**  
Chief Executive

18 February 2015



# Strategic report

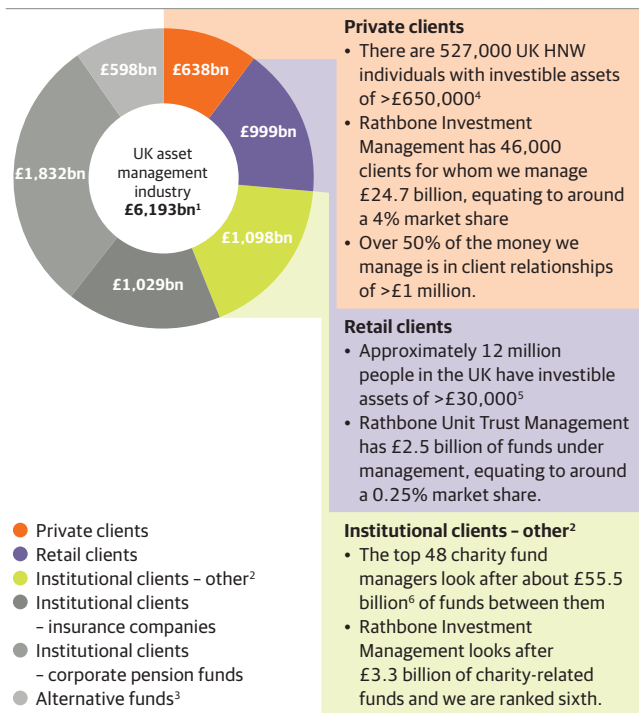
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# Our market

## Market size

It is estimated that by the end of 2014 the UK asset management industry managed a total of £6.8 trillion, an increase of 9% on the £6.2 trillion managed at the end of 2013<sup>1</sup>. The Rathbone group principally operates within the sectors of this market that service private, retail and charity clients. Together these sectors account for some £2.7 trillion of assets under management.



1 The City UK Fund Management 2014 report  
 2 Includes charities, sovereign wealth funds, local authorities and companies  
 3 Includes hedge funds, property funds and private equity funds  
 4 Capgemini 2014 World Wealth Report: a HNW individual is defined as having >US\$1m of investible assets  
 5 Aviva Key Customer Trends 2014: The High Net Worth Market report  
 6 Charity Finance, November 2014 (this information is not based on an exhaustive list of charity fund managers)  
 7 PAM 2014, value of funds under management at 31 December 2013

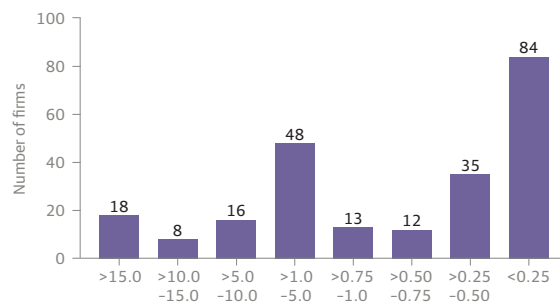
Within the overall UK asset management industry the wealth management sector, focused on retail and private clients, remains highly fragmented with a constellation of firms of differing scales offering a variety of wealth management solutions. There are currently more than 180 registered wealth management firms in the UK, ranging from the UK operations of large multi-national banking groups and private banks, to holistic wealth managers, investment management businesses, boutique investment businesses, traditional stock broking firms and online share dealing platforms. There are, however, relatively few companies of significant scale; Rathbone was one of fewer than 20<sup>7</sup> UK-based businesses with over £15 billion of funds under management at the end of 2013, and this trend continued in 2014 despite a number of large corporate acquisitions. In a rapidly changing market it is likely that the industry will see further consolidation over the coming years.

## Market services

The service offering to clients can differ significantly, reflecting different business models, variations in investment styles and company cultures. For example:

- the extensive use of in-house investment products within client portfolios versus an open architecture approach to investment selection
- a prescriptive model-based approach to portfolio construction versus a more tailored solution
- a general financial advice led sales model versus a more investment led solution, or
- the use of an execution-only dealing platform versus a full service relationship with an investment house.

Value of funds under management<sup>7</sup> £bn



There are three common but very different investment service offerings available to UK wealth management clients, each appealing to a different type of client and their particular needs.

### Discretionary

Under a discretionary service mandate, the client gives their investment manager total discretion over all investment decisions in respect of their portfolio.

### Advisory

An advisory service may involve the client generating all their own investment ideas but discussing these with their investment manager prior to instructing the latter to deal. Alternatively the investment manager may be responsible for generating the investment ideas for a client's portfolio but

#### Market services Advisory

is obliged to discuss these with the client and gain approval before dealing. The latter is often referred to as an advisory managed service.

#### Execution-only

An execution-only service, also referred to as a self-directed service, will involve the client taking complete responsibility for their own investment decisions, relying on information made available to them via a share dealing platform or the media to make decisions.

Discretionary and advisory investment solutions are either tailored to a particular client's needs or structured according to a central model, and involve the selection, to a varying degree, of 'in-house' funds.

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## Opportunities and trends

### Wealth management

The private client sector of the UK asset management industry grew by some 16% in 2014 to account for 10% of the total industry funds under management<sup>1</sup>. There is continuing evidence of demand from wealthy investors for high-quality wealth management solutions that are appropriate to their particular requirements. We are also seeing a trend towards a more 'involved' client base that will increasingly demand more value for money and access to information to assess performance.

At the same time UK-based individuals will increasingly need to take greater responsibility for funding their own retirement and care costs, which may be supplemented by savings and investments outside their pension. At the same time, however, the overall outlook for the UK is one of low wealth generation over the next few years. On balance, a combination of these factors should present opportunities to increase our market share amongst clients looking for a quality investment led service provided by a firm with which they can establish a long term relationship.

It is reported that a third<sup>1</sup> of the total funds under management in the UK came from overseas clients, indicating that the UK (and London in particular) is a leading global location for the management of funds for foreign clients. The UK would appear well positioned to continue to capture a growing share of the global wealth market, and within this we see some opportunities for our wealth management service offering to attract a greater proportion of the international non-domiciled population.

### Advice gap

The recent withdrawal of big banks from the advice and financial planning sector of the wealth management market, combined with a growing trend of increasingly high minimum thresholds for investment management services, has resulted in some interesting growth opportunities as affected clients

(and in some instances their advisors) seek to find an alternative home. The recent development of new platform offerings aimed at self-directed investors is a good example. Similarly, larger groups have moved towards a 'vertically integrated' business model, seeking to marry their wealth management and advice capabilities. More generally we expect investment management firms to continue to benefit from increased intermediary referrals for specific investment services. We also expect clients that are no longer tied to the in-house product-based solutions (that have been historically part of a more holistic bank financial planning offering) to be looking for alternative service providers.

### Pensions

The trend away from defined benefit schemes has persisted and we continue to see growth not only in defined contribution pension schemes but also individual personal savings. The latter in particular is an opportunity for investment management firms who provide self invested personal pensions (SIPPs). Recent changes to the UK pension system announced in the 2014 Budget, along with proposed further changes regarding the taxation of inherited pensions, support the trend toward a more flexible approach to retirement planning. This is likely to present opportunities for client relationships to be retained for longer.

### Regulation

The regulatory change agenda remains busy for the industry, with a focus on the conduct risks and culture of financial services firms to ensure that their services continue to be suitable for clients.

In particular this year, the Financial Conduct Authority's (FCA) increased focus on price transparency within the UK has led to some interesting debates regarding the 'unbundling' of research costs from fees (driven by European regulators), the use of in-house products within investment portfolios and the identification and management of conflicts of interest. The outcome of the unbundling debate remains unclear and we continue to monitor the situation; however, any impact will only affect Rathbone Unit Trust Management as Rathbone Investment Management already pays directly for research.

### Systems

Recent comments from the FCA indicate that in general the wealth management sector needs to invest further in long term system development in order to ensure systems remain reliable and keep pace with technological advancements and client demands. Stable IT and operations platforms that can handle significant volumes will continue to play an important role in determining a competitive advantage and securing scale benefits in the market.

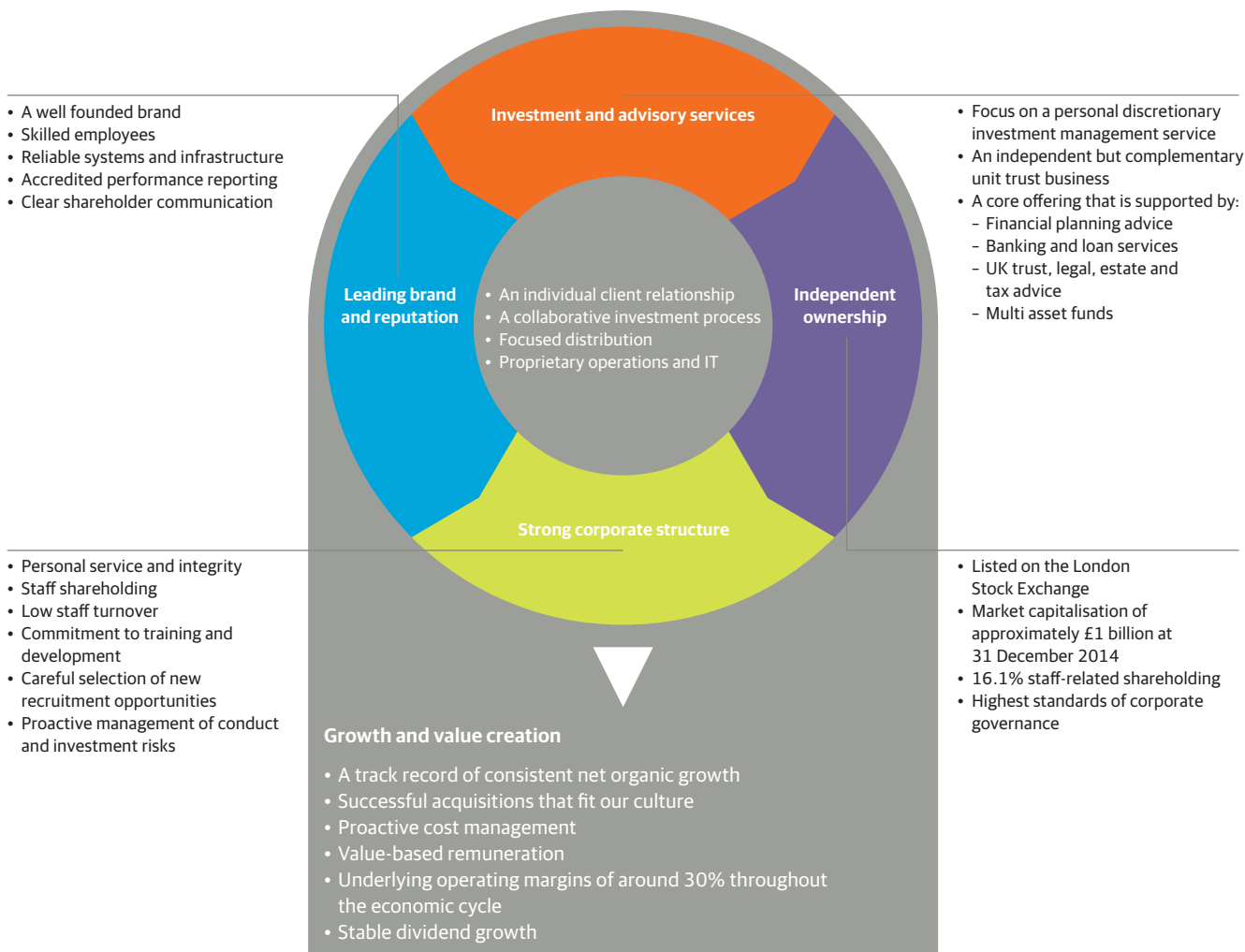
### Corporate acquisitions

The UK market remains fragmented and will continue to undergo significant change. This is expected to present acquisition opportunities. Such opportunities may be in the form of corporate acquisitions of companies or blocks of clients, or via the recruitment of individual investment managers.

# Our business model

Our vision is to be the UK's leading independently-owned provider of wealth management services to private clients, charities, professional intermediaries and trustees by building trusted relationships with our clients and delivering outstanding client service, value for money and investment excellence.

We are building on our successful business model to provide bespoke investment solutions delivered by high-quality professionals to a wider and more diverse client base.



## How we deliver

### An individual client relationship

- Private clients know the investment professional that manages their money
- Long and trusted relationships with our clients and intermediaries
- Online services supplement core client relationships
- No bias towards in-house funds or services

### A collaborative investment process

- A bespoke approach to portfolio construction supported by an influential central process
- Respect for each manager's professional skills and experience
- Firm wide processes pool intellectual capital
- Strategic asset allocation and coverage of core and diversifying investments
- A whole of market approach

### Focused distribution

- Direct client referral
- Focus on UK financial advisors and intermediaries
- Unit trusts marketed directly to intermediaries and via investment platforms

### Proprietary operations and IT

- A dedicated in-house custody and settlement platform
- No data reconciliation between multiple databases
- 'Front office' tools to help deliver a personal service efficiently
- Outsourced unit trust operations
- A developing digital platform
- GIPS accredited performance measurement systems

# Our approach

## Investment and advisory services

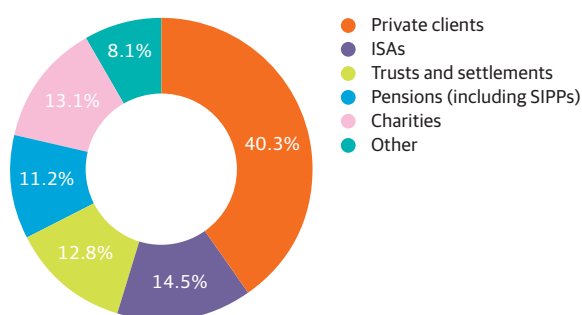
The Rathbone group provides investment solutions to clients with £1,000 to upwards of £100 million to invest. Through Rathbone Investment Management, we provide wealth management solutions largely to private clients, charities and trustees. Through Rathbone Unit Trust Management, we provide unit trust and multi asset fund products, sold through intermediaries, to the retail sector. We also provide UK trust, legal and tax services to higher net worth individuals and families.

Our investment services and products meet the specific requirements of clients and their advisors, sometimes through tax wrapped products such as individual savings accounts (ISAs) or self invested personal pensions (SIPPs). Over the course of 2014 we have aligned the business to improve our focus on each of our key business channels: private clients, charities and specialist services, private office, unit trusts, multi asset funds and loan services.

### Private clients

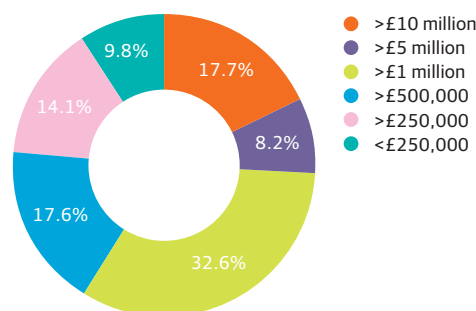
Investment portfolios for private clients include a mixture of main, ISA, trust and pension accounts. Our clients' requirements vary both in relation to the size of their portfolio and as a result of their individual needs. We specialise in providing a high quality service that is relevant to clients (and their advisors) looking for a discretionary investment management service. A direct relationship, combined with a discretionary and bespoke approach to investment management allows us to deliver a quality service which is tailored to each client's needs and that responds to changes in investment conditions and their circumstances.

Client account type by value of funds under management



Discretionary investment management will remain the core client proposition within our investment management business; however, we recognise that certain clients may wish to take a more active role in the management of their investments. We therefore expect to see some growing demand for advisory or advisory managed portfolios, although this is likely to remain a relatively small proportion of our overall business. Whilst we do operate a small number of execution-only accounts, these are generally linked to a discretionary client account and we do not offer this 'dealing' service as a stand alone proposition.

Size of client relationship by value of funds under management



Our average private client portfolio is £479,000 and over half of the money we manage is in client relationships of greater than £1 million. We offer our discretionary service to clients with investible assets of £100,000 upwards and understand that many of the smaller client accounts that we manage are often linked to a much larger client relationship. We consider it is important to provide a flexible approach to managing these full service discretionary portfolios that aligns with the client's wishes, rather than 'forcing' them into a model-based portfolio solution.

We also run the Rathbone Unitised Portfolio Service, which represents an investment opportunity for clients with fewer investible assets (£25,000 or more) who are still looking for a discretionary investment management service but do not require a bespoke approach to portfolio construction. This solution uses the Rathbone Multi Asset Portfolio funds (see page 12) as building blocks and offers an attractive proposition for intermediaries requiring a service for smaller investors.

Rathbone Pension & Advisory Services is our independent chartered financial planning business, providing 'whole of market' advice to our clients on financial planning options including retirement and inheritance tax planning, as well as offering advice on the Rathbone SIPP. In the last few years there has been increased demand from many of our clients for a more rounded wealth management solution. We have therefore recently decided to embed the Rathbone Pension & Advisory Services team within Rathbone Investment Management to better support our investment teams. Our proposition will remain largely investment focused, with advisory and financial planning services complementing our core investment management service, rather than becoming our primary service.

Many of our clients already receive financial planning advice elsewhere and we will actively continue to work alongside these advisors for the benefit of our mutual clients. In December 2014 we completed the sale of our small SIPP administration business to Curtis Banks.

### Charity and specialist services

At the start of 2014 we formed a new charity and specialist services division within our investment management business to improve our service to and provide a focal point

#### Investment and advisory services Charity and specialist services

for charities, friendly societies and mutual associations, livery companies, unions, pension funds and specialist ethical mandate clients.

We currently manage £3.3 billion for the 1,145 clients of our charity business and we estimate that this equates to a circa 6% market share by value of funds under management. Larger charity clients share many similarities with private clients but require a quasi-institutional investment service. Our specialist charity team, located in both our London and Liverpool offices, has the experience and skills needed to support mid-tier and large charities. This team is also able to support the private client investment managers who often manage smaller (sub-£1 million) charity accounts, generally linked to their existing clients. We have been particularly successful in attracting charities with a particular bias towards education, religion and the disadvantaged and disabled. We intend to continue to focus attention on these areas of the charity market. In 2014 we recruited a new head of charities in London, in order to support the growth of the team and enable the head of the division to focus on its development.

Rathbone Greenbank Investments is a leader amongst our wealth management peers as a specialist ethical and sustainable investment service provider. Rathbone Greenbank Investments manages £0.7 billion for private clients, charities and trusts which wish to reflect their social, ethical and environmental values through their investment choices, either via a bespoke investment portfolio or the careful selection of managed funds which meet their individual criteria.

#### Private office

The Rathbone Private Office, which was launched in October 2014, will be led by Andrew Clark, who joined us as part of the Jupiter transaction and has much experience in this sector. Although the Private Office is in its early stages, our aim is to combine many of the key business capabilities we already offer to clients through our trust, tax, family office support and banking services. In May 2014 we acquired the law firm Rooper & Whately, adding further depth to the range of advisory services provided through Rathbone Trust Company and resulting in it becoming regulated by the Solicitors Regulation Authority (SRA).

We currently manage around £1 billion for clients with portfolios worth £10 million and above, many of whom are also clients of our trust business. There is significant opportunity to expand our existing reach within the 'Super High Net Worth' (SHNW) segment of the market (£10 million - £100 million), which appears to have been poorly served by international and UK private banks, and multi-family offices, and therefore needs a credible alternative. We will add services to our SHNW proposition over time, recruiting experienced personnel to help drive growth in this segment of the market and entering into selective partnerships, to provide certain specific 'banking' services which will be expected by a SHNW client base.

#### Unit trust funds

Our independent unit trust business, Rathbone Unit Trust Management, is a boutique asset manager providing a focused range of unit trusts designed to service and support the retail client market. At the end of December 2014 we managed £2.5 billion in collective funds. This is a highly competitive sector, serviced by similar sized boutique firms as well as large multi-nationals. Our market share is 0.25% of total available funds under management.

Our unit trusts are predominantly designed to support the financial advice market and as such are distributed in the UK principally through financial intermediaries and third party platforms. Within the retail client sector investment performance is a critical factor in determining whether to invest in a fund. We have a clearly defined investment philosophy and process for each fund, and take a long term perspective in the way we manage money. Our positive three and five year fund performance record has proved beneficial in attracting inflows from intermediaries looking to invest on behalf of their clients and to a lesser extent individuals managing their money on a self-directed basis via an investment platform.

As at 31 December 2014 only 1.4% of Rathbone Investment Management's funds under management were held in our retail unit trust funds. We do not actively promote cross ownership of our unit trust funds within our investment management portfolios.

We take a boutique approach to our fund management business, specialising in areas where we believe we add real value and which play to the talent and experience of our fund managers. We focus on creating and incubating products which not only complement our existing fund range, but importantly will also ensure that we have credible products with recognised track records.

#### Multi asset funds

The Rathbone multi asset funds provide a useful investment solution for clients with smaller investment portfolios (from £1,000 to invest) and are the building blocks for the collective investment management solution for smaller private clients delivered via the Rathbone Unitised Portfolio Service. These funds are also available to external investors and their advisors. There are currently three multi asset strategies: strategic growth, enhanced growth and total return, which have been designed as a core holding for advisers seeking to generate a level of return within defined levels of risk volatility.

#### Loan services

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

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## Leading brand and reputation

Rathbones is recognised and respected within the financial services industry. We have built a reputation amongst our clients and peers for professionalism, reliability, efficiency and trustworthiness: attributes borne out in a client survey that we conducted earlier this year. Importantly the survey also highlighted that our clients felt that they were treated as individuals and valued as clients. Further information regarding the results of our client survey is available in the case study on page 30.

We continue to attract new clients looking for a personal and professional service; many are referred by our existing clients, with whom we have built long-standing relationships, in some instances spanning several generations.

Over the course of 2014 we have reviewed our brand and in 2015 we will launch a new brand based on the core business principles identified as part of the review. The new brand will support our strategic growth plans for our different business divisions and highlight the progressive, forward looking and innovative nature of Rathbones. Further information regarding our brand review is available in the case study on page 32. Our refreshed brand will convey four key attributes, which are at the heart of our business culture, support our successful business model and are relevant for all our stakeholders: individual, independent, informed and quality.

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## Independent ownership

Our independent ownership is important to the way we run our business. Unlike investment houses owned by a larger parent we are able to invest in the group as is most appropriate to meet our clients' needs. We do not compete for resource with other business divisions, nor face pressure to invest in in-house products or adopt 'house' systems, procedures and strategy. Instead we have been able to set a strategy which complements our focus on the segments of the UK asset management market that we serve and develop the common platform which is key to our successful business model and supports our service offering.

In recent years, the UK wealth management market has been subject to significant regulation, merger and acquisition activity and corporate change. Throughout this period, we have remained stable, allowing us to focus our attention on constantly improving our client service and increasing the scalability of the business. This stability has supported our growth, both organic and through acquisition.

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## A strong culture

Our independent ownership and staff shareholding is an important part of our business culture. Across the business

we try to act with integrity and with a sense of personal responsibility, putting our clients first, in order to deliver the right result. Nearly all employees are shareholders in the company and as such are directly incentivised by, and motivated to ensure, the positive performance of the group and its continuing long term success. We all draw confidence for the future from our financial stability and FTSE 250 status, but still value the personal relationship we have with our clients.

We are careful to ensure that new recruits share our client service ethos and investment philosophy. Our commitment to a bespoke approach to investment management is becoming rarer in the wealth management market and has attracted many new clients, and indeed investment professionals.

Continuity of service, across all business areas, is important to our clients and this is best achieved by employing quality individuals who are motivated to strive for the highest client service standards. Turnover amongst our employees remains low; 2% amongst investment teams in 2014 and 4% in total across all areas of the group. This has not only ensured high levels of continuity for our clients and their advisers but has also resulted in a substantial pool of knowledge and experience within the business.

Career development is important to us and we strive to provide a high-quality learning and development experience for all our employees, to ensure they are well informed and to help them achieve both their professional and personal potential. In recent years we have paid greater attention to leadership development and we expect this will continue over the course of 2015. We will continue to place emphasis on leadership and management skills development and will provide mentoring where appropriate, as well as ensuring that continuing professional development training remains relevant. We will be developing clearer career structures for all our employees, which will help both in terms of transparency and motivation. We will also refine our remuneration structures as appropriate.

We are an equal opportunities employer. We do not have a human rights policy because we do not consider this would be relevant to our business.

Our remuneration model closely aligns the interests of our key stakeholders, helping us to continue to create ongoing value for our clients, shareholders and employees: not just in the short term but over the longer term too.

We aspire to meet, if not exceed, regulatory requirements and see our regulators, the Prudential Regulation Authority (PRA), FCA and SRA, as important stakeholders. We recognise the role that these regulators play in setting the wider industry agenda and we are keen to ensure that we continue to retain a strong focus on meeting the needs and expectations of our clients in all that we do.

At the end of 2014 we held a series of meetings with all our employees to share with them our strategic vision for Rathbones. In 2015 we will continue to increase the level

#### A strong culture

of 'corporate conversation' within the business in order to positively engage with all employees.

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## How we deliver

As employee, technology and regulatory costs increase, it remains important to ensure that we maintain our client relationships, retain our skilled resources and develop our business. We will do this by building upon the common platform of service approach and processes that support the business.

#### An individual client relationship

We treat our clients as individuals. As our approach to investment management is focused on understanding our clients' specific needs and delivering a personal service, our clients have direct access to their own investment manager, rather than a relationship manager. As a result, client portfolios are structured individually to reflect each client's unique needs, objectives, attitude to risk and capacity for loss: providing a bespoke solution rather than the one-size-fits-all approach. We encourage a regular dialogue between our investment managers and their clients, allowing any changes in client circumstances or sentiment to be reflected in their portfolio in a timely and informed manner.

#### A collaborative investment process

Our investment philosophy is built upon the notion of 'investment autonomy with accountability', supported and enhanced by a non-prescriptive but influential central investment process. This ensures that when constructing an investment portfolio an investment manager can draw on in-house expertise to support the asset allocation and security selection choices they believe will best suit a client's individual needs. Our investment managers are encouraged to use their experience and intellect to construct the portfolio.

Investment managers contribute to the central investment process which pools the significant intellectual capital of Rathbones. Of our 249 investment professionals around 70 are actively involved in the daily running of our central investment process, the associated committees and research output, with many more contributing on a more ad hoc basis in terms of the dissemination of ideas and research.

We have expanded and strengthened our central research function with the hire of analysts to provide greater coverage of European and North American equities, fixed income and collective securities in 2014. We will continue to develop our in-house research capability to provide further breadth and depth to our current UK coverage and have commenced selective international coverage. We continue to refine our risk monitoring and measurement systems.

The performance of all investment managers is measured and monitored on a risk-adjusted basis over one, three and five year periods, including performance against benchmarks and

an assessment of portfolio volatility. This balanced approach combined with easily accessible and reliable attribution analysis seeks to ensure that all clients receive the same high standard of care.

In the second half of 2014 of we recruited a head of investment process and risk, who will further strengthen our investment risk management capability and develop our risk assessment and quality assurance processes. In June 2014 we announced that we had achieved the Global Investment Performance Standards (GIPS) accreditation for our performance measurement systems. This has added further credibility to the data and systems that support our investment teams.

#### Focused distribution

Referrals from existing clients continue to be an important part of our business. Over the last few years we have sought to improve our intermediary offering, working hard to develop further our relationships with financial advisors and to improve the quality of service for this important sector of the market.

In 2014 we revised our distribution strategy to address certain capacity issues experienced by investment managers and meet the expectations of the intermediary market. We combined our existing unit trust sales team and investment management business development team to create a single distribution team. We can now better support growth in the intermediated and 'business-to-business' channels, by harnessing our resources to provide the one point of call service larger intermediary groups demand. Our single distribution team will provide UK financial advisers with a consistent, professional point of contact for all their outsourcing needs as well as infrastructure support. Following the acquisition of Jupiter's private client and charity investment management business, we now also have the capability to widen our distribution to focus on the intermediaries who service the non-domiciled private client market. Many of the changes to our distribution strategy were made towards the end of 2014 and as such we expect to see momentum start to build in our intermediary initiatives in the second half of 2015. We will be monitoring the growth and development of this area carefully.

In 2012 we announced the acquisition of a 19.9% holding in Vision Independent Financial Planning Limited and its sister company, Castle Investment Solutions Limited. Vision remains a contributor to our overall distribution strategy and we are assessing whether we will exercise our option to acquire the remaining 80.1% of the business. This decision will be made in 2015.

#### Proprietary operations and IT

Over many years we have built a strong in-house operations and IT department, predominantly centred in our Liverpool office, in order to service our investment management and financial advisory businesses. By retaining the majority of these functions in-house, rather than outsourcing them, we are able to control quality and service standards, as well as



**How we deliver** Proprietary operations and IT

ensuring that our responses to business change are more flexible. Where we cannot achieve service differentiation or economies of scale we have outsourced, for example in the case of the operations functions of our unit trust business.

Consistent incremental investment in our operations and IT infrastructure has resulted in the development of a robust, reliable and responsive operating platform, onto which bespoke industry leading front office modules have been built. Crucially all our systems (both front and back office) are fully integrated, with a central consolidated database ensuring data integrity across all the modular 'bolt-on' programmes. Our core system can support significant further growth in funds under management. Our recent acquisitions provided a useful opportunity to successfully 'stress test' our systems and client 'on-boarding' processes. In 2015 we will be improving our collective security settlement process and focusing on streamlining and speeding up our client take-on processes in order to make this as efficient as possible.

During 2013 we launched our purpose built Asset Allocation Modelling (AAM) module of our front office system, the Rathbone Investment Desk. This was an investment manager-driven enhancement that allows greater interaction between client portfolio management tools and the output of our central investment process, as well as providing a number of risk management benefits. Other benefits include significant time savings for our investment managers, allowing portfolio rebalancing, modelling and straight through processing of trades at the touch of a button. At the end of 2014, nearly one third of all trades were performed through AAM. Our AAM system also provides the functionality to help secure a consistent performance outcome across investment portfolios structured according to a particular investment strategy, regardless of which office or investment manager is running the portfolio. This should be particularly attractive to the intermediary market.

Other systems developments in 2014 included a significant software upgrade to our document management system, improving its functionality and building upon its relationship management capability. We also successfully launched an enhanced version of our online service for our clients, providing access to a range of portfolio information. We now have 22,000 clients with online access to this information.

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## Growth and value creation

Our vision is to be the leading independently-owned provider of wealth management services to private clients, charities, professional intermediaries and trustees by building trusted relationships with our clients and delivering outstanding client service, value for money and investment excellence for clients who want long term results. By delivering growth and value creation for our existing clients, and attracting new clients to join us, we ultimately generate value for our shareholders and employees.

Over the last five years we have grown funds under management by an average of 16% per annum. As market conditions allow, our aim through a combination of organic and purchased growth, supplemented by incremental initiatives, is to be a group with £40 billion of funds under management by the end of 2018.

We anticipate that organic growth will be achieved through a combination of growth from existing client referrals, a more focused approach to intermediary marketing, and careful investment in our unit trust business. We strive to achieve 5% net organic growth per annum across the economic cycle within our investment management business.

Our organic growth has been supplemented by carefully selected purchased growth. In 2014 we successfully completed the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter's private client and charity investment management business. Together these two acquisitions accounted for over £2.6 billion of purchased funds under management. In addition we have recruited a number of investment managers, who have brought £549 million of funds with them as at the end of 2014. We will continue to look proactively for suitable acquisition opportunities that will fit our culture and strategy. More information on this year's purchased growth can be found on page 28.

Our unit trust business has performed strongly over 2014, with the majority of our funds ranked in the first or second quartile over three and five years. We will continue to develop this business organically and through the launch of additional unit trust and multi asset funds targeted to meet the future needs of investors.

An important measure of our value creation is our 30% underlying operating margin, which we are focused on maintaining throughout the economic cycle. We accept that this may fluctuate up or down depending on investment conditions over any one reporting period, but we will maintain cost and revenue disciplines throughout to achieve this goal.

One of our key long term strategic goals is to provide a growing stream of dividend income for our shareholders, delivered through steady and consistent growth in earnings per share. We recognise that the consistency of our dividend is important to many of our shareholders. We expect to retain a dividend cover between one and two times across the cycle and do not expect to cut our dividend other than in extreme circumstances. Our dividend payout ratio for 2014 is 67% (2013: 64%).

We remain committed to communicating regularly and transparently with our shareholders. In 2014 we again hosted an Investor Day for institutional shareholders, at which we provided a summary of our strategic objectives for the period to 31 December 2018. Additional information regarding our shareholder communications can be found in our corporate governance report on page 55 and in the investor relations section of our website.

# Strategy and key performance indicators

## Our strategic objectives and principles

### To provide high-quality investment management, tax, trust and pension services for private individuals, charities and trusts

#### We will:

- Ensure that our clients communicate directly with the professional responsible for managing their money by retaining our combined 'investment manager-relationship manager' role
- Support our investment managers with a collaborative central investment process and research capability
- Continue to offer an offshore investment management service

- Use our 'banking licence' to help grow the amount we lend to clients and in the future provide wider services to higher net worth individuals
- Maintain the lowest threshold for discretionary investment management services at £100,000
- Continue to run our operations and IT functions in-house with limited outsourcing.

#### We will not:

- Operate prescriptive model portfolios for our discretionary investment management service
- Expand our banking activity to provide retail banking services.

### To provide a growing stream of dividend income for shareholders, delivered through steady and consistent growth in earnings per share

#### We will:

- Maintain our underlying operating margin at 30% over the economic cycle
- Grow our unit trust and multi asset funds business
- Maintain dividend cover of 1-2x
- Continue to invest in selective team and business acquisitions that fit our culture and increase shareholder value
- Invest and reinvest in infrastructure to drive cost efficiency, improve client service and support organic growth

- Manage capital and liquidity at optimal levels in light of market conditions, regulatory requirements and growth opportunities

- Be uncompromising on regulatory standards.

#### We will not:

- Provide execution-only investment services as a core offering
- Expand internationally via offices or acquisition
- Expand our regional network outside specific selected regions
- Move, on any scale, into the retail advisory sector.

### To provide an interesting and stimulating career environment for staff, including a commitment that all employees share in the equity and profits of the business

#### We will:

- Retain a flat management structure, adhering to a 'player-manager' principle for branch and team leadership
- Manage resources in anticipation of, rather than as a reaction to, future growth
- Promote a culture of 'professional autonomy with accountability' amongst investment managers
- Maintain high levels of employee retention to help ensure the continuity and quality of client service

- Provide competitive and fair benchmarked remuneration
- Continue to promote the highest professional and personal standards through investment in training
- Offer share-based saving schemes to all employees.

#### We will not:

- Reward performance for behaviours that are not aligned with shareholder and client interests

## Our strategic initiatives

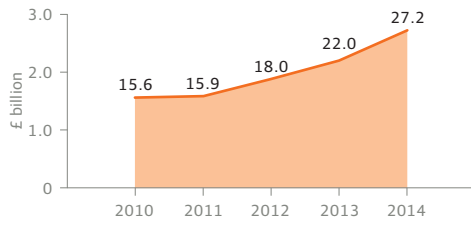
- Continue to invest in and develop the framework for controlling investment and conduct risks
- Strengthen our in-house research capability to deepen our UK and international securities coverage, and ensure that access to research output is prompt and consistent
- Enhance our investment performance measurement and reporting, building upon our GIPS accreditation
- Harness the experience of our business development functions, now operating as a single sales team, in order to extend our intermediary relationships
- Develop, over the medium term, an 'advisory managed' service for clients seeking greater involvement in portfolio management decisions
- Gradually realign and develop our existing Super High Net Worth capabilities for clients with over £10 million of investible assets under the banner of the Rathbone Private Office
- Simplify our pricing structures to provide value for money and greater transparency to clients
- Develop our multi asset investment solution for clients with less than £100,000
- Promote more communication with clients and continue to develop our online service capability to support this.

- Actively search for suitable bolt-on acquisition opportunities and selectively recruit experienced investment managers to join us
- Target net organic growth of 5% per annum throughout the economic cycle in our core investment management business
- Develop our range of unit trust and multi asset funds in areas that fit our expertise and where we can add value
- Continue to operate a conservative treasury policy
- Invest in business systems to foster a better understanding of profitability drivers at an individual or team level
- Build our corporate charitable footprint and enhance our social responsibility credentials
- Continue to communicate regularly and transparently with the market and shareholders
- Maintain open and effective relationships with regulators and tax authorities.

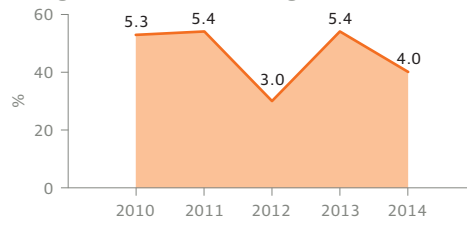
- Promote a 'team' approach and wide investment process participation amongst investment managers
- Review remuneration structures to reflect changes in the economic, regulatory and competitive environment
- Proactively manage any capacity issues in investment management teams
- Invest in leadership and management skills development across the business
- Drive greater share ownership across the business through remuneration schemes for investment personnel and key support managers, and actively encourage ownership for other staff.

**Key performance indicators**

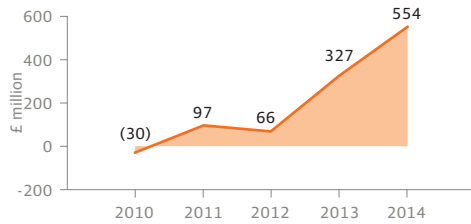
**Total funds under management**



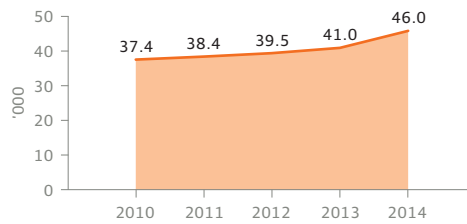
**Net organic growth rates in Investment Management funds under management**



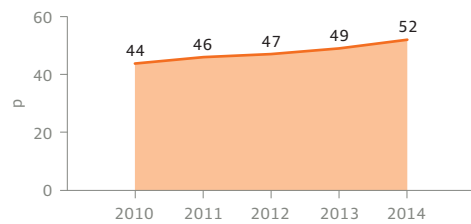
**Unit Trusts net inflows**



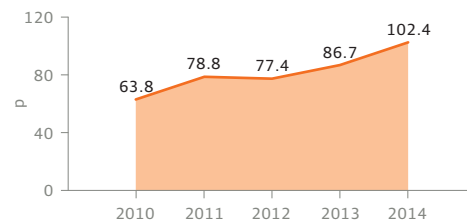
**Number of Investment Management clients**



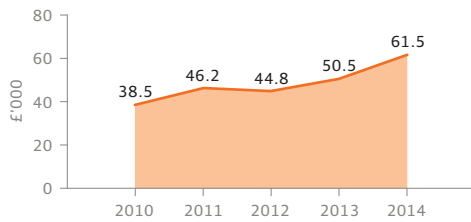
**Dividend per share**



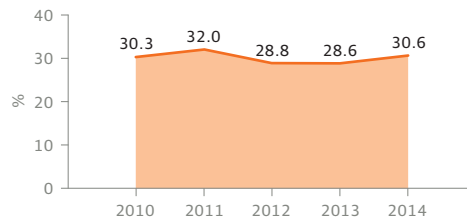
**Underlying earnings per share**



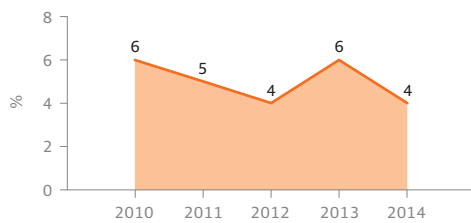
**Underlying profit before tax**



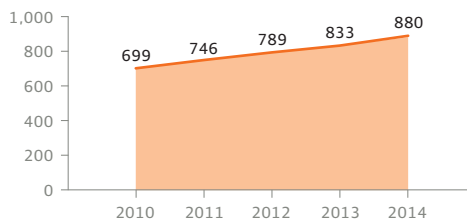
**Underlying operating margin**



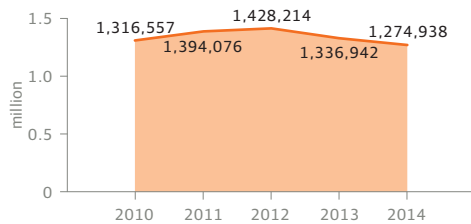
**Staff turnover**



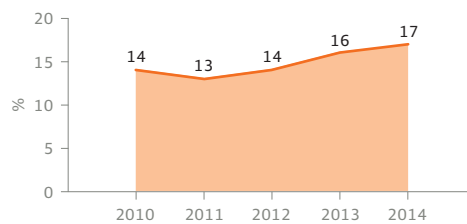
**Average full time equivalent employees**



**Number of shares held by SIP participants**



**Variable staff costs as a % of operating costs**



**Principal risks to strategy**

Performance and advice	
• Risk F	<a href="#">p21</a>
Processing	
• Risk N	<a href="#">p22</a>
Regulatory	
• Risk O	<a href="#">p22</a>
Reputational	
• Risk G	<a href="#">p21</a>

Business model	
• Risk E	<a href="#">p21</a>
Credit	
• Risk A	<a href="#">p20</a>
Pension	
• Risk D	<a href="#">p20</a>

Business change	
• Risk H	<a href="#">p22</a>
People	
• Risk M	<a href="#">p22</a>

# Risk management

Rathbones continues to enhance its risk management framework, which provides a structured and consistent approach across the group. During the year, we have further established our operating model for risk management and improved our risk governance and lines of defence model to ensure that all identified risks are owned by management, business units and, in some cases, specific committees. A dedicated chief risk officer is expected to join us in March 2015.

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## Three lines of defence

Rathbones operates a three lines of defence model to support the risk management framework. Responsibility and accountability for risk management are effectively broken down into three lines as follows.

### 1st line

Rathbones' senior management and operational business units own and are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

### 2nd line

Rathbones' risk function and compliance function maintain a level of independence from, and are responsible for, oversight and challenge of 1st line's day to day management, monitoring and reporting of risks.

### 3rd line

Rathbones' internal audit function is responsible for providing an independent assessment and assurance as to the effectiveness of governance, risk management and internal controls operating within the group.

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## Risk assessment

Rathbones reviews and monitors risk exposures closely, considering the potential impact and any management actions required to mitigate the impact of emerging issues and future events. The group risk register is the principal tool for monitoring risks which are classified in a strict hierarchy. The highest level (Level 1) identifies risks as financial, business or operational. The next level (Level 2) contains 15 risk categories which are listed below. Detailed risks (Level 3) are a sub-set of Level 2 risks and are captured and maintained across the company within separate business unit risk registers. The risk function regularly reviews risks with risk owners and also conducts ad hoc reviews or risk workshops. A watch list is maintained to record any emerging issues and future events which will or could have the potential to impact Rathbones' risk profile and may therefore require active management, process changes or systems development. The group risk register and watch list are regularly reviewed by the executive, senior management, board and governance committees.

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## Risk appetite

Rathbones' risk appetite is defined as both the amount and type of risk the company is prepared to take or retain in the pursuit of its strategy. Our appetite articulates some overarching parameters and specific measures for each Level 2 risk category. During 2014 Rathbones operated within its stated risk appetite and the board remains committed to mitigating risk to within levels that are consistent with a relatively low overall appetite for risk. The board continues to recognise that the business is susceptible to market fluctuations and will bear losses from financial and operational risks from time to time either as reductions in income or increases in operating costs.

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## Risk scoring







Rathbones assesses risks using a 1-4 scoring system with each Level 3 risk rated by assessing the likelihood of its occurrence in a five year period and the associated impact. A residual risk score is then derived by taking into account an assessment of the internal control environment or insurance mitigation.

## Risk profile

Thirty-nine Level 3 risks continue to form the basis of the group's risk register, each of which is classified under one of the 15 Level 2 risk categories.

Rathbones' approach to managing risk is underpinned by an understanding of our current risk exposures and how risks change over time.

During the year there have been minor changes to the 15 Level 2 risk categories; however, the underlying risk profile and ratings for the majority of Level 2 risks have remained consistent during 2014. The following table summarises the changes.

Ref	Risk	Risk change in 2014	Description of change
A	Credit		Cash held with central banks has increased by 245%
D	Pension		Impact of significantly lower long term gilt rates has increased IFRS and funding deficit
H	Business change		The operational integration of two acquisitions increased our business risk
J	Data integrity and security		Increased threat of fraud or cyber attack
K	Legal		Settlement of Jersey trust legal proceedings has reduced our overall risk exposure
O	Regulatory		Volume of regulation remains high and a continued focus on conduct across the financial services industry

During the year, the executive has also recognised a number of emerging risks. The three main risks are listed below.

Emerging risk	Description
Cyber risk	Higher risk of an unwelcomed attack on core systems and data
Political risk	Increased market volatility from the possibility of EU uncertainties and other geopolitical factors
Business model risk	Need for banks to strengthen capital buffers in line with CRD IV framework

The board believes that the principal risks and uncertainties facing the group have been identified within the information below, and has recognised the impact of strategic change in the year. The board continues to believe that the most significant risks to the business are operational risks that arise from the growth in our business, and regulatory risks that may arise from continual changes to rules and standards in our sector. Our overall risk profile and ways in which we mitigate risks are analysed below. The risk mitigation listed is not exhaustive and excludes the oversight provided by board committees.

## Financial risks

Ref	Level 2 risk	Definition	Key mitigators
A	Credit	The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	<ul style="list-style-type: none"> <li>• Banking committee oversight</li> <li>• Counterparty limits and credit reviews</li> <li>• Treasury policy and procedures manual</li> <li>• Active monitoring of exposures</li> <li>• Annual Individual Capital Adequacy Assessment Process</li> <li>• Client loan policy</li> </ul>
B	Liquidity	The risk of having insufficient financial resources to meet obligations as they fall due, or that to secure access to such resources would be at an excessive cost	<ul style="list-style-type: none"> <li>• Banking committee oversight</li> <li>• Daily reconciliations and reporting to senior management</li> <li>• Cash flow forecasting</li> <li>• Contingency funding plan</li> <li>• Annual Individual Liquidity Adequacy Assessment (including stress testing)</li> </ul>
C	Market	The risk that earnings or capital will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices	<ul style="list-style-type: none"> <li>• Banking committee oversight</li> <li>• Documented policies and procedures</li> <li>• Daily monitoring of interest rates, exchange rates and maturity mismatch</li> <li>• Robust application of policy and investment limits</li> </ul>
D	Pension	The risk that the cost of our defined benefit pension schemes increases, or its valuation affects dividends, reserves and capital	<ul style="list-style-type: none"> <li>• Management and trustee oversight</li> <li>• Monthly valuation estimates</li> <li>• Triennial independent actuarial valuations</li> <li>• Investment policy and oversight</li> <li>• Monthly management information</li> <li>• Annual Individual Capital Adequacy Assessment Process</li> </ul>

Further detailed discussion of the group's exposures to financial risks is included in note 33 to the financial statements.

## Business risks

Ref	Level 2 risk	Definition	Key mitigators
E	Business model	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	<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 marketing, the investment process and service standards</li> <li>• Trade body participation</li> <li>• Regular competitor benchmarking and analysis</li> </ul>
F	Performance and advice	The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios, resulting in a failure to meet clients' investment and/or other objectives or expectations	<ul style="list-style-type: none"> <li>• Investment governance and structured committee oversight, specifically strategic asset allocation and stock selection</li> <li>• Management oversight and active client service</li> <li>• Performance measurement and attribution analysis</li> <li>• Weekly investment management meetings</li> <li>• Monthly investment manager peer reviews</li> <li>• Consistent and competitive remuneration schemes</li> <li>• Compliance monitoring</li> </ul>
G	Reputational	The risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations	<ul style="list-style-type: none"> <li>• Executive oversight with a strong compliance culture</li> <li>• Conflicts of interest committee</li> <li>• Investment in staff training and development</li> <li>• Proactive communications with shareholders/ investor relations</li> <li>• Investment process, management and performance monitoring</li> <li>• Conduct risk framework</li> <li>• Strong values and approach to governance</li> <li>• Monitoring of media coverage</li> </ul>

## Operational risks

Ref	Level 2 risk	Definition	Key mitigators
H	Business change	The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes	<ul style="list-style-type: none"> <li>• Project and IT committees</li> <li>• Dedicated project office function</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>
I	Business continuity	The risk that an internal or external event results in either failure or detriment to core business processes or services	<ul style="list-style-type: none"> <li>• Group business continuity committee oversight</li> <li>• Documented crisis/incident management and disaster recovery plans</li> <li>• Regular disaster recovery testing</li> <li>• Continuous monitoring of IT systems availability</li> <li>• Off-site data centre</li> </ul>
J	Data integrity and security	The risk of a lack of integrity of, inappropriate access to, or disclosure of, client or company-sensitive information	<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 at all locations</li> </ul>
K	Legal	The risk of legal action being taken against the group (and/or a subsidiary) or failure to comply with legislative requirements, resulting in financial loss and reputational damage	<ul style="list-style-type: none"> <li>• Executive oversight</li> <li>• Retained specialist legal advisers</li> <li>• Data protection policy and compliance monitoring</li> <li>• Documented policies and procedures</li> <li>• Training and employee awareness programmes</li> </ul>
L	Outsourcing	The risk of one or more third parties failing to provide or perform outsourced services to standards expected by the group, impacting the ability to deliver core services	<ul style="list-style-type: none"> <li>• Executive oversight</li> <li>• Supplier due diligence and regular financial reviews</li> <li>• Active relationship management, including regular service review meetings</li> <li>• Service level agreements and monitoring of key performance indicators</li> <li>• Compliance monitoring</li> </ul>
M	People	The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions	<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>• Investment in staff training and development</li> <li>• Contractual clauses with restrictive covenants</li> </ul>
N	Processing	The risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets	<ul style="list-style-type: none"> <li>• Authorisation limits and management oversight</li> <li>• Dealing limits and supporting system controls</li> <li>• Active investment in automated processes</li> <li>• Counter review/four-eyes processes</li> <li>• Segregation of duties</li> <li>• Documented procedures</li> <li>• Annual controls assessment (ISAE3402 report)</li> </ul>
O	Regulatory	The risk of failure by the group (and/or a subsidiary) to fulfil its regulatory requirements and comply with the introduction of new or amended regulation	<ul style="list-style-type: none"> <li>• Active involvement with representative industry bodies</li> <li>• Compliance monitoring and oversight of industry and regulatory developments</li> <li>• Close contact with the regulators</li> <li>• Documented policy and procedures</li> </ul>



# Our performance

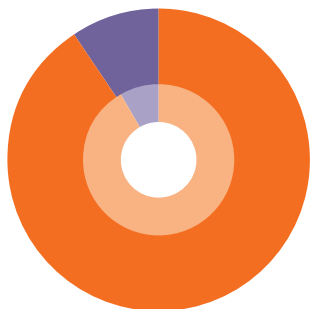
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## Rathbones' performance

2014 was a year of growth for Rathbones despite some uncertainty and volatility in financial markets in the latter part of the year. Overall, the FTSE 100 Index and the FTSE WMA Balanced Index ended the year little changed from their opening levels.

Chart 1. Group funds under management



	2014 £bn	2013 £bn
Investment Management	24.7	20.2
Unit Trusts	2.5	1.8
<b>Total</b>	<b>27.2</b>	<b>22.0</b>

Table 1. Extracts from the consolidated statement of comprehensive income

	2014 £m	2013 £m
Underlying operating income	200.8	176.4
Underlying operating expenses	(139.3)	(125.9)
Underlying profit before tax <sup>1</sup>	61.5	50.5
Underlying operating margin <sup>2</sup>	30.6%	28.6%
Profit before tax	45.7	44.2
Effective tax rate	22.1%	21.3%
Taxation	(10.1)	(9.4)
Profit after tax	35.6	34.8
Underlying earnings per share	102.4p	86.7p
Earnings per share	75.9p	76.1p
Dividend per share <sup>3</sup>	52p	49p

1 Profit before tax excluding refund of levies for the Financial Services Compensation Scheme, gain on disposal of financial securities, gain on disposal of pension administration business, charges in relation to client relationships and goodwill, contribution to legal settlement and transaction costs

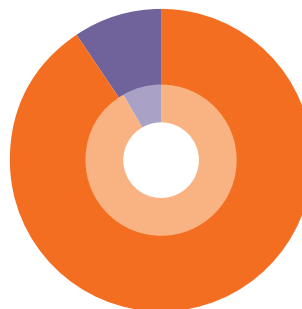
2 Underlying profit before tax as a % of underlying operating income

3 The total interim and final dividend proposed for the financial year

### Group underlying operating income

Underlying operating income increased 13.8% to £200.8 million in 2014 reflecting fees and commissions earned on higher levels of funds under management. A detailed analysis of each component of income is set out in the segmental review on pages 27 to 34. A reconciliation between underlying operating income and reported operating income is provided on page 25.

Chart 2. Group underlying operating income



	2014 £m	2013 £m
Investment Management	185.3	165.3
Unit Trusts	15.5	11.1
<b>Total</b>	<b>200.8</b>	<b>176.4</b>

### Group underlying operating expenses

Underlying operating expenses have increased 10.6% to £139.3 million, which largely reflects a combination of business growth and investment (see chart 3).

Total fixed staff costs, including support staff, increased by 9.0% to £61.9 million in 2014, including inflation of 4% and growth of 5.6% in average full time equivalent headcount to 880 (2013: 833). This growth reflects the acquisitions in the year and the addition of new revenue generating teams in London and Chichester. We have also taken on more staff in operational roles and support departments in line with our strategic plan.

Total variable staff costs, including variable awards for business support staff, increased by 26.2% to £35.2 million. This reflects the higher cost of cash-settled awards, in line with share price growth and higher profitability. Variable staff costs in 2014 represented 17.5% of underlying operating income (2013: 15.8%) and 36.4% of underlying profit before tax and variable staff costs (2013: 35.6%).

As planned, infrastructure costs increased by £1.1 million, largely as a result of expenditure to improve automation and help drive process efficiencies.

Underlying operating expenses also included £1.5 million of legal fees (2013: £2.7 million) in relation to the legal proceedings outlined below and in note 11 to the financial statements and £2.8 million (2013: £0.5 million) for awards payable to new investment managers for the introduction of new clients where those managers have been in situ for more than 12 months (see note 2.1 to the financial statements).

## 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 looking at Rathbones' results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude income and expenditure falling in the six categories explained below. A full reconciliation between underlying profit and profit attributable to shareholders is provided in table 2.

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

	2014 £m	2013 £m
Underlying profit before tax	61.5	50.5
Refund of levies for the Financial Services Compensation Scheme	1.0	-
Gain on disposal of financial securities	6.8	-
Gain on disposal of pension administration business	0.7	-
Charges in relation to client relationships and goodwill	(8.3)	(6.3)
Contribution to legal settlement	(15.0)	-
Transaction costs	(1.0)	-
Profit before tax	45.7	44.2

### Refund of levies for the Financial Services Compensation Scheme (note 7)

In 2010, the group incurred exceptional levies of £3.2 million from the Financial Services Compensation Scheme (FSCS) as a result of the failure of Keydata and other intermediaries. In December 2014, the FSCS announced that they had made recoveries of approximately £50 million and consequently reimbursed part of the exceptional costs levied to scheme participants. The share of recoveries returned to the group was £1.0 million.

### Gain on disposal of financial securities (note 8)

During 2014, the group disposed of its remaining holdings of shares in the London Stock Exchange Group Plc and Euroclear Plc, raising £6.8 million from the disposals. The group acquired the shares as it was a member of the London Stock Exchange and Crest at the time of their respective listings. As at 31 December 2014, the group had no remaining non-core equity holdings.

### Gain on disposal of pension administration business (note 9)

On 31 December, the group disposed of its self invested personal pension (SIPP) administration business, which was no longer considered to be a core component of the group's activities. This generated net proceeds of £0.7 million. No assets or liabilities were derecognised as a result of the disposal and all staff were retained within the group and assigned to new roles. This business generated £0.7 million of revenue in 2014.

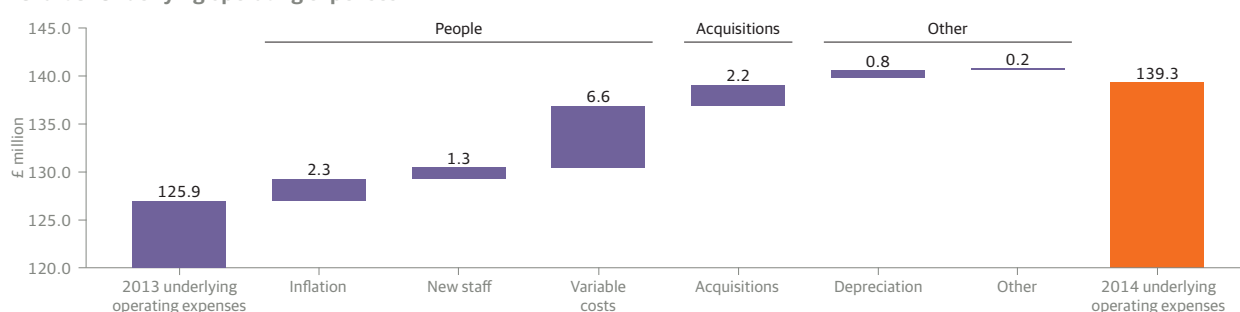
### Charges in relation to client relationships and goodwill (note 25)

As explained in notes 1.15 and 2.1, client relationship intangible assets are created in the course of acquiring funds under management. The amortisation charge associated with these assets represents a significant non-cash item. It has, therefore, been excluded from underlying profit, which represents largely cash-based earnings. Charges for amortisation of client relationship intangibles in the year ended 31 December 2014 were £8.3 million (2013: £6.3 million), reflecting recent acquisitions.

### Contribution to legal settlement (note 11)

On 24 July 2014, the group announced that it had reached a conditional agreement to contribute £15.0 million to a settlement of legal proceedings in Jersey involving a former director and employee of a former subsidiary and in respect of legal proceedings against certain of Rathbones' civil liability (professional indemnity) insurers. On 18 August 2014, the group announced that all conditions had been satisfied and Rathbones had paid its share of the settlement. No such costs were incurred in 2013.

**Chart 3. Underlying operating expenses**



#### Underlying profit before tax/operating margin

##### Transaction costs (note 12)

Transaction related costs of £1.0 million were incurred in relation to the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter's private client and charity investment management business (2013: £nil).

Underlying profit before tax grew 21.8% from £50.5 million in 2013 to £61.5 million. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 30.6% for the year ended 31 December 2014 (2013: 28.6%). Profit before tax increased 3.4% to £45.7 million for the year, up from £44.2 million in 2013.

##### Taxation

The tax charge for 2014 was £10.1 million (2013: £9.4 million), and represents an effective tax rate of 22.1% (2013: 21.3%).

The effective tax rate is slightly higher than the derived UK standard rate of corporation tax of 21.5% due to:

- the impact of disallowable expenses; partially offset by
- an increase in the tax deduction available for share-based awards driven by a higher share price; and
- a lower rate of tax payable on earnings from our Jersey business.

A full reconciliation of the income tax expense is provided in note 14 to the financial statements.

The Finance Bill 2013, which included provisions for the UK corporation tax rate to be reduced to 20% in April 2015, was passed by the House of Commons on 2 July 2013 and the reductions are therefore deemed to be substantively enacted. Deferred tax balances have therefore been calculated based on this reduced rate where timing differences are forecast to unwind in future years.

##### Basic earnings per share

Basic earnings per share for the year ended 31 December 2014 were 75.9p, down 0.3% on 76.1p in 2013, incorporating the impact of the placing of 1,343,000 shares in April 2014. On an underlying basis, earnings per share increased by 18.1% to 102.4p in 2014 (see note 16 to the financial statements).

##### Dividends

In light of the results for the year, the board has proposed a final dividend for 2014 of 33p. This results in a full year dividend of 52p, an increase of 3p on 2013 (6.1%). The proposed dividend is covered one and a half times by basic earnings and two times by underlying earnings.

#### Legal proceedings

As reported in the 2013 report and accounts, a claim relating to the management of a Jersey trust had been filed against a former employee (and director) of a former subsidiary and others (and that former subsidiary had recently been joined in as a defendant). In addition, the company issued proceedings against certain of its civil liability (professional indemnity) insurers in respect of the former employee's potential liabilities arising out of the Jersey claim.

In November 2013 the company announced that judgment had been handed down following the trial in the Commercial Court in London in respect of the insurance case. In December 2013, the company and the former employee in question decided to appeal subrogation aspects of the judgment and our insurers also decided to appeal coverage aspects of the judgment. On 14 November 2014, judgement was given in our favour on all points by the Court of Appeal in the insurance case.

On 23 July 2014, mindful that litigation is never without risk and that the company could face several more years of substantial legal costs as well as the potential unwarranted negative impact on its reputation, the company joined into a conditional agreement to contribute £15.0 million to a settlement of the legal proceedings in Jersey and the insurance case. On 18 August 2014, the conditions of the agreement were satisfied and the group contributed its share of the settlement.

# Segmental review

The group reports its results in its two key operating segments; Investment Management and Unit Trusts. The activities of the group are described in detail in the investment and advisory services section of the strategic report on pages 11 and 12. The Investment Management segment comprises those activities described under the headings: private clients, charities and specialist services, private office and other services as well as the group's treasury operations. The Unit Trusts segment comprises those activities described under the unit trust funds and multi asset funds headings.

## Investment Management

The financial performance of Investment Management is largely driven by the value of funds under management. 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 loans to clients, as described below. Portfolios are closely managed by investment managers, who maintain relationships with clients that are critical to the retention of client accounts.

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

**Table 3. Investment Management - key performance indicators**

	2014	2013
Funds under management at 31 December <sup>1</sup>	<b>£24.7bn</b>	£20.2bn
Underlying rate of net organic growth in Investment Management funds under management <sup>1</sup>	<b>4.0%</b>	5.4%
Underlying rate of total net growth in Investment Management funds under management <sup>1</sup>	<b>19.6%</b>	9.0%
Average net operating basis point return <sup>2</sup>	<b>77.2bps</b>	80.5bps
Number of Investment Management clients	<b>46,000</b>	41,000
Number of investment managers	<b>249</b>	209

1 See table 4

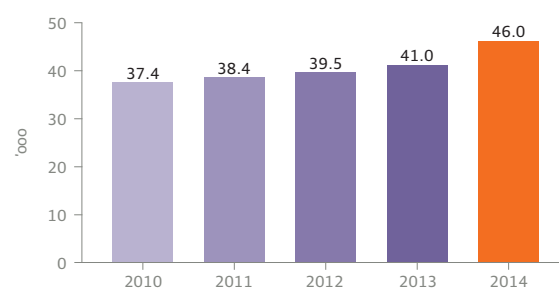
2 See table 7

During 2014 we have continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 41,000 to 46,000 during the year (see chart 4), with some 2,800 clients joining us in the year as a result of our transactions with Deutsche Asset & Wealth Management and Jupiter Asset Management. During 2014, the total number of investment managers increased to 249 at 31 December 2014 from 209 at the end of 2013 (see chart 4).

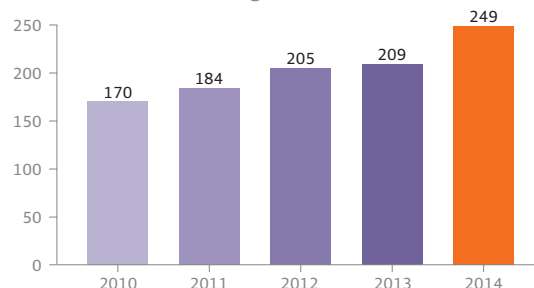
The average net operating basis point return on funds under management has fallen in 2014, largely due to an increase in the proportion of execution only accounts (£500 million of which transferred to us from Jupiter) which generate lower returns. In addition, the continued trend toward fee only business has reduced the return from commissions.

**Chart 4. Investment Management - number of clients and investment managers**

Number of Investment Management clients



Number of investment managers



### Fund flows

Investment Management funds under management increased by 22.3% to £24.7 billion at 31 December 2014 from £20.2 billion at the start of the year. This increase is analysed in table 4, below.

**Table 4. Investment Management - funds under management**

	2014 £bn	2013 £bn
As at 1 January	<b>20.2</b>	16.7
Inflows	<b>5.5</b>	2.7
- organic <sup>1</sup>	<b>2.3</b>	2.1
- acquired <sup>2</sup>	<b>3.2</b>	0.6
Outflows <sup>1</sup>	<b>(1.5)</b>	(1.2)
Market adjustment <sup>3</sup>	<b>0.5</b>	2.0
As at 31 December	<b>24.7</b>	20.2
Net organic new business <sup>4</sup>	<b>0.8</b>	0.9
Underlying rate of net organic growth <sup>5</sup>	<b>4.0%</b>	5.4%
Underlying rate of total net growth <sup>6</sup>	<b>19.6%</b>	9.0%

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

2 Value at 31 December

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

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

## Acquisitions and purchased growth

Our organic growth has been supplemented over the years by our acquired growth, which in 2014 was particularly strong, adding a total of £3.2 billion of funds under management.

### Corporate transactions

In April we agreed to purchase part of Deutsche Asset & Wealth Management's London-based private client investment management business. The transaction completed very quickly and in June we were joined by five investment managers and four support staff, bringing with them £627 million of funds under management.

We also announced in April our acquisition of the private client and charity investment management business of Jupiter Asset Management. This was a larger and more complex transaction which took longer to complete. However, at the end of September, our London office welcomed the arrival of 15 investment professionals and a further 11 business development and support staff, adding a further £2.0 billion to our funds under management.

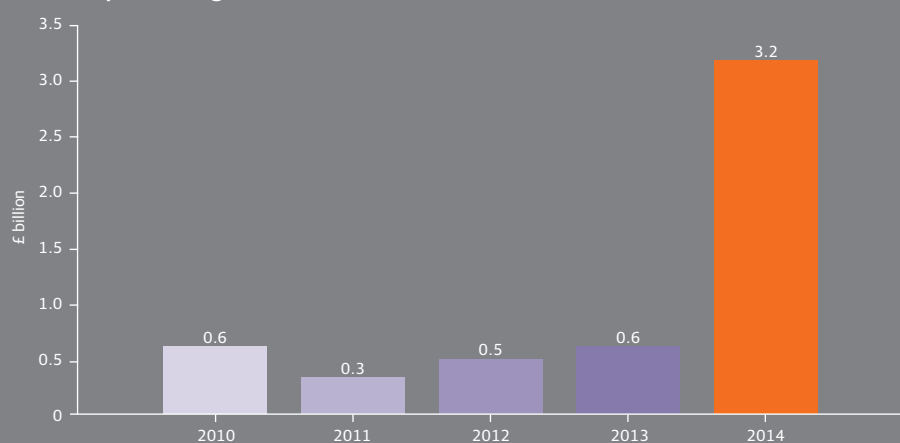
### Recruitment

Within acquired growth for the year is £549 million of funds under management associated with the arrival of individual investment managers who join us from other firms. Typically these investment managers are incentivised to sign up new clients to Rathbones through an earn-out arrangement, and because these payments are largely capitalised we consider that any funds under management brought in during an earn-out period should be treated as purchased growth. Throughout the year six individual investment managers have joined us and at the end of 2014 there were 16 'live' earn-out arrangements in place.

### Looking forward

We assess all potential acquisitions against certain criteria, focusing on discretionary, fee paying, private or charity clients, managed by qualified investment professionals who share our core values. We structure transactions so that assets, clients and employees are quickly absorbed within Rathbones in order to maximise synergies. In terms of corporate acquisitions we believe that it is critical that these are earnings enhancing within a two year period, and deliver 10% as a return on capital. We believe that our approach will continue to position us well to take advantage of further growth opportunities, each one scrutinised carefully to ensure that they fit our culture and strategy.

Historical purchased growth



**Investment Management** Fund flows

Net organic growth in 2014 of 4.0% (2013: 5.4%) was resilient but slightly below our expectation of 5% organic growth across the economic cycle. Organic growth in the fourth quarter was reduced by the loss of two large but low margin clients close to the end of the year.

All areas of the business contributed to growth in 2014, with referrals from existing clients remaining a key source of new business. Charity funds under management continued to grow strongly, supported by good investment performance, and reached £3.3 billion at 31 December 2014, up 22.2% from £2.7 billion at the start of the year. The most recent Charity Finance survey placed Rathbones as the sixth largest charity investment manager in the UK by funds under management as at 30 June 2014.

We retained our marketing focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers (IFAs) and provider panel relationships increased by £1.2 billion during 2014, ending the year at £4.8 billion; an increase of 33.3%. Of this amount, Vision Independent Financial Planning Limited, in which we have a 19.9% stake, represented £496 million.

Acquired inflows of £3.2 billion in the year include £2.6 billion from the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter Asset Management's private client and charity investment management business in June 2014 and September 2014 respectively, and funds introduced by newly joining investment managers who are subject to earn-out arrangements (see note 2.1 to the financial statements).

In total, net organic and acquired growth added £4.0 billion to Investment Management funds under management in 2014 (2013: £1.5 billion), representing an underlying rate of total net growth of 19.6% (2013: 9.0%).

Overall, average investment returns across all Investment Management clients were positive in 2014, but lagged the WMA Balanced Index by 1.8%. This was due, in large part, to the strong rally in gilts, which are not widely used in private client portfolios as many offer negative real returns after tax. UK equity selection was favourable, benefiting from an underweighting in oil and mining stocks as oil and commodity prices slid in the final quarter. A lower than average overseas exposure acted as a further slight drag on relative performance, however, as sterling fell back against the US dollar in the second half of the year.

**Financial performance**

Investment Management income is derived from:

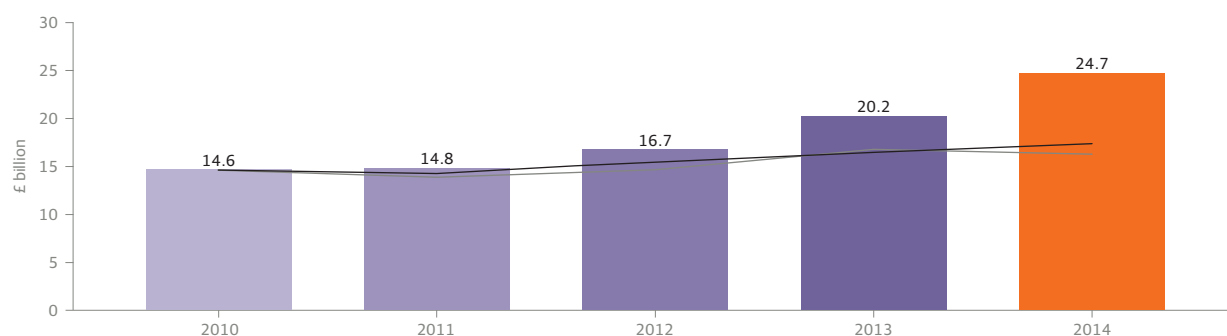
- a tiered scale of investment management or advisory fees, which are applied based on the value of clients' funds under management, and a flat fee for each account;
- commissions, which are levied on transactions undertaken on behalf of clients; and
- an interest margin earned on the cash held in clients' portfolios and on loans to clients.

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

	2014 £m	2013 £m
Net investment management fee income <sup>1</sup>	120.5	104.2
Net commission income	43.7	42.0
Net interest income <sup>2</sup>	9.2	8.6
Fees from advisory services <sup>3</sup> and other income	11.9	10.5
Underlying operating income	185.3	165.3
Underlying operating expenses <sup>4</sup>	(127.8)	(116.2)
Underlying profit before tax	57.5	49.1
Underlying operating margin <sup>5</sup>	31.0%	29.7%

- 1 Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
- 2 Presented net of interest expense paid on client accounts
- 3 Fees from advisory services includes income from trust, tax and pensions advisory services
- 4 See table 8
- 5 Underlying profit before tax as a % of underlying operating income

**Chart 5. Investment Management - funds under management five year growth**



- FTSE 100 Index\*
- FTSE WMA Balanced Index\*

\* Index figures show how funds under management would have changed between 2010 and 2014 if they had tracked each index

# Client survey

In early 2014, we commissioned Ledbury Research to carry out a piece of client engagement research across our investment management business. This is part of our biannual research programme that began in 2012.

## Our objectives

The objectives of the research were to:

- gain a better understanding of our existing clients' experience and perception of Rathbones
- measure our Treating Clients Fairly (TCF) performance and benchmark this to the previous research carried out
- understand our clients' use, requirement and perception of digital media.

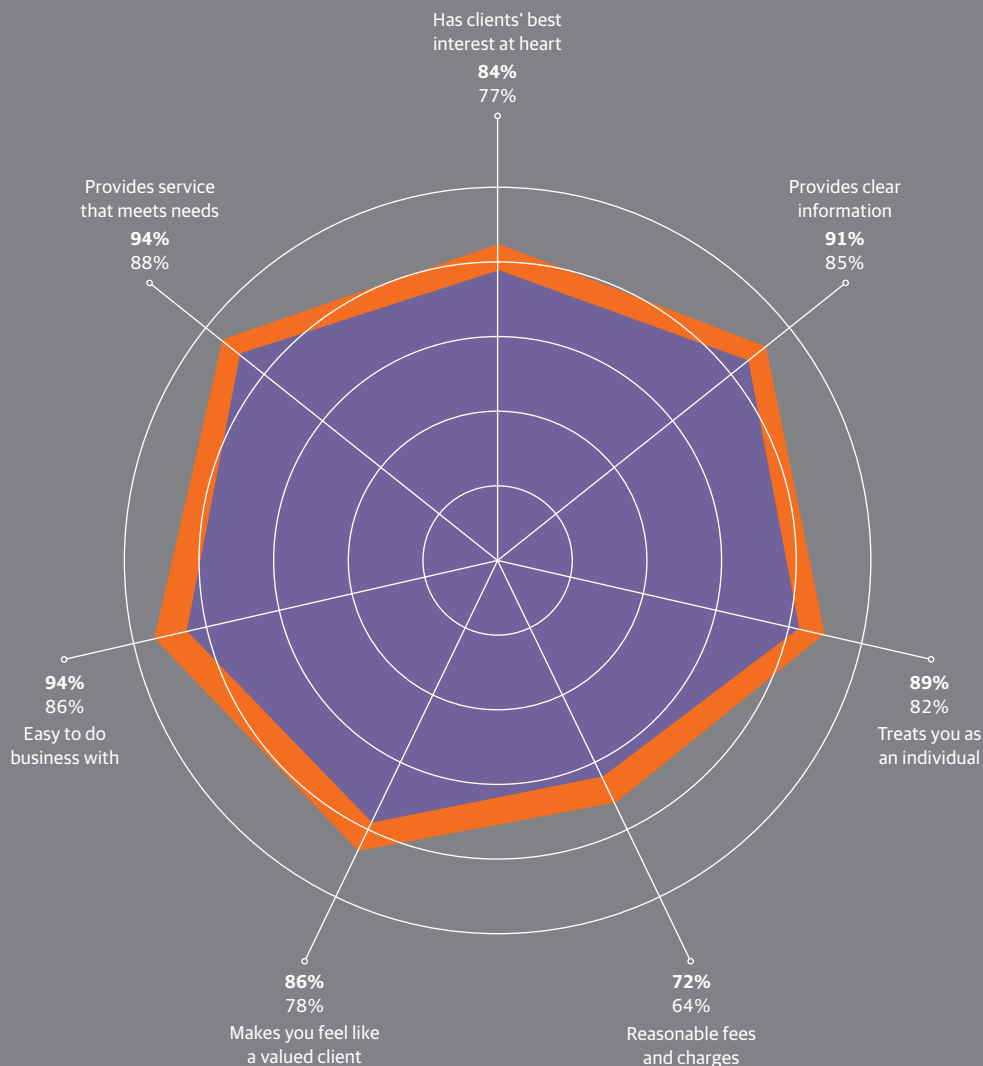
Telephone interviews were conducted with 300 randomly selected private clients, providing a representative sample of our client base. As can be seen below, our performance against all selected metrics improved compared to 2012.

## In summary

The research highlighted that clients' satisfaction with their investment manager is very high at 86%, compared to a peer group average of just 66%. Satisfaction with the business overall is also high and clients view us as professional, reliable and efficient and see us as their trusted adviser. Their satisfaction with the way in which we communicate has increased, with our publications considered to be clearer and more relevant than they were two years ago. Our clients are using digital media more and increasingly turn to our website for information.

## 2015

In 2015, as a result of this research we will be seeking to improve further the frequency and relevance of our communication with our clients.



● 2014  
● 2012



**Investment Management** Financial performance

Net investment management fee income increased by 15.6% from £104.2 million to £120.5 million in 2014, benefiting from continuing growth in funds under management. Fee income arising from the clients subject to the transactions with Jupiter Asset Management and Deutsche Asset & Wealth Management accrued from the date of acquisition in 2014. The group will see the full effect of these transactions on its income in 2015. For the majority of clients, fees are calculated based on a tiered fee scale applied to the value of funds at our quarterly charging dates. Average funds under management on these billing dates in 2014 were £22.2 billion, up 16.8% from 2013.

**Table 6. Investment Management - average funds under management**

	2014 £bn	2013 £bn
Valuation dates for billing:		
- 5 April	20.7	18.2
- 30 June	21.6	18.4
- 30 September	22.0	19.1
- 31 December	24.7	20.2
Average	22.2	19.0
Average FTSE 100 level	6657	6419

In 2014, net commission income of £43.7 million was up 4.0% on £42.0 million in 2013. Commission levels remained relatively strong across the year, despite the usual seasonal factors weighing on commission income in the second half.

Net interest income of £9.2 million in 2014 was 7.0% above £8.6 million in 2013 as we increased the amount of cash held at the Bank of England from £211.0 million to £727.2 million over the course of the year. The Investment Management loan book contributed £2.7 million to net interest income in 2014 (2013: £2.2 million).

As our fee rates are tiered, rising markets reduce the average net return earned on fees. This contributed to a decrease in the return earned on average funds under management to 77.2 basis points from 80.5 basis points in 2013, as shown in table 7 below.

**Table 7. Investment Management - revenue margin**

	2014 bps	2013 bps
Basis point return <sup>1</sup> from:		
- fee income	54.2	54.9
- commission	19.7	22.1
- interest	3.3	3.5
Basis point return on funds under management	77.2	80.5

1 Underlying operating income (see table 5), excluding interest on own reserves, fees from advisory services and other income, divided by the average funds under management on the quarterly billing dates (see table 6)

On 1 January 2015, we launched a revised tariff for new clients. The new rates are intended to provide increased transparency to clients on the overall level of charges, and are in line with the trend in the industry away from commissions. It is not expected that the new rates will substantially increase our overall revenue margin.

Fees from advisory services and other income of £11.9 million were 13.3% higher than 2013, reflecting the impact of business growth and the acquisition of the legal services trade and assets of Rooper & Whately on 1 May 2014 (see note 36 to the financial statements).

Underlying operating expenses in Investment Management for 2014 were £127.8 million, compared to £116.2 million in 2013, an increase of 10.0%. This is highlighted in table 8 below.

**Table 8. Investment Management - underlying operating expenses**

	2014 £m	2013 £m
Staff costs <sup>1</sup>		
- fixed	43.9	39.8
- variable	25.8	20.6
Total staff costs	69.7	60.4
Other operating expenses	58.1	55.8
Underlying operating expenses	127.8	116.2
Underlying cost/income ratio <sup>2</sup>	69.0%	70.3%

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 £43.9 million increased by 10.3% year-on-year, principally reflecting teams joining the front office, in particular in London and Chichester, increased pension costs and salary inflation. Variable staff costs are also higher, reflecting higher underlying profitability and growth in funds under management.

Other operating expenses of £58.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £2.3 million (4.1%) reflects increased investment in the business, recruitment and higher variable awards in support functions in line with growth in business profitability.

## Our new brand identity

Rathbones aims to be a progressive, forward looking and innovative company. In 2014 we reviewed our brand in order to find a new visual identity that not only reflects these important attributes but also helps support our future plans for growth.

### Our brand is changing

As part of the review process we identified some key words that we believe are best associated with Rathbones: **individual, independent, informed** and **quality**. These attributes will feature strongly in our literature and digital communications in the future.

We have also developed a new logotype with a new tagline, 'Look forward'. We would like this to support an overall assurance of quality, as well as be an identity that reflects our values and supports our aims. This logo will begin to appear on our literature and communications in 2015.

By replacing 'Established 1742' we have not turned our back on our past. Our heritage remains very important to us, and to our clients, and we will continue to convey it.

We hope that our new tagline will continue to remind us all of the need not only to learn from the past, but to focus on the future.

Our clients all have their own individual plans for their future, and by entrusting their money to Rathbones, we are helping them to achieve their goals.

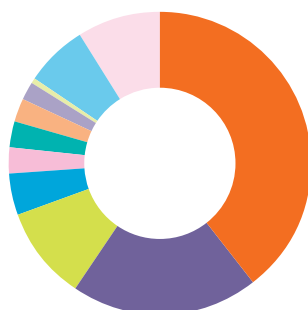
### Our previous logo

**RATHBONES**  
Established 1742

Rathbones  
Look forward

## Unit Trusts

Chart 6. Unit Trusts funds %



	%
Rathbone Income Fund	39.5
Rathbone Global Opportunities Fund	20.0
Rathbone Ethical Bond Fund	10.1
Rathbone Global Alpha Fund	4.3
Rathbone Recovery Fund	2.9
Rathbone Blue Chip Income and Growth Fund	2.6
Rathbone Strategic Bond Fund	2.6
Rathbone Active Income Fund for Charities	2.1
Rathbone Heritage Fund	0.6
Rathbone Multi Asset Portfolios	6.5
Other funds	8.8

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 9 below.

Table 9. Unit Trusts - key performance indicators

	2014	2013
Funds under management at 31 December <sup>1</sup>	£2.5bn	£1.8bn
Underlying rate of net growth in Unit Trusts funds under management <sup>1</sup>	33.3%	23.1%
Underlying profit before tax <sup>2</sup>	£4.0m	£1.4m

1 See table 10

2 See table 13

### Fund flows

The retail asset management industry saw a continuation of the improving trend in net retail sales, with 2014 representing the highest overall total since 2010 at £20.8 billion, up by 1.5% on 2013 as reported by the Investment Association (IA). Despite this growth, sales across the industry remained concentrated in a small number of funds.

Equity remained the best-selling asset class, by net sales, in 2014 at £8.6 billion, although this was down 25.2% from £11.5 billion in 2013. UK Equity Income, where we have expertise and two strong product offerings, was the best selling IA sector for the last eight months of the year and 2014 overall.

Against the backdrop of improving industry sales, Unit Trusts' positive momentum continued through 2014, which was a record year with gross sales of £1.0 billion. As a result, net

inflows accelerated to £0.6 billion, doubling from £0.3 billion in 2013. Net inflows in 2014 were spread across the range of funds, although the Income, Global Opportunities and Ethical Bond funds saw particularly strong sales in the year.

Unit Trusts' funds under management increased by 38.9% year on year (the industry was up 8.2%, according to data reported by the IA) to £2.5 billion from £1.8 billion at the end of 2013, as shown in table 10 below.

Table 10. Unit Trusts - funds under management

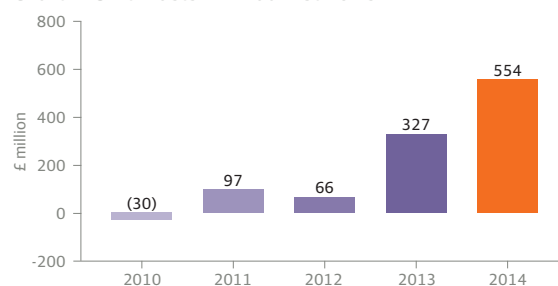
	2014 £bn	2013 £bn
As at 1 January	1.8	1.3
Net inflows	0.6	0.3
- inflows <sup>1</sup>	1.0	0.6
- outflows <sup>1</sup>	(0.4)	(0.3)
Market adjustments <sup>2</sup>	0.1	0.2
As at 31 December	2.5	1.8
Underlying rate of net growth <sup>3</sup>	33.3%	23.1%

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 7. Unit Trusts - Annual net flows £m



At 31 December 2014, the value of assets managed in each fund was as follows.

Table 11. Unit Trusts - fund assets

	2014 £m	2013 £m
Rathbone Income Fund	995	656
Rathbone Global Opportunities Fund	504	330
Rathbone Ethical Bond Fund	255	148
Rathbone Global Alpha Fund	110	100
Rathbone Recovery Fund	74	76
Rathbone Blue Chip Income and Growth Fund	67	56
Rathbone Strategic Bond Fund	65	55
Rathbone Active Income Fund for Charities	52	39
Rathbone Multi Asset Portfolios	164	138
Other funds	234	251
	2,520	1,849

During 2014, the range of funds maintained their strong long term performance track record, which is critical to sales momentum.

## Unit Trusts Fund flows

Table 12. Unit Trusts – fund performance

2014/(2013) Quartile ranking <sup>1</sup> over:	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	2 (3)	2 (2)	2 (2)
Rathbone Ethical Bond Fund	2 (1)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	2 (1)	1 (1)	1 (1)
Rathbone Income Fund	1 (2)	1 (1)	1 (1)
Rathbone Recovery Fund	4 (1)	2 (1)	1 (n/a)
Rathbone Strategic Bond Fund <sup>2</sup>	2 (3)	3 (n/a)	n/a (n/a)

1 Ranking of institutional share classes at 31 December 2014 and 2013

2 Performance data for the Rathbone Strategic Bond Fund is not yet available beyond three years as the fund was launched on 3 October 2011

Investors continued to switch from retail to institutional units across all of our funds during the year, as expected post-RDR (the Retail Distribution Review). Institutional units carry a lower annual management charge (typically half that of retail units) and do not allow for any form of trail commission to advisers who must now levy their own charges directly to investors. By 31 December 2014 some 60% of holdings in our retail funds were in institutional units (31 December 2013: 36%).

## 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; and
- net dealing profits, which are earned on the bid-offer spread from sales and redemptions of units and market movements on the small stock of units that are held on our books overnight.

Table 13. Unit Trusts – financial performance

	2014 £m	2013 £m
Net annual management charges	13.3	9.5
Net dealing profits	1.9	1.4
Interest and other income	0.3	0.2
Underlying operating income	15.5	11.1
Underlying operating expenses <sup>1</sup>	(11.5)	(9.7)
Underlying profit before tax	4.0	1.4
Underlying operating margin <sup>2</sup>	25.8%	12.6%

1 See table 14

2 Underlying profit before tax divided by underlying operating income

Net annual management charges increased 40.0% to £13.3 million in 2014, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 60 basis points (2013: 62 basis points) as a result of the launch of a super-institutional class for certain funds, to secure greater certainty over distribution, and the continued switch from retail to institutional units by the platforms during the year.

Net dealing profits of £1.9 million increased by 35.7% on £1.4 million in 2013 as the level of gross sales grew significantly in 2014. Underlying operating income as a percentage of average funds under management fell to 70 basis points in 2014 from 72 basis points in 2013.

Table 14. Unit Trusts – underlying operating expenses

	2014 £m	2013 £m
Staff costs:		
- fixed	3.3	3.1
- variable	2.8	1.8
Total staff costs	6.1	4.9
Other operating expenses	5.4	4.8
Underlying operating expenses	11.5	9.7
Underlying cost/income ratio <sup>1</sup>	74.2%	87.4%

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 2014 were 6.5% higher than in 2013 due to the recruitment of a new fund manager and additional sales resource during the year.

Variable staff costs of £2.8 million were 55.6% higher than £1.8 million in 2013 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 12.5% to £5.4 million, principally as a result of higher third party administration costs, reflecting both the launch of super-institutional class shares and the increased level of sales of units.

# Financial position

**Table 15. Extracts from the consolidated balance sheet and components of regulatory capital**

	2014 £m	2013 £m
<b>Capital resources:</b>		
- Common Equity Tier 1 ratio <sup>1</sup>	<b>17.7%</b>	21.0%
- Total equity	<b>270.7</b>	251.0
- Return on assets <sup>2</sup>	<b>2.5%</b>	2.9%
- Consolidated leverage ratio <sup>3</sup>	<b>7.5%</b>	11.5%
<b>Other resources:</b>		
- Total assets	<b>1,668.2</b>	1,229.8
- Treasury assets <sup>4</sup>	<b>1,316.6</b>	940.8
- Investment management loan book <sup>5</sup>	<b>97.4</b>	89.2
- Intangible assets from acquired growth <sup>6</sup>	<b>153.6</b>	99.7
- Tangible assets and software <sup>7</sup>	<b>16.3</b>	16.8
- Net defined benefit asset	-	1.6
<b>Liabilities:</b>		
- Due to customers <sup>8</sup>	<b>1,282.4</b>	891.9
- Net defined benefit liability	<b>13.7</b>	-

- 1 Common Equity Tier 1 capital as a proportion of total risk exposure amount
- 2 Profit after tax divided by average total assets
- 3 Common Equity Tier 1 capital as a percentage of total assets, excluding intangible assets and investment in associates, plus a proportion of off balance sheet exposures
- 4 Balances with central banks, loans and advances to banks and investment securities (excluding available for sale equity investments)
- 5 See note 19 to the financial statements
- 6 Net book value of acquired client relationships and goodwill (note 25)
- 7 Net book value of property, plant and equipment and computer software (notes 22 and 25)
- 8 Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank (note 26)

## Regulatory capital

Rathbones is classified as a banking group under the Capital Requirements Directive and we are therefore required to operate within a wide range of restrictions on capital resources and banking exposures that are prescribed by the prudential rules of the Prudential Regulation Authority (PRA). At 31 December 2014, the group had regulatory capital resources of £112.2 million (2013: £142.3 million, calculated on a Basel III equivalent basis) as follows:

**Table 16. Regulatory capital resources**

	2014 £m	2013 £m
Share capital and share premium	<b>95.4</b>	67.8
Reserves	<b>180.9</b>	188.9
Less:		
- Own shares	<b>(5.5)</b>	(5.7)
- Intangible assets <sup>1</sup>	<b>(159.7)</b>	(105.0)
- Other regulatory adjustments <sup>2</sup>	<b>1.1</b>	(3.7)
<b>Total regulatory capital resources (all of which are Tier 1)</b>	<b>112.2</b>	142.3

- 1 Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources
- 2 Adjustments to exclude balances related to the group's pension schemes and own shares held in the Employee Benefits Trust

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

Our consolidated Common Equity Tier 1 ratio is much higher than the banking industry norm. This reflects the low-risk nature of our banking activity and our lack of debt financing. The Common Equity Tier 1 ratio has fallen to 17.7% from 21.0% at the previous year end mainly due to an increase in intangible assets following the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and acquisition of Jupiter Asset Management's private client and charity investment management business, partially offset by the proceeds from the placing of 1.3 million shares in April.

The consolidated leverage ratio was 7.5% at 31 December 2014, down from 11.5% at 31 December 2013; this fall is due to the growth in the balance sheet and the increase in intangible assets, which have reduced Common Equity Tier 1 capital. The leverage ratio represents the group's Common Equity Tier 1 capital as a percentage of its total assets, excluding intangible assets and investment in associates, plus a proportion of off balance sheet exposures.

### Regulatory capital

As required under PRA rules we perform an Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) annually, which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that the group needs 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.

**Table 17. Group Pillar 1 own funds requirement**

	2014 £m	2013 £m
Credit risk requirement	26.7	32.6
Market risk requirement	0.2	0.2
Operational risk requirement	23.7	21.3
<b>Pillar 1 own funds requirement</b>	<b>50.6</b>	<b>54.1</b>

In addition to the above, the group is also required to hold capital to cover a company-specific Pillar 2 requirement, which is agreed confidentially with the PRA and which we are prohibited from disclosing.

On 19 January 2015, the FCA issued a consultation paper setting out proposed changes to the Pillar 2 framework, which include provisions to allow banks to publish details of their aggregate Pillar 2A capital requirements in addition to Pillar 1 components. We welcome this proposed increase in transparency.

### Capital resources

The consolidated balance sheet remains healthy with total equity of £270.7 million at 31 December 2014, up 7.8% from £251.0 million at the end of 2013, reflecting the impact of the placing of 1.3 million shares in April 2014. The group does not rely on wholesale markets to fund its operations and is wholly funded by equity.

### Total assets

Total assets at 31 December 2014 were £1,668.2 million (2013: £1,229.8 million), of which £1,282.4 million (2013: £891.9 million) represents the cash held in banking client portfolios.

### Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds the group's surplus liquidity on its balance sheet together with clients' cash held on a banking basis. Cash in client portfolios of £1,288.8 million (2013: £896.8 million), including £6.4 million (2013: £4.9 million) held in client money accounts, represented 5.2% of total investment management funds at 31 December 2014 compared to 4.4% at the end of 2013.

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 33 to the financial statements. The treasury department invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be 'A' rated or higher by Fitch and are regularly reviewed by the banking committee. During the year, we increased the share of treasury assets held with the Bank of England to £727.2 million from £211.0 million at 31 December 2013.

### 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 Rathbones' nominee name, requiring two times cover, and are usually advanced for up to one year (note 19 to the financial statements). In addition, equitable 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 approval by the banking committee. Our ability to provide such loans is a valuable additional service, for example, for clients that require bridging finance when moving home.

We have continued to increase the size of the investment management loan book during 2014, to take advantage of the higher demand for client loans. Outstanding loans totalled £97.4 million at the end of 2014 (2013: £89.2 million).

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## Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2014, the total carrying value of intangible assets arising from acquired growth was £153.6 million (2013: £99.7 million). During the year, client relationship intangible assets of £51.2 million were capitalised (2013: £13.2 million), including £42.6 million relating to the transactions with Deutsche Asset & Wealth Management and Jupiter Asset Management. Goodwill totalling £11.0 million was acquired during 2014 (2013: £nil).

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 2014, including the impact of lost relationships, was £7.9 million (2013: £6.3 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 £0.4 million was recognised in relation to this element of goodwill (2013: £nil). Further detail is provided in note 25 to the financial statements.

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## Capital expenditure

During 2014, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £4.6 million (2013: £4.5 million). Investment in new systems continues at a steady pace as we continue to improve the efficiency of our systems and our back office. Although some of this is driven by regulatory change, much is driven by our desire to optimise the service that our clients receive and to give our investment managers the tools they need to manage portfolios more easily.

New investment accounted for approximately 70% of capital expenditure in 2014, with the balance being maintenance and replacement of existing software and equipment. This split is broadly consistent with the spending pattern in the recent past, although there was only very limited expenditure on property during the year.

In 2015, we expect capital expenditure to remain at 2014 levels as we continue to invest in our internet portal for clients and advisers as part of our ongoing endeavours to improve and develop the business.

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## Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years.

The fall in corporate bond yields during the second half of 2014 has been the primary factor responsible for reducing the valuation of the schemes in the group's balance sheet at 31 December 2014 to a combined deficit of £13.7 million compared to a combined surplus of £1.6 million at 31 December 2013. Full details of the assumptions underlying the accounting valuation and associated sensitivities are included in note 29 to the financial statements.

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. Funding valuations of the schemes as at 31 December 2013 were carried out during 2014. Following the completion of the valuations, the deficit funding contributions for the Rathbone 1987 Scheme were maintained at their current level of £2.75 million per year in 2015 and 2016, whilst the contributions to the Laurence Keen Scheme were ceased as the valuation showed the scheme to be in surplus on a funding basis. Regular annual contributions to the Rathbone 1987 Scheme were increased from 14.8% of pensionable salaries to 20.3%. An additional £1 million was also paid into the Rathbone 1987 Scheme in January 2015, reflecting the backdating of the uplift in regular annual contributions to 1 January 2014.

## Liquidity and cash flow

**Table 18. Extracts from the consolidated statement of cash flows**

	2014 £m	2013 £m
Cash and cash equivalents at the end of the year	<b>835.8</b>	319.8
Net cash inflows from operating activities	<b>417.7</b>	145.3
Net increase in cash and cash equivalents	<b>516.0</b>	89.7

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

As a bank, Rathbones is subject to the PRA's ILAA 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 £727.2 million at 31 December 2014 (2013: £211.0 million).

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).

Net cash flows from operating activities include the effect of a £390.5 million increase in banking client deposits (2013: £62.9 million increase) and a £11.1 million increase in the component of treasury assets placed in term deposits for more than three months (2013: £37.9 million decrease).

In addition, cash flows included a net inflow of £152.7 million from the maturity of certificates of deposit and the liquidation of holdings in money market funds (2013: £16.9 million net outflow), shown within investing activities in the consolidated statement of cash flows.

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

- outflow of £15.0 million relating to Rathbones' contribution to a legal settlement;
- outflows of £40.1 million in relation to the transactions with Jupiter Asset Management and Rooper & Whately;
- inflow of £25.9 million from the issue of ordinary shares, which includes £23.6 million raised in the placing in April 2014 (after associated costs);
- outflows relating to the payment of dividends of £23.8 million (2013: £22.1 million);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £14.3 million (2013: £17.0 million); and
- £1.7 million of capital expenditure on property, plant and equipment (2013: £2.4 million).



# Corporate responsibility report

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## Social and environmental committee chairman's annual statement

This is my first annual corporate responsibility report of the social and environmental committee (SEC), which I chair.

The SEC is responsible for ensuring that Rathbones effectively manages its sustainability issues. It is formed by members of staff from key functions such as facilities, HR, marketing, IT and investment management. It meets on a quarterly basis and reports directly to the executive committee of the board.

I am pleased to report that our carbon footprint has only increased by 44 tCO<sub>2</sub>e (1.5%) despite the significant business growth in 2014.

With regard to environmental, social and governance (ESG) matters as they affect our business, the board believes that the SEC has identified and assessed the significant risks to the company. The SEC, however, is not only about highlighting potential risks but also opportunities for the company to play its part as a good employer and as a contributor to the communities and environment in which we work and our clients live. This report provides an overview of our activities - more information can be found on our website.

We were delighted to be awarded the 2014 Institute of Chartered Secretaries and Administrators (ICSA) Excellence in Governance Award for the best sustainability and stakeholder disclosure in the report and accounts of a FTSE 250 company. We remain a constituent company of the FTSE4Good Index series and a signatory to the UN-backed Principles for Responsible Investment.

### Philip Howell

Chief Executive/Chairman of the SEC

18 February 2015

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## Our strategy

Rathbones' corporate responsibility strategy can be summarised as follows:

### Clients and investments

- Maintain and develop the relationships we have with our clients, treat them fairly and continue to meet their needs.
- Consider corporate responsibility and governance issues in the companies in which we invest on behalf of our clients.

### Employees

- Motivate and reward appropriately, encouraging their development.

### Communities

- Engage in the communities in which we operate.

### Environment

- Manage our environmental impact and reduce our carbon footprint by the efficient use of resources.

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## Clients and investments

### Responsible investment

General investment activities are not covered by a formal responsible investment policy, although social, environmental and ethical considerations are taken into account for specific mandates throughout the group, particularly those managed by our specialist ethical investment unit, Rathbone Greenbank Investments, as well as a number managed by our charities team.

As at 31 December 2014, Rathbone Greenbank Investments had £0.7 billion of funds under management, representing 2.9% of funds managed by Rathbone Investment Management.

Through Rathbone Greenbank Investments and Rathbone Unit Trust Management's Ethical Bond Fund, the company is able to provide investment services tailored to clients' interests in the area of socially responsible or sustainable investment. 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.

Clients and investments

**Affiliations**

Rathbone Brothers Plc has been both a signatory and respondent to CDP (Carbon Disclosure Project) since 2006. We are also a signatory to the CDP sister programmes on Water Disclosure and Forests. The group became a signatory to the UN-backed Principles for Responsible Investment (PRI) in September 2009 and continues to play an active role in the PRI Clearinghouse, a global platform for collaborative engagement initiatives which aims to encourage sustainable long term value. In addition, Rathbone Greenbank Investments is a long-standing member of influential responsible investor groups such as the UK Sustainable and Investment Finance Association (UKSIF) and the Ecumenical Council for Corporate Responsibility.

**Voting**

The group's voting activity is coordinated by its corporate governance committee. Composed of investment managers and other representatives from across the business, the committee maintains group policy on corporate governance, and ensures its application in proxy voting in conjunction with advice from an external corporate governance consultant, Institutional Shareholder Services (ISS), who were appointed to this role in April 2014. Advice and research received by the committee supplements the analysis carried out by the stock selection and collectives committees as part of the investment process.

The committee was established in line with Rathbones' obligations under the PRI, and pays heed to the Financial Reporting Council UK Stewardship Code. Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code, while Rathbone Investment Management exercises the voting rights attached to approximately 90% of the UK equity it holds on behalf of its clients. Voting is also undertaken on any company if requested by an underlying shareholder.

During 2014, the committee oversaw active proxy voting on 4,281 resolutions at 396 company meetings. Voting on these resolutions includes consideration of such issues as executive remuneration, auditor independence, appointment of directors and non-financial reporting.

**Engagement**

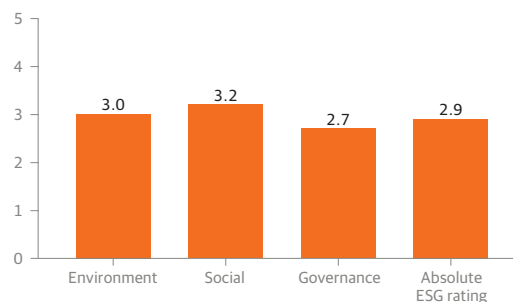
Engagement with companies on ESG matters is largely undertaken by Rathbone Greenbank Investments' ethical research team. This ranges from low-level contact with companies on issues relating to ESG disclosure to participation in co-filing and voting on shareholder resolutions at company AGMs. These activities 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 Clearinghouse.

**FTSE4Good ESG ratings scores**

As institutional investors around the world increasingly focus on the ESG practices of the companies they invest in, ESG risk measures are an increasingly important part of the investment process. The FTSE4Good Index and ratings have been designed to measure the performance of companies that meet or exceed globally recognised standards.

The Index's latest semi-annual review for which ratings scores were published (September 2014) confirmed Rathbone Brothers Plc as a constituent of the FTSE4Good Index Series, awarding the company the following ESG ratings out of a maximum score of five for each category:

Overview ESG ratings 0 - 5



Within the Financial Services supersector, Rathbones' percentile score was 82/100.

During 2014, FTSE assumed full responsibility for a new research process and methodology for its FTSE4Good Index Series and ESG Ratings. As a result, direct comparison with our previous year's ratings is not appropriate.

**Clients and investments**

**CDP disclosure and performance score**

In 2014, we improved our CDP Disclosure Score from 67 to 78 while our Performance Band moved back to D from E.

The Disclosure Score (out of 100) measures the level of transparency in company responses; the Performance Band (A-E, but only calculated for companies with disclosure scores above 50) measures how effectively companies are addressing climate risk.

As part of our efforts to improve our performance again in 2015, we have investigated the feasibility of initially adopting emissions reductions targets for paper usage, which accounted for around 10% of our total carbon footprint this year.

There are many variables which can influence our paper consumption such as regulatory changes, the type and frequency of client communications, and business factors such as acquisitions. The emissions attributable to paper usage can also be influenced by the percentage of recycled content used in paper stocks sourced by our third party suppliers.

However, we can by and large control the amount of office stationery we consume as well as enlisting the help of our clients and professional intermediaries to go 'paperless' by using the Rathbones Online portal to access client documentation such as portfolio valuations, tax packs and transaction information.

Having taken all these factors into consideration, it was decided (in conjunction with our consultants Carbon Smart) that we would renew our efforts to promote the usage of Rathbones Online more widely among clients and await the first full year reports on its uptake in summer 2015 before deciding whether setting meaningful targets is viable.

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## Employees

**Our approach**

Our business success is based on 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 backgrounds, skills and experiences. Our employee strategy, policies and investment plans are all designed to achieve these goals.

We are firmly committed to evolving our people policies and practices and increasing employee engagement in the coming years in line with our values. Our goal continues to be the delivery of the highest possible quality of service to our clients through talented and professional employees.

**Employee statistics**

- % of female employees: 50%
- % of employees working part-time: 12%
- % turnover rate: 7%
- % resignation rate: 5%

**Talent development**

Leadership shapes the culture of an organisation. We therefore have a continuing focus on identifying future leaders and supporting the current leadership to enhance their skills and widen their experience base. We have worked in 2014 to develop more robust methods of identifying and developing potential with positive results and this work will continue. A formalised mentoring programme has been implemented and will roll-out further in 2015.

Structured career progression is important to our people and new career pathways have been developed for investment professionals. Work has now started on similar pathways for our other employees.

Our graduate development programme is being upgraded in recognition of the importance of maintaining a high-quality pipeline of younger talent. We have also recognised that the traditional graduate entry route is not the only source of quality recruits as shown by the success of the 2013 apprenticeship programme with the initial six apprentices now into their second year. Further apprentices will be selected in September 2015.

**Learning**

We continue to make substantial and sustainable investments in the development of our people with an average spend per employee of £665 per annum. Training committees across the business regularly review the relevance and outcomes of development activity and training needs.

In addition, we encourage our employees to take business relevant qualifications and offer generous support packages. Our investment professionals are required to achieve standards above the regulatory minimum with a particular focus on the Chartered Wealth Manager and Chartered Financial Analyst qualifications. Investment professionals are also required to undertake a minimum of 35 hours per annum Continuing Professional Development.

Further investment in electronic delivery methods for training will allow us to continue to maintain high levels of input at lower cost yet still maintain the quality we demand.

## Employees

### 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 their race, gender, marital status, age, disability, religious belief or sexual orientation.

Rathbones now has two women non-executive directors and has thus achieved our commitment to meet Lord Davies' target of 25% female board representation. For Rathbones as a whole, we have a broadly 50:50 balance between males and females. While female representation at a senior executive management level is low, representation in senior and middle management roles in support departments, our investment research team and within the unit trust business is good and continues to improve.

Historically, women are less well represented in investment management roles and addressing this imbalance is a key priority. We are working hard to bring in more women in graduate trainee positions (our graduate programme currently comprises broadly equal numbers of men and women) and by encouraging more applications from women to our work experience and financial career programmes. Our work-life balance provisions are designed to be attractive to women who wish to enter our industry as well as to encourage parents to remain in work with us when raising a family.

We are also targeting the progression and development of existing female employees with opportunities for training such as our early career team worker programme. During 2013 and 2014, 26 women participated in this programme and 10 of them have since been promoted into more senior positions, including six who are now managing others.

At the next level, a further 23 women attended management development programmes ranging from leadership skills and introduction to management courses to the Henley Business School Leadership Programme.

### Performance and reward

We offer a comprehensive remuneration package which is regularly reviewed to ensure that we remain competitive. This is supported by challenging objective setting and appraisal processes to align reward to corporate goals and motivate and encourage high performance.

All employees have the opportunity to participate in a pension arrangement and are eligible to receive at least a 3% contribution from the company to a group personal pension arrangement. In addition, we provide health and well-being initiatives including private medical cover, annual medical examinations to all staff and an employee confidential advice service.

Employees are encouraged to identify with and to become involved in the financial performance of the group through a Share Incentive Plan (SIP) and a Save As You Earn scheme.

A full review of compensation schemes is scheduled for 2015 to ensure that remuneration remains competitive and is aligned to the group's longer term performance.

### Employee relations

Engagement with our employees is crucial to the continuing success of the group. We communicate regularly and openly with our employees 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. In 2014 we held a series of meetings for the entire workforce over four days when the group executive team presented the group's five year strategy.

Rathbones recognises the importance of an appropriate work-life balance, both to the health and welfare of employees and to the business. Employees are not expected to work long hours on a consistent or ongoing basis and any overtime is voluntary. 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.

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## Communities

### Donations and fundraising

During the year, the group made total charitable donations of £253,000, representing 0.55% of group pre-tax profits (2013: £234,000, representing 0.53% of group pre-tax profits). This included a payment of £100,000 to the Rathbone Brothers Foundation. It also included the matching of employee donations made through the tax efficient Give As You Earn (GAYE) payroll giving scheme. In 2014, Rathbones' employees made payments totalling £191,000 (2013: £230,000) 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 2014 donated £134,000 (2013: £128,000) to causes chosen by employees through this method.

During 2014, the Rathbone Brothers Foundation, the company's charitable fund founded in 2012, considered many requests for assistance and met a number of charities. Three significant donations were made to:

- Arts Insight, which uses music and drama to equip children from less privileged backgrounds with the interpersonal skills to develop into confident adults with essential skills for life

**Communities** Donations and fundraising

- Urban Pursuit, which helps vulnerable young people in the Bristol area in danger of being excluded from mainstream society get back on track through adrenaline sports and adventure activities
- Merefield School in Southport, which provides education for pupils with profound learning difficulties.

**Education and youth development**

Our corporate responsibility programme continues to develop strongly with a committed focus on youth development. The Rathbones Financial Awareness Programme is a significant element of our investment in young people, which involves investment managers delivering presentations to 16-24 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. The programme is free and in 2014 alone we reached over 2,000 young people in both the independent and state education sectors.

In addition to our own education programmes, we were lead sponsors of other education-related events such as the Education Business Awards, the Chalke Valley History Festival for Schools and the Bang Goes the Borders science festival. Further information on all of our initiatives for young people can be found at [www.rathbones.com/young-people](http://www.rathbones.com/young-people).

Rathbones further acknowledges the importance of sport in the lives of young people to teach key life skills and has agreed ongoing partnerships with English Lacrosse and Lacrosse Scotland up until 2017. Our involvement to date has had a significant impact on the development of the sport, particularly with the introduction of additional initiatives to encourage participation in the sport at community level.

**Local communities**

Rathbones is committed to support the communities in which it is based. Regional offices are encouraged to get involved in their local communities and support charities and initiatives that they feel are important to the area.

**Environment**

Environmental concerns form a key element of Rathbones' day-to-day operations. We strive to understand the full range of our environmental impacts and act, where possible, to reduce them. This report forms the seventh consecutive year we have calculated the carbon footprint of our business activities, including office buildings, business travel, waste generation and paper use.

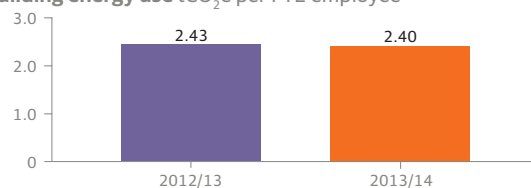
**Scope**

Our reporting period covers the 12 months to 30 September 2014 (2013/14). Last year (2012/13) we extended the boundary of our carbon footprint calculations, including the carbon emissions attributable to paper, waste and refrigerants for the first time. Therefore, 2012/13 is our new baseline year.

**Building energy use**

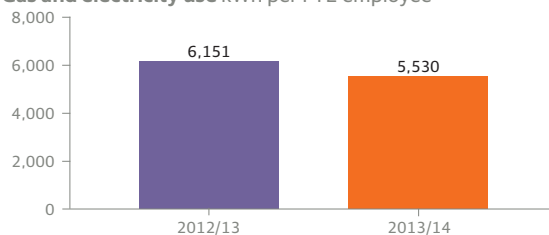
Building energy use accounted for 71% of our total carbon footprint in 2013/14. Our business is growing with full time equivalent (FTE) employee numbers increasing by 5% from 2012/13 to 2013/14. However, our carbon emissions are not matching this growth - per FTE employee the carbon footprint from our buildings<sup>1</sup> has actually decreased by 1%.

**Building energy use** tCO<sub>2</sub>e per FTE employee



Unusually, there were no office changes in the year and so our total internal floor area remains unchanged at 14,430m<sup>2</sup>. Our buildings-related carbon emissions have also remained fairly level, increasing by just 3%. This is not because we are using more energy but is due to an 11% increase in the carbon intensity of UK grid electricity use (see 'conversion factors' in the glossary)<sup>2</sup>. If we consider energy use instead of carbon emissions it is a different story. Our gas usage expressed in kilowatt hours (kWh) has reduced by 8% and our total electricity kWh has reduced by 5%. When balanced with a 5% increase in staff numbers, this means that our total gas and electricity kWh per FTE employee has dropped by 10%.

**Gas and electricity use** kWh per FTE employee



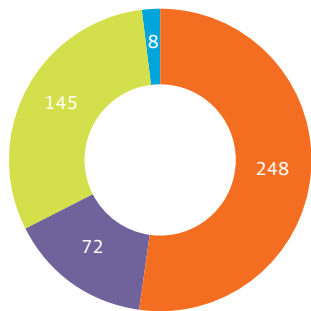
**Environment** Building energy use

The reduction in gas kWh is explained in part by the milder winter, with 24% fewer heating degree days than in 2012/13. However, our reduction in electricity kWh will have been helped by energy efficiency measures. For example, we moved our Liverpool office servers to an off-site data centre (as we did for our London servers two years ago)<sup>3</sup>. This engenders energy efficiencies from the economies of scale found in data centres.

**Business travel**

Business travel accounts for 16% of our total carbon footprint. This is a significant proportion and something we can affect through our business practices. Over half of our travel CO<sub>2</sub>e came from flights.

**Breakdown of emissions from business travel tCO<sub>2</sub>e**

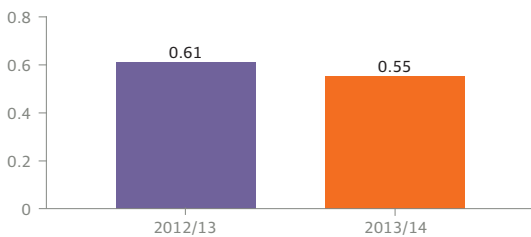


- Flight
- Rail
- Non-company cars
- Taxis

**We have reduced emissions from business travel by 10% per FTE employee**

We are pleased to have reduced the total carbon emissions due to staff business travel by 6% since 2012/13. Total business travel emissions per FTE employee have also reduced by 10% to 0.55 tCO<sub>2</sub>e per FTE employee.

**Business travel tCO<sub>2</sub>e per FTE employee**



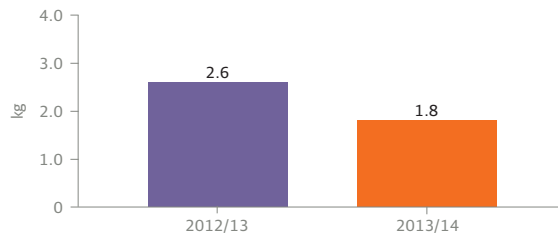
The reduction in travel emissions is largely due to reduced air travel with our CO<sub>2</sub>e from flights falling as expected by 15%. However, the 43 tCO<sub>2</sub>e reduction in air travel emissions was counteracted by a 16 tCO<sub>2</sub>e (12%) increase in emissions from staff car mileage, due to the increased number of investment managers and increased sales activity by the unit trust distribution team.

**Paper**

This is the second year that we have CO<sub>2</sub>e data for our paper use and we are pleased to report that comparison shows there has been a small reduction from 333 tCO<sub>2</sub>e in 2012/13 to 311 tCO<sub>2</sub>e in 2013/14. This reduction results predominantly from a 10% reduction in the total weight of paper we used.

We have achieved this reduction in paper use while continuing steady business growth; we used 28% less paper (by weight) per investment management account than we did in 2012/13.

**Paper use per investment management account kg**

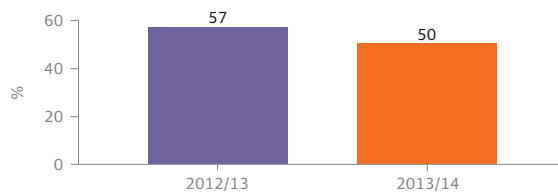


The reduction in paper use was due in part to the launch in 2013/14 of an enhanced online client portal (Rathbones Online), giving clients secure access to valuations in digital rather than paper format.

60% of the paper we used was for printing in our offices and need not be of the highest quality. Accordingly, 78% of the pulp used was recycled. The remaining 40% of paper used was for externally printed material on high quality, non-standard paper types. Here the options for sourcing recycled content are limited and only 8% of the pulp used was recycled. We intend to engage our suppliers in the coming year to explore options to increase recycled content.

The 10% reduction in the total weight of paper we used was predominantly due to a reduction in our internal paper use which has meant that our overall recycled paper usage has dropped.

**Percentage of the pulp that went into making our paper and printed materials that was post-consumer waste (recycled)**



## Environment

### Waste

This year we started sending food waste from our London head office to be composted, removing approximately 10 tonnes of food waste per year from our general waste stream.

Where possible, all Rathbones offices have some recycling facilities in place and 81% of our waste in 2013/14 was recycled<sup>4</sup>. This is a slight reduction against last year's 84% recycling rate<sup>5</sup>. In 2013/14 we generated 364 kg of waste in total (including recycling and food waste) per FTE employee, an increase of 1.7% on the previous year.

Of the 19% of our waste that is not currently recycled, approximately 7% is sent to energy from waste facilities and only 12% is sent to landfill. 90% of our electrical equipment that reached end of life last year was sent for reuse and the remainder was responsibly recycled.

24% of the general waste from head office is now being composted

### Refrigerants

Refrigerants are used in cooling mechanisms such as air conditioning and refrigeration units. They are unstable in the atmosphere and have a global warming potential many times higher than that of CO<sub>2</sub>. When the refrigerant level in a cooling unit has dropped, this means that some refrigerant gas has leaked into the atmosphere.

As of last year, it is a mandatory requirement to report these emissions. In 2013/14, the only premises that required refrigerant refills were the Liverpool and Bristol offices and our outsourced data centres, totalling 51 tCO<sub>2</sub>e.

### Carbon footprint

Our total all-scopes carbon footprint for 2013/14 was 2,926 tCO<sub>2</sub>e. This is a 1.5% increase against our new baseline year of 2012/13. Within this, CO<sub>2</sub>e from gas, electricity, paper, rail travel and flights have decreased, while those from refrigerants, staff car mileage and taxis have increased.

Overall, however, our total tCO<sub>2</sub>e per £bn funds under management has dropped by 18% and by 14% per £m operating income, showing that we are continuing to decouple the growth of our business from the growth of our environmental impacts.

### Carbon footprint by scope (tCO<sub>2</sub>e)<sup>6</sup>

	2013/14	2012/13
<b>Scope 1:</b>		
- Natural gas	<b>261</b>	281
- Refrigerant	<b>51</b>	23
<b>Scope 2:</b>		
- Purchased electricity	<b>1,450</b>	1,463
<b>Scope 3:</b>		
- Data centre <sup>7</sup>	<b>224</b>	133
- Business travel	<b>473</b>	504
- Paper	<b>311</b>	333
- Waste	<b>11</b>	9
- Electricity transmission and distribution	<b>145</b>	136
<b>Total tonnes CO<sub>2</sub>e</b>	<b>2,926</b>	2,882

### Carbon intensity

	2013/14	2012/13	Carbon intensity	
			2013/14	2012/13
Staff (FTE employees)	<b>867</b>	829	<b>3.4</b>	3.5
Net internal area of offices (m <sup>2</sup> )	<b>14,430</b>	14,430	<b>0.20</b>	0.20
Operating income (£m)	<b>209.3</b>	176.4	<b>13.98</b>	16.34
Funds under management (£bn)	<b>27.2</b>	22.0	<b>108</b>	131

Carbon intensity is total (all scopes)<sup>6</sup> tCO<sub>2</sub>e per: FTE employee; m<sup>2</sup>; £m of operating income; £bn funds under management

### Carbon offsetting

We have used the services of ClimateCare to purchase 2,900 tonnes of carbon credits to offset our residual CO<sub>2</sub>e emissions. This year's portfolio again comprises three high-quality emission reduction projects which also offer tangible community benefits:

- an 18MW wind farm in Tamil Nadu, India which, as well as contributing to the generation of electricity from non-fossil fuel sources, provides reliable power in rural areas and has installed water pumps in local villages
- a water filter project in Kenya which provides safe drinking water as well as reducing deforestation and improving indoor air quality by removing the need to purify water by conventional boiling methods
- a small-scale forestry project in Bolivia which combines reforestation using native tree species with enhanced biodiversity (through the creation of ecological corridors) and poverty alleviation opportunities for over 800 local smallholders by encouraging sustainable agriculture land use.

Environment

Objectives

Progress against our 2012/13 objectives

- 1 Drive down emissions from paper either through reducing total weight of paper used or increasing the recycled content.

**Achieved**

We used 10% less paper by weight in 2013/14 than in 2012/13 and our carbon footprint from paper use has reduced by 22 tCO<sub>2</sub>e.

- 2 Continue improving the robustness of our waste data and to reduce the weight of waste produced per employee.

**Partially achieved**

This is the second year that we have gathered data using our new waste management data collection protocol and we have made good improvements in the quality of this data. However, our total weight of waste (including recycling and food waste) per FTE employee increased 1.7% since 2012/13.

- 3 Continue to promote the use of videoconferencing as an alternative to travel.

**Achieved**

Videoconferencing is now widely used by all offices although it will never replace all office to office travel.

- 4 Encourage the greater use by clients of the online portal rather than paper-based services.

**Achieved**

We have launched Rathbones Online and are actively promoting it to our clients.

- 5 Improve our data quality, particularly in respect of purchased electricity (Scope 2).

**Achieved**

We have moved from estimated to actual data at our Exeter, Jersey and Cambridge offices.

Our objectives for 2014/15

- 1 Increase the proportion of clients using Rathbones Online, which will lead to a reduction in paper usage and postage costs.
- 2 Explore the use of videoconferencing for client meetings.
- 3 Explore options for extending food waste collection to other offices.
- 4 Aim to increase the recycled content of the paper we use in our printed publications.

Carbon Smart opinion statement

Carbon Smart's 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 October 2013 to 30 September 2014. It does not represent an independent third party assurance of Rathbones' management approach to sustainability.



Carbon Smart has been commissioned by Rathbones for the seventh consecutive year to calculate Rathbones' carbon footprint for all offices for its 2014 corporate responsibility 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 appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 - part 1 standard and verified against the World Resources Institute (WRI) Greenhouse Gas (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, interrogation of source data and data collection systems including comparison with the previous years' data.

Carbon Smart has concluded the points listed below.

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 defining their organisational boundaries<sup>8</sup>. Rathbones calculate 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

In order to ensure comparability, we have used the same calculation methodologies and assumptions as for the previous year.

Transparency

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



**Environment**

**Accuracy**

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

**Data quality**

Carbon Smart has assessed the data quality against the WRI GHG Protocol principles. Data from each emission source has been rated one (poorest) to five (best). For this year, overall data quality has increased from 3.8 in 2012/13 to 4.0 in 2013/14. Contributing factors include:

- In 2013/14 Rathbones moved from estimates based on typical consumption figures to bill data at their Exeter, Jersey and Cambridge offices. This means that Rathbones is only using estimated data for 4% of the total floor area in 2013/14 compared with 10% in 2012/13. However, there are some offices for which Rathbones is not currently able to gather energy use data, and instead have used estimates based on typical consumption figures. These offices are Birmingham (gas) and Lymington (gas and electricity).
- Data for the head office for gas (accounting for 30% of total gas use) remains calculated based on proportional occupancy of the building from overall meter readings.
- The re-setting of the baseline year and the removal of pre-2012/13 data means the data sets are more relevant.

	% of total carbon footprint 2013/14	Data quality	
		2013/14	2012/13
Overall		<b>4.0</b>	3.8
Scope 1	<b>11%</b>	<b>4.0</b>	4.0
Scope 2	<b>49%</b>	<b>4.0</b>	3.0
Scope 3	<b>40%</b>	<b>4.5</b>	4.5

**Ben Murray**

Director

Carbon Smart Limited

18 February 2015

**Compliance with regulations**

Rathbones complies with the regulations for reporting greenhouse gas emissions. Following an operational control approach to defining our organisational boundary, our 2013/14 greenhouse gas emissions from business activities amounted to:

- 312 te resulting from the combustion of fuel and the operation of any facilities (classified as Scope 1 in this report)
- 1,450 tCO<sub>2</sub>e from the purchase of electricity by the company for its own use (classified as Scope 2 in this report).

For 2012/13 our greenhouse gas emissions resulting from business activities amounted to 304 tCO<sub>2</sub>e for Scope 1 and 1,463 tCO<sub>2</sub>e for Scope 2. It has not been practical to gather data on energy use at our Birmingham and Lymington offices (4% of the total floor area of our buildings), so we have used typical energy consumption figures to calculate the energy use at these sites based on floor area. We have stated the following carbon intensity metrics for 2013/14: 108 tCO<sub>2</sub>e per £bn funds under management and 13.98 tCO<sub>2</sub>e per £m operational income. For the previous reporting period, this was 131 tCO<sub>2</sub>e and 16.34 tCO<sub>2</sub>e respectively. The methodology used is in accordance with the requirements of the following standards: the World Resources Institute Greenhouse Gas Protocol (revised version); 'Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance' (Defra, October 2013) and ISO 14064 - part 1. While our financial reporting year is the calendar year, our reporting period for greenhouse gas emissions is 1 October to 30 September.

Environment

Glossary

Baseline year

Is the year against which we measure our performance in subsequent years. Historically, this has been 2007/08, but there were significant changes to our reporting in 2012/13, so the 2012/13 data is now our baseline for performance comparison.

Operational control approach

This refers to how our organisational boundaries have been defined. We use an operational control approach, which includes direct and indirect emissions from those buildings which we have operational (as opposed to financial) control over.

Carbon dioxide equivalent (CO<sub>2</sub>e)

CO<sub>2</sub>e is a universal unit of measurement that allows the global warming potential of different greenhouse gases to be compared as prescribed by the Kyoto Protocol.

Conversion factors

Are used to convert different activities into tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e). For example, consuming 1,000 kWh of UK gas is currently equal to emitting approximately 0.185 tCO<sub>2</sub>e. The amount of CO<sub>2</sub>e generated per kWh of UK grid electricity changes from year to year following changes to the way we generate our electricity.

Defra

Department for Environment, Food and Rural Affairs.

kWh

A kilowatt hour is a unit of energy. One kWh is roughly equivalent to using a desktop computer for four hours.

Heating degree days

These are a measure of the severity and duration of cold weather. For every degree the outside temperature drops below 15°C in a day counts as a degree day. The colder the weather, the larger the degree day value for that day. So two days at 10°C counts as 10 degree days.

Reporting regulations

The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013.

Scope

The Greenhouse Gas Protocol defines three categories of emissions.

- Scope 1 (Direct emissions): emissions directly into the atmosphere (eg from natural gas and refrigerants)
- Scope 2 (Indirect emissions): from the consumption of purchased electricity
- Scope 3 (Other indirect): emissions from Rathbones' use of products and services such as business travel, water, paper etc.

Transmission and distribution (T and D) loss

This is the energy loss that occurs when getting the electricity from a power station to the point of use. To account for electricity emissions fully, Defra requires that organisations account for the T and D loss associated with the electricity they purchase. Defra have historically included T and D loss under a single conversion factor for electricity consumption. Last year purchased electricity was separated into 'Electricity generation' and 'Losses from T and D'. This change resulted in a proportion of our carbon emissions previously being reported against Scope 2 being moved to Scope 3.

Notes

- 1 The carbon footprint from our buildings includes CO<sub>2</sub>e from natural gas, electricity (including transmission and distribution losses) and covers our offsite data centres. We have also now included refrigerants and have adjusted the 2012/13 comparative
- 2 In 2014 the conversion factor for UK grid electricity increased by 11% due to a spike in coal use in UK electricity generation. This has made UK electricity in 2014 11% more carbon intensive than in 2013
- 3 Note that for transparency we still include energy use at the data centres in our building energy figures
- 4 We have included composting under 'recycling' above
- 5 Please note that the 2012/13 recycling figure above is a correction due to a miscalculation in last year's waste figures
- 6 The Greenhouse Gas Protocol defines three scopes of greenhouse gas emissions. Please refer to the glossary for further information
- 7 Many of our core IT facilities at our London and Liverpool offices have been outsourced to data centres. As per the Greenhouse Gas Protocol, emissions from the data centre have been moved to Scope 3. However, where we have stated a figure for overall electricity use we have included the data centre, as we felt this is the more transparent approach
- 8 Please refer to the glossary for further information on Rathbones' approach to defining its organisational boundary through an operational control approach

# Governance

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# Directors

## Chairman

**Mark Nicholls**  
Chairman

Appointment: 1/12/2010  
Age: 65  
Board committees: Re N



Mark Nicholls is a lawyer and corporate financier. After studying law at Cambridge he qualified as a solicitor at Linklaters before joining S G Warburg in 1976. He became a director 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 and a non-executive director of Northern Investors Company PLC. He became chairman following the AGM in May 2011 and is considered to be independent.

## Executive directors

**Philip Howell**  
Chief Executive

Appointment: 1/12/2013  
Age: 59  
Board committees: E N



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. Before joining Rathbones in 2013, he continued his involvement in private wealth management, firstly as chief executive of Fortis Private Banking and subsequently of Williams de Broë. He succeeded Andy Pomfret as chief executive on 1 March 2014.

## Committee membership

	Executive	Audit	Remuneration	Nomination	Group risk
Mark Nicholls	Chairman		Member	Member	
Philip Howell	Member			Member	
Paul Stockton	Member				
Paul Chavasse	Member				
David Harrel		Member	Chairman	Member	Member
James Dean		Chairman	Member	Member	Member
Sarah Gentleman		Member	Member	Member	Member
Kathryn Matthews		Member	Member	Member	Chairman

● Committee member  
● Committee chairman

Executive directors

**Paul Stockton**  
Finance Director

Appointment: 24/09/2008  
Age: 49  
Board committees: E



Paul Stockton qualified as a chartered accountant with Price Waterhouse (now PwC) 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. Following the sale of Gerrard to Barclays in 2003, he left in 2005 and has since worked for Euroclear in Brussels and as a divisional finance director of the Phoenix Group. He joined Rathbones in August 2008 and is also a non-executive director of the Financial Services Compensation Scheme.

**Paul Chavasse**  
Head of Investment Management

Appointment: 26/09/2001  
Age: 50  
Board committees: E



Paul Chavasse started his career working for the institutional fund management arm of NatWest, which was later merged with Gartmore. After a period in the private client businesses of NatWest and Coutts, his final role before joining the group as chief operating officer in 2001 was as head of NatWest Portfolio Management in Bristol. He became head of investment management in March 2012.

Board committees

The principal board committees are the audit, executive, nomination, remuneration, and group risk committees. The board has delegated full authority to the executive committee, subject to a list of matters which are reserved for decision by the full board. The other board committees have formal terms of reference, which are reviewed and approved by the board on an annual basis. These are available on request from the company's registered office and on the group website.

A	
• Audit committee	<a href="#">p75</a>
E	
• Executive committee	<a href="#">p59</a>
N	
• Nomination committee	<a href="#">p78</a>
Re	
• Remuneration committee	<a href="#">p61</a>
Ri	
• Group risk committee	<a href="#">p60</a>

## Non-executive directors

### David Harrel

Senior Independent Director

Appointment: 1/12/2007

Age: 66

Board committees: A Re N Ri



David Harrel was one of the founding partners of S J Berwin LLP in 1982, and was made senior partner in 1992. He relinquished this role in 2006 and is now a consultant to the firm. David has a variety of other appointments. He is non-executive chairman of Fairpoint Group plc, a member of the board of the English National Opera and a trustee of the Clore Duffield Foundation. He is chairman of the remuneration committee.

### James Dean

Non-executive Director  
(Independent)

Appointment: 1/11/2013

Age: 57

Board committees: A Re N Ri



James Dean is a chartered accountant with over 30 years' experience working in financial services. James 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. He holds a number of other non-executive directorships including Liverpool Victoria Friendly Society and The Stafford Railway Building Society. He is chairman of the audit committee.

### Sarah Gentleman

Non-executive Director  
(Independent)

Appointment: 21/01/2015

Age: 44

Board committees: A Re N Ri



Sarah Gentleman started her career as a consultant at McKinsey and 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. Sarah graduated from Cambridge with a degree in Natural Sciences and also has an MBA from INSEAD. She was appointed to the board on 21 January 2015.

### Kathryn Matthews

Non-executive Director  
(Independent)

Appointment: 6/01/2010

Age: 55

Board committees: A Re N Ri



Kathryn Matthews has spent her entire career in investment management, most recently as chief investment officer, Asia Pacific (ex Japan) for Fidelity International. Prior to that, she held senior appointments with William M Mercer, AXA Investment Managers, Santander Global Advisers and Baring Asset Management. She is a non-executive director of Hermes Fund Managers Limited, Aperam S.A. and J P Morgan Chinese Investment Trust Plc and chairman of Montanaro UK Smaller Companies Investment Trust Plc. She is on the board of trustees of the Nuffield Trust and is a non-executive member of the Council of the Duchy of Lancaster. She is chairman of the group risk committee.

## Directors' report

### Group results and company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2014 was £35,637,000 (2013: £34,751,000). The directors recommend the payment of a final dividend of 33.0p (2013: 31.0p) on 19 May 2015 to shareholders on the register on 24 April 2015. An interim dividend of 19.0p (2013: 18.0p) was paid on 8 October 2014 to shareholders on the register on 12 September 2014. This results in total dividends of 52.0p (2013: 49.0p) per ordinary share for the year. These dividends amount to £24,863,000 (2013: £22,645,000) - see note 15 to the financial statements on page 105.

### Share capital

The company's share capital comprises one class of ordinary shares of 5p each. At 31 December 2014, 47,890,269 shares were in issue (2013: 46,287,664). 50,000 shares were held in treasury (2013: 50,000). Details of the movements during the year are set out in note 30 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.

The board currently has the authority to allot 15,300,000 shares (approximately one third of the issued share capital at 18 March 2014). The board currently has the authority to buy back up to 2,300,000 shares under certain stringent conditions. Regarding the appointment and replacement of directors, the company is governed by the company's Articles of Association, the UK Corporate Governance Code ('the Code'), the Companies Act 2006 and related legislation. Amendment of the Articles of Association requires a special resolution of shareholders.

### Directors

Directors' details are set out in the corporate governance report on pages 55 to 58. Their biographies are on pages 50 to 52.

### 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 and 42.

### Corporate responsibility

Information about greenhouse gas emissions are set out in the corporate responsibility report on pages 43 to 48.

### Financial instruments and risk management

The risk management objectives and policies of the group are set out in note 33 to the financial statements.

### 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 2014 and remain in force at the date of this report.

### Substantial shareholdings

At 18 February 2015, the company had received notifications in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5.1.2 of the following interests of 3% or more in the voting rights of the company (see table 1).

**Table 1. Substantial shareholdings at 18 February 2015**

Shareholder	Date of notification	Number of voting rights	% of voting rights
BlackRock Inc.	2 May 2014	5,198,254	10.91
Lindsell Train Ltd.	27 Aug 2014	5,160,356	10.81
Massachusetts Financial Services Company	19 May 2011	2,254,063	5.19
BlackRock UK Special Situations Fund	26 Nov 2013	2,312,691	5.01
Aberdeen Asset Managers Ltd.	14 Nov 2014	2,103,831	4.40

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## Share price

The mid-market price of the company's shares at 31 December 2014 was £20.46 (2013: £16.14) and the range during the year was £16.11 to £21.66 (2013: £12.85 to £16.91).

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## Auditor

The audit committee reviews the appointment of the external auditor and their relationship with the group, including monitoring the group's use of the auditor for non-audit services. Note 10 to the financial statements sets out details of the auditor's remuneration. Having reviewed the independence and effectiveness of the external auditor, the audit committee has recommended to the board that the existing auditor, KPMG LLP, be reappointed and a resolution appointing KPMG LLP as auditor and authorising the directors to set their remuneration will be proposed at the 2015 AGM.

The directors in office at the date of signing of this report confirm that there is no relevant audit information of which the auditor is unaware and that each director has taken all reasonable steps to make him or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

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## 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 statement, strategic report and group risk committee report. In addition, note 1.6 to the financial statements provides further details.

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. During the year, and as at 31 December 2014, the group has had no external borrowings and is wholly funded by equity.

In 2014, the group has continued to generate organic growth in client funds under management and this is expected to continue. 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. In forming their view, the directors have considered the company's prospects for a period exceeding 12 months from the date the financial statements are approved.

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## Political donations

No political donations were made during the year (2013: nil).

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## Post-balance sheet events

There were no post-balance sheet events.

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## Annual General Meeting

The 2015 AGM will be held on Thursday 14 May 2015 at 12.00 noon at 1 Curzon Street, London W1J 5FB. Full details of all resolutions and explanatory notes are set out in the separate notice of the meeting.

By Order of the Board

**Richard Loader**  
Company Secretary

18 February 2015

Registered office: 1 Curzon Street, London W1J 5FB



# Corporate governance report

## Introduction from the chairman

You will find commentaries in this annual report from me and other committee chairmen on important aspects of our governance. The board's primary focus is on ensuring that the business prospers for the benefit of our shareholders and other stakeholders. Good governance provides the framework for achieving this, and the best guardian of governance is a good board culture. I believe we have this at Rathbones, and I also believe that the longstanding culture of Rathbones, in putting the interests of our clients first, is embedded throughout the firm. We are not complacent, however, and we know we must remain ever-vigilant, particularly as the firm grows in size.

We now have a relatively small board at Rathbones and I think this helps maintain an open and constructive dialogue between the executive and non-executive members. As chairman, one of my main tasks is to ensure that the 'right' information is made available on a timely basis to the non-executives, so that we can all contribute to discussions and challenge constructively and effectively. In this regard a particular area of focus is determining the boundaries of appropriate and necessary non-executive oversight. These boundaries are continually widening for a financial services company like Rathbones, which is now regulated in the UK by the PRA, FCA and the SRA. Examples of this widening are the fact that key executives in risk and audit now report directly to a non-executive director in their capacity as chairman of the risk committee and audit committee respectively. In 2014 we set up a conflicts of interest committee also chaired by a non-executive director.

During 2014 Philip Howell became chief executive and James Dean became chairman of the audit committee. They were able to make an immediate impact, having had appropriate handover periods as part of our succession planning. I was delighted to welcome Sarah Gentleman to the board in January 2015. Sarah brings analytical and digital marketing skills to the board which I believe will be of great benefit.

We have robust and effective board meetings, and the broad range of skills and experience of our board members ensures that all issues are fully debated and challenged before a decision is made. If we need an extended discussion on a matter, we will set up an additional meeting or make use of one of our pre-board dinners. Most importantly, I am satisfied that when it comes to difficult or ambiguous issues the board is well placed to make sound judgements. This year we asked IDDAS Limited to undertake an external board effectiveness review, of which more below. The nomination committee keeps under review both board succession planning and whether additional skills are required on the board.

In between board meetings I maintain frequent contact with the executive team, and in particular the chief executive who keeps me advised of progress and key developments. Philip and I also discuss how to bring issues to the board in the most effective way. I spend two or more days a week in the London office, and join some internal meetings particularly those that relate to our investment process. I maintain regular contact with our senior independent director and discuss with him my thinking on significant board issues. I also have frequent dialogue with my other non-executive colleagues to ensure that any areas of concern are aired. Before each board meeting the non-executive directors meet to highlight any issues that have emerged from the board papers.

Finally, Rathbones takes the recommendations of the UK Corporate Governance Code seriously and we have been compliant with it throughout the year. We note the additional requirements in the 2014 Corporate Governance Code and will work to fully implement these for our next annual report. We are also compliant with Lord Davies' recommendations that boards have at least 25% female representation.

**Mark Nicholls**  
Chairman

18 February 2015

## The board and principal board committee structure

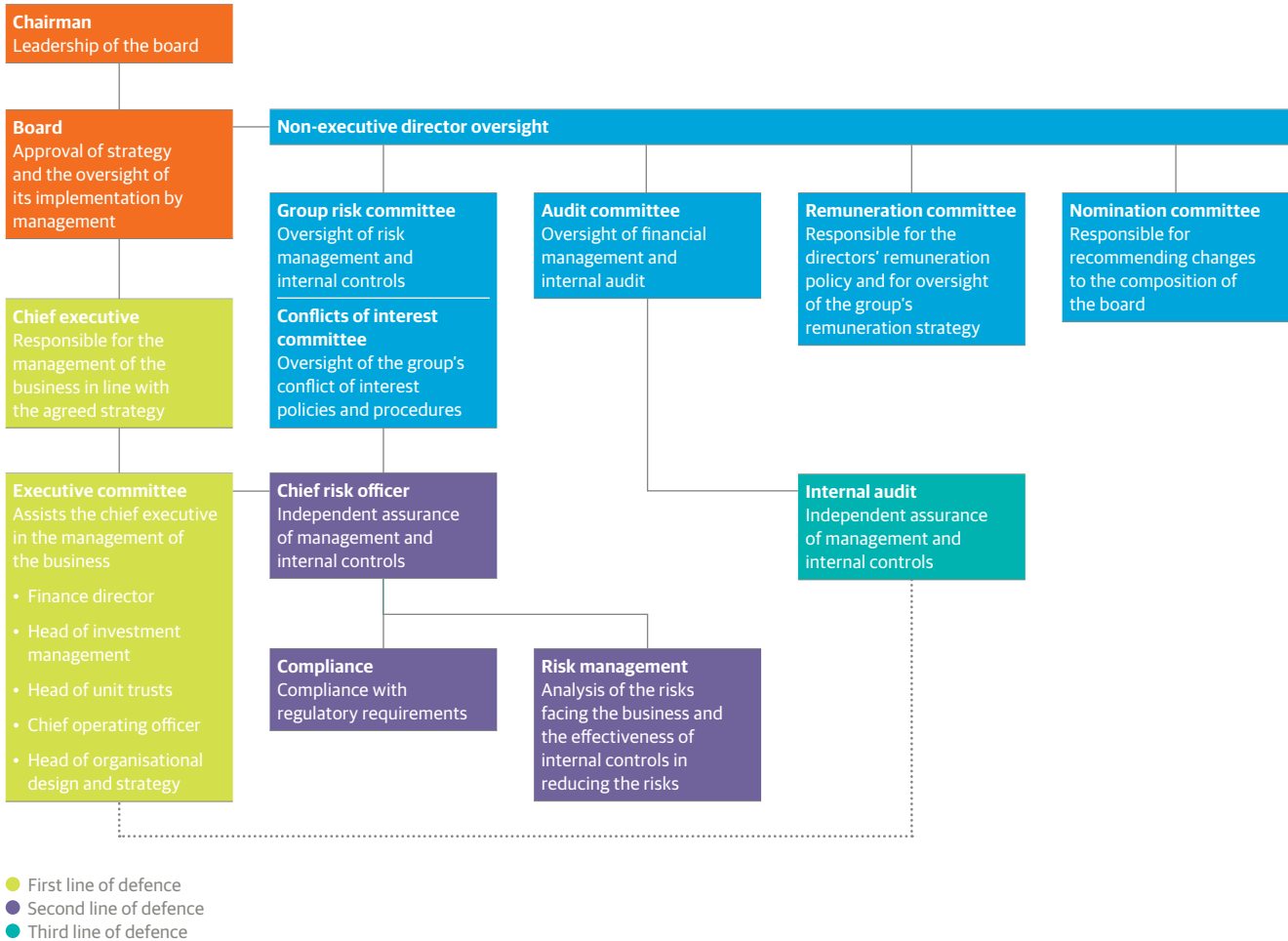


Table 1: Attendance at board meetings

	Plc board <sup>1</sup>	Executive committee <sup>2</sup>	Audit committee	Remuneration committee	Nomination committee	Group risk committee
P D G Chavasse	6/6	10/12				
O R P Corbett	2/2		4/4	1/1	1/2	2/2
J W Dean	6/6		8/8	4/4	3/3	4/4
D T D Harrel	6/6		8/8	4/4	2/3	2/2
P L Howell	6/6	10/12				
K A Matthews	6/6		7/8	4/4	3/3	4/4
M P Nicholls	6/6			4/4	3/3	
A D Pomfret	1/1	2/2				
R P Stockton	6/6	11/12				

1 Scheduled bi-monthly meeting

2 Scheduled monthly meeting

## Governance of the company

In relation to compliance with the UK Corporate Governance Code, this report together with the directors' report states the position at 18 February 2015. The company was in compliance with the UK Corporate Governance Code ('the Code') issued in September 2012 by the Financial Reporting Council (FRC) throughout the year.

## The board

The biographies of the directors and their details are set out on pages 50 to 52. The board currently consists of a non-executive chairman, three executive directors and four other non-executive directors. The board considers that all of the non-executive directors are independent. The roles of the chairman, Mark Nicholls, and the chief executive, Philip Howell, are separated and are clearly defined in writing and agreed by the board. The non-executive directors bring independent judgment to the board table gained at a senior level in other organisations and constructively challenge strategy and management performance. The senior independent director is David Harrel, who is available to shareholders if they have concerns that they would rather not address to the chairman or executive directors or which remain unresolved after an approach through the normal channels.

Regarding board changes, Philip Howell succeeded Andy Pomfret as chief executive on 1 March 2014. Oliver Corbett stepped down from the board on 3 June 2014 and was succeeded by James Dean as chairman of the audit committee. Sarah Gentleman was appointed to the board on 21 January 2015.

We meet as a full board at least six times a year. Most board meetings are preceded by a board dinner which allows for broader discussions and an opportunity for the board to meet other members of the management team. In months where no formal board meeting is scheduled, an informal meeting of the non-executive directors and the chairman and chief executive is generally held. The non-executive directors also have informal meetings without the chairman or chief executive present.

The company secretary manages board and committee meetings, ensures that the board and particularly the non-executive directors are receiving appropriate and balanced information, 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.

## Attendance at board meetings

The meeting attendance record of directors who served during the year is set out in table 1.

## Board effectiveness

There are three key elements to ensuring board effectiveness; the annual effectiveness review, individual director appraisal and training.

## Board effectiveness review

Each year, the board undertakes an annual review of its effectiveness. In 2013, a questionnaire-based review was undertaken. The table below shows the key points raised in this 2013 review and the action taken.

Key issues from the 2013 review	Action taken
Review the board agenda and time allocations	Items for particular focus at the meeting are now highlighted
Improvements to board papers	Board papers have improved, but more work is needed in some areas with a need for greater use of exception reporting
Oversight of the business by the non-executive directors	A revised chief executive's board report was introduced during the year which summarises key issues for the non-executive directors. Training sessions are arranged with internal presenters where possible to give the non-executive directors exposure to the management team
Requests for more market and competitor analysis	There has been a particular focus in 2014 on our tariff and our competitive position
The possible skill set of any new non-executive director	See the nomination committee report on page 78
Potential threats to and opportunities for the business	There is now greater focus at board level on market activity and analyses
Training needs for the directors	Training sessions are regularly held on aspects of the business

#### Board effectiveness review

For 2014, an external review was undertaken by IDDAS Limited. This involved their attendance at audit, group risk and board meetings, one-to-one interviews with directors and the company secretary and a review of board and board committee papers and minutes. The key points raised in the 2014 review, which are summarised below, will be discussed by the board and taken forward in 2015.

- **The board agenda**  
Greater focus on oversight, strategy and key risks, less on day to day management issues
- **Information flows**  
Further refinement of board papers to highlight key points and remove clutter
- **Succession planning**  
For executive and non-executive directors and below board level
- **Induction and development**  
Develop a more structured programme
- **Code of ethics**  
Embed a code of business conduct
- **Risk**  
Greater board focus on the key business risks

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## Director appraisal

Individual appraisal of each director's performance is undertaken by the chief executive (in respect of the executive directors' executive roles) and the chairman (for all directors in respect of their contribution to the board). This involves meeting with each director on a one-to-one basis. The non-executive directors, led by the senior independent director, carry out an appraisal of the performance of the chairman.

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## Training and induction

Rathbones is committed to the training and development of all staff to ensure professional standards are maintained and enhanced. All directors are required to dedicate a certain number of hours to their own development. Training and development include activities to keep up-to-date with Rathbones' specific issues and industry, market and regulatory changes.

New directors are involved in a thorough induction process designed to enable them to become quickly familiar with the business. This includes meeting staff in a number of key business areas, attendance at important internal meetings and demonstrations of systems and key business processes.

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## Board committees

Full details of the work of the principal board committees are set out in the separate reports for each committee which follow this report. In addition to the principal board committees, a conflicts of interest committee, chaired by James Dean, was established in March 2014. It has oversight of the group's conflicts of interest policies and procedures. The committee's members are the chairman, non-executive directors and the chief executive. The chief risk officer and head of internal audit are normally in attendance.

**Mark Nicholls**  
Chairman

18 February 2015

## Executive committee report

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### Executive committee chairman's statement

Please see the chief executive's statement on pages 5 and 6.

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### Committee members

Our current members and their responsibilities are as follows:

Board members:

- Philip Howell (chief executive)
- Paul Stockton (finance director)
- Paul Chavasse (head of investment management).

Andy Pomfret retired as chief executive on 28 February 2014.

Other members:

- Andrew Butcher (chief operating officer)
- Mike Webb (chief executive of the unit trust business)
- Mike Bolsover (head of strategy and organisation development) - appointed to the committee on 1 January 2015.

Ian Buckley stood down from the committee on 31 December 2014.

We formally meet each month. These formal meetings are minuted and copies of the minutes are sent to committee members and to the board. Details of attendance by the directors on the committee are set out on page 56. Ad hoc and informal meetings are held as required.

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### Role and responsibilities of the committee

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.

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### 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 discuss the management and performance of the operating businesses (including their strategy, financial results and regulatory compliance) and growth initiatives. We agree the annual business plan and budget prior to its submission to the board for approval.

Our people are our main asset and so HR matters and learning and development are important agenda items. The maintenance of and investment in our core IT and operations infrastructure are significant costs to the business and so are subject to regular review. The prioritisation of projects and allocation of resources is closely monitored.

We also have oversight of marketing and investor relations and are involved in the day to day relationship with our regulators. We review significant reports to regulators, shareholders and other stakeholders. We receive updates from internal audit on their work schedule and discuss any significant issues they raise following their work. We regularly review the current risk register and discuss the key risks to the business.

Non-committee members are regularly invited to attend part of a meeting to report on a particular aspect of our business. The head of internal audit may attend any meeting while the minutes are provided to senior members of the risk management team. Non-executive directors may also attend meetings, which is particularly useful as part of a new director's induction process.

#### Philip Howell

Chairman of the executive committee

18 February 2015

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#### Andrew Butcher



Andrew Butcher is chief operating officer and is based in the Liverpool office. Following an early military career, he joined Charles Stanley in 1986 and initially acted as a partner's assistant while qualifying as a private client stockbroker, managing client portfolios. He subsequently became involved in branch acquisitions, project management and IT, and was appointed as their chief operating officer in 2008. He joined Rathbones in March 2012.

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#### Mike Webb



Mike Webb is chief executive officer of Rathbone Unit Trust Management. He has over 25 years' experience, previous roles including chief executive officer of Invesco Perpetual, managing director of the retail division of GT Global Asset Management and sales and marketing director of Prolific Financial Management. Before joining Rathbones he was head of business development at Hermes Fund Managers. He joined Rathbones in February 2010. His other responsibilities include marketing and Rathbones' distribution strategy.

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#### Mike Bolsover



Mike Bolsover is head of strategy and organisation development. He has spent over 30 years in commercial and retail banking sectors, undertaking a range of roles with a bias towards strategy and the management of people. Following a lengthy career with Midland Bank and HSBC, he moved into private wealth management, as director of strategy and human resources for Gerrard. Before joining Rathbones, he worked for Euroclear, the world's largest post-trade settlement infrastructure as director, corporate strategy. He joined Rathbones in September 2014.

# Group risk committee report

## Risk committee chairman's annual statement

In my report last year I mentioned the enhancements to our risk management processes made in 2013 and these have continued in 2014. In September, we welcomed a head of investment process and risk to head our investment monitoring team. This team reviews the work of our investment managers, the suitability of their client portfolios and their assessments of their clients' attitude to risk and capacity for loss. System enhancements in this area have improved the reporting of investment performance to management and to the committee. We also initiated a search for a dedicated chief risk officer which resulted in the appointment of Sarah Owen-Jones, who will join Rathbones on 16 March 2015. Sarah has considerable financial services risk management experience and will be an important addition to the executive management team.

An enhanced risk management framework manual was approved during the year. This incorporated our risk management documentation including our risk management policy, three lines of defence model and risk appetite statement into one document.

I would like to thank Ian Buckley for his considerable contribution to the work of the committee. He has been instrumental in the development of our risk management function over the past couple of years and more recently the appointment of a dedicated chief risk officer. He will hand over the day to day responsibility for risk management to Sarah Owen-Jones in March.

## Committee members

Our current members are the independent non-executive directors Kathryn Matthews (chairman), James Dean, Sarah Gentleman and David Harrel. Oliver Corbett was a committee member until his retirement from the board on 3 June 2014 while Sarah Gentleman joined the committee on her appointment to the board on 21 January 2015. We met on four occasions in 2014 (2013: four). Details of attendance by members are set out on page 56.

## Role and responsibilities of the committee

These are set out in the terms of reference of the committee, which are reviewed annually and approved by the board.

The committee is supported in its duties by the risk management committee and the group executive committee. The risk management committee is made up of representatives from all the different business units and reviews all the different risks from within the businesses at an operational level. The group executive committee reviews the risks as identified by the risk management committee from a group wide perspective and also within the framework of group strategy. These discussions then form the basis for the debate on both key risks and emerging risks at the group risk committee.

The key activities of the committee are to:

- review the business' risks and a top 10 list of risks
- consider a 'watch list' of emerging risks and issues
- advise the board on the group's overall risk appetite and risk tolerance
- identify risk trends and correlations
- consider the lessons learned from operational events and the adequacy of management action
- review the risk assessment process and the metrics used
- provide guidance to other committees and to the board
- support the board's risk assessment of any proposed strategic business change
- review of the risk-related aspects of key regulatory documents.

Full details of our risk management processes are included in the strategic report on pages 18 to 22.

### **Kathryn Matthews**

Chairman of the group risk committee

18 February 2015

# Remuneration committee report

## Remuneration committee chairman's annual statement

Last year we sought approval of our remuneration policy for one year only. We had a new management team in place and in light of which we wanted to give ourselves more time to review the policy and in particular the long term elements, before seeking approval of a policy which will remain in place for three years. We are therefore submitting a new directors' remuneration policy for approval at the forthcoming AGM.

Our objectives in undertaking this review were to:

- simplify the incentive pay structure to give the executive directors and shareholders a clearer line of sight on performance measurements
- align the directors' remuneration policy with our five year strategy
- ensure that the executive directors' interests are aligned to those of Rathbones' shareholders, including the requirement for significant, long term equity participation
- maintain a cap on total variable pay of 200% of base salary.

As a result of our review, the remuneration committee has approved the Executive Incentive Plan (EIP) which will be put forward to the AGM for approval. The EIP, which will be effective from the 2015 performance year, will replace both the existing annual bonus arrangements and the Long Term Incentive Plan (LTIP). Under the EIP, as set out in the directors' remuneration policy, performance will be assessed at the end of each year using a balanced scorecard of long term and annual financial measures (earnings per share (EPS), return on capital employed, profit before tax (PBT) compared with budget, underlying operating profit margin and growth in funds under management), strategic, operational and personal performance measures. Performance metrics and targets will be disclosed in the directors' remuneration report for the relevant year of award. Total variable pay remains capped at 200% of salary in accordance with shareholder approval given at the 2014 AGM.

The annual award under the EIP is split between deferred shares (60%) and cash (40%). The deferred shares will vest over a five year period at 20% per annum and cannot be sold for five years from the date of the award. The EIP also provides for malus or clawback in certain events.

It will be noted that the EIP does not contain a relative Total Shareholder Return (TSR) measure unlike the existing LTIP. We have substituted a return on capital employed (ROCE) measure as we believe that it is an important strategic performance measure over which management has some control, unlike TSR which is highly dependent on the vagaries of the stock market.

For 2014, the committee approved executive bonus awards which reflected a strong year in terms of PBT as against budget, growth in funds under management and operating margin as well as the performance against personal performance targets as detailed in the annual report on remuneration. The strong performance of the business also meant that 2012-14 LTIP performance targets (TSR and EPS) were in large part achieved. Executive salaries were increased in line with the increase given to most employees.

I would like to thank a number of our major shareholders and their representative bodies whose views we sought on our remuneration policies for their helpful observations which have assisted us in our deliberations.

**David Harrel**

Chairman of the remuneration committee

18 February 2015

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## Directors' remuneration policy

This remuneration policy will be submitted to shareholders for approval by ordinary resolution at the AGM on 14 May 2015. It replaces the policy approved by shareholders at the AGM on 14 May 2014. If approved, the policy will be formally effective from the date of the AGM, but will be applied to the whole financial year.

### Proposed changes

Following the introduction of the variable pay cap by the financial services regulators, and the appointment of our new chief executive in March 2014, the committee undertook a review of our executive remuneration policy.

The overriding aim of the policy is that it be:

- linked to our strategy
- aligned with shareholders' interests with significant, long term equity participation
- simple and transparent
- include both annual and long term elements
- compliant with financial services rules and regulations
- 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.

The outcome of the review was a proposal to introduce a new incentive plan to replace both the annual bonus and the LTIP, with a single plan (the EIP). The maximum award under the combined plan is 200% of base salary, which is the same as the sum of the previous maximum awards made under both the annual bonus scheme and the LTIP. The new plan includes both long and short term measurement of performance. It applies a balanced scorecard, with a majority weighting on financial metrics. 60% of awards are made in the form of Rathbones shares that are deferred over a five year vesting period. Shares are also subject to a five year sale restriction from the date of award (net of sales to pay any associated tax on vesting).



Directors' remuneration policy

Executive directors

Base salary

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
The core, fixed component of the package designed to enable the recruitment and retention of high calibre individuals.	Base salaries are reviewed annually on 1 January and are compared to salaries in other companies of similar size and complexity to ensure that the market rate is being paid. Adjustments may be made at other times to reflect a change of responsibility.	There is no maximum base salary, but percentage increases will normally be no higher than the general level of increase for the wider employee population, unless there are special circumstances such as a material change of responsibilities or where a salary has been set significantly below market median and is being brought into line.  Base salaries at 1 January 2015 are:  <ul style="list-style-type: none"> <li>• Paul Chavasse £293,550</li> <li>• Philip Howell £463,500</li> <li>• Paul Stockton £294,580</li> </ul>	Not applicable.	Not applicable.

Benefits

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
Benefits are typically provided to directors to complement the remuneration package and ensure that it is sufficiently attractive to enable recruitment.	Benefits are set by the committee and may include, for example: <ul style="list-style-type: none"> <li>• private medical insurance for directors and their dependants</li> <li>• death in service cover</li> <li>• Share Incentive Plan free and matching shares</li> <li>• Save As You Earn scheme</li> <li>• annual medicals</li> <li>• limited legal and professional advice on company-related matters</li> <li>• relocation costs.</li> </ul>	Benefits make up a small percentage of total remuneration costs.	Not applicable.	Not applicable.

Directors' remuneration policy Executive directors

Executive Incentive Plan (EIP)

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
<p>The EIP rewards both short term performance and the achievement of corporate and individual goals and aligns the interests of shareholders and directors in creating long term shareholder value. The performance measures as described have been selected to support the controlled delivery of our business strategy as set out in the strategic report.</p>	<p>EIP awards are paid in cash (40%) and deferred Rathbones shares (60%) which vest over a five year period in equal tranches of 20% per annum. A full five year sale restriction period will operate from the date of the award and will continue to operate for directors who have left the company. Directors will not be permitted to sell shares during the sale restriction period except for the purpose of meeting tax liabilities on vesting.</p> <p>Deferred awards are increased by notional adjustments for dividends paid until vesting calculated using shares held at the record date.</p>	<p>The threshold EIP award is 25% of base salary.</p> <p>The target EIP award is 120% of base salary.</p> <p>The maximum EIP award is 200% of base salary.</p> <p>Actual awards for performance above or below target performance are calculated on a straight line basis between threshold and maximum.</p>	<p>EIP balanced scorecard measures are set by the committee, to support the company's strategy. The 2015 metrics and weightings are shown below. These may be amended from time-to-time by the committee, as necessary to maintain alignment with strategy.</p> <p><b>Financial (1 year) (25% weighting, equally split between the measures)</b></p> <ul style="list-style-type: none"> <li>• PBT compared to the budget</li> <li>• Net organic growth in investment funds under management compared to the target</li> <li>• Underlying operating profit margin compared to target range.</li> </ul> <p><b>Financial (3 year trailing) (40% weighting, equally split between the measures)</b></p> <ul style="list-style-type: none"> <li>• Compound annual growth in EPS over 3 years</li> <li>• Average ROCE over 3 years</li> <li>• The 3 year trailing measure will be phased in between 2015 and 2017. For 2015, specific annual targets have been set for EPS and ROCE to establish the baseline from which future growth will be measured. These targets are based on the 2015 budget.</li> </ul> <p>The performance metrics and range of outcomes for each financial measure (1 year and 3 year trailing) are set by the committee and reviewed annually.</p> <p><b>Non-financial strategic measures (15% weighting)</b></p> <ul style="list-style-type: none"> <li>• Assessment of non-financial performance relating to the delivery of the client experience, project implementation, regulatory compliance and risk management.</li> <li>• Objectives and measures are proposed by the chief executive and approved by the remuneration committee annually.</li> </ul> <p><b>Personal performance (20% weighting)</b></p> <ul style="list-style-type: none"> <li>• Personal performance against annual objectives</li> <li>• These are set by the chief executive and chairman (for the chief executive) at the start of each year and are agreed with each director and approved by the remuneration committee.</li> </ul> <p><b>Additional considerations</b></p> <p>The remuneration committee may make an adjustment when determining the overall award, including to zero if appropriate, to take account of any of the following material events:</p> <ul style="list-style-type: none"> <li>• underlying financial performance</li> <li>• risk management or regulatory compliance issues</li> <li>• personal performance.</li> </ul>	<p>In the case of a 'bad' leaver, all unvested awards will normally lapse. A 'bad' leaver is a director who leaves other than on retirement, redundancy, due to ill health or on the sale of the business unless the committee determines otherwise.</p> <p>The committee may seek the recovery of awards at any time before the vesting of awards (malus) or within three years of vesting (clawback) if it determines that the financial results of the company were materially misstated, if the group is subject to a material adverse event (for example, regulatory censure) or if an historic error was made in the calculation of awards. This recovery may be made by the reduction of future awards, the reduction of past awards made that have not vested or by the repayment of cash awards or the return of vested shares.</p>

Directors' remuneration policy Executive directors

Pension or cash allowance

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
To provide the executive directors with retirement benefits as part of an attractive overall package.	<p>Payments may be made to a defined contribution (DC) pension arrangement such as SIPP or to the group defined contribution scheme. Alternatively, they may receive a cash pension allowance.</p> <p>Executive directors may be a member of a group defined benefit scheme (DB). These have been closed to new members since 2002.</p>	<p>The maximum personal pension or allowance payment is 14% of salary.</p> <p>Paul Chavasse is a member of the group DB scheme. Pension is accrued at 1/60th for each year of service with a normal retirement age of 60 for service prior to 1 July 2009. From that date, future service benefits are based on career average revalued earnings with a normal retirement age of 65 rather than 60.</p>	Not applicable.	Not applicable.

Chairman and other non-executive directors

Base fee

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
To enable the recruitment of high-calibre non-executive directors with the appropriate skills and experience.	<p>Base fees are reviewed annually by the board on 1 January and are compared to fees in other companies of similar size and complexity to ensure that the market rate is being paid. Adjustments may be made at other times to reflect a change of responsibility. Fees are paid in cash.</p>	<p>The base fee for the chairman in 2014 was £140,000. This was increased to £160,000 on 1 January 2015.</p> <p>The base fee for the other non-executive directors in 2014 was £42,500 per annum. This was increased to £50,000 on 1 January 2015.</p>	Not applicable.	Not applicable.

Additional responsibility fee

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
To recognise the additional responsibility involved in chairing a committee (audit, group risk and remuneration) or being the senior independent director.	<p>Additional responsibility fees are reviewed annually by the board on 1 January.</p>	<p>The additional responsibility fee payable is £10,000 per annum.</p>	Not applicable.	Not applicable.

**Directors' remuneration policy**

**Notes to the directors' remuneration policy table**

**Performance metrics**

The performance metrics chosen for the EIP are key performance metrics used by the business and shareholders. The comparison of actual PBT with budget links performance to strategy and the business plan. Growth in funds under management is a key measure of business growth, while maintenance of the underlying operating profit margin is a key indicator of the health of the business and its profitable growth and cost control. EPS growth and ROCE are commonly used measures designed to ensure alignment of interests between participants and shareholders.

**The use of discretion**

The committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment. In relation to the EIP, the committee retains discretion when selecting participants, determining the treatment of leavers, agreeing the timing of awards and reviewing the balanced scorecard of performance measures, targets and weightings. The committee reserves the right to retrospectively adjust performance measures and targets if events (for example, a major acquisition) make them inappropriate. Adjustments will not be made to make the conditions materially easier to satisfy.

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes 'payments' include the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

**Consultation**

The company consulted with major shareholders and their representative bodies but has not consulted with employees when drawing up the remuneration policy set out in this report.

**Appointment of new directors**

For new directors, the structure of the package offered will mirror that provided to current directors. The package quantum will depend on the role and the experience and background of the new director. Advice from our remuneration consultants will be taken to ensure that the package is in line with median market levels for companies of similar size and complexity. The company may pay compensation for remuneration the individual has forfeited in order to take up the role with Rathbones. In setting the value, timing and any performance conditions for such compensation, the committee will take account of the vesting timetable and conditions that may have applied to the forfeited remuneration.

**Payments for loss of office and service contracts**

It is company policy that such contracts should not normally contain notice periods of more than 12 months. Details of the notice periods in the contracts of employment of executive directors serving during the year are as shown below.

Executive director	Date of contract	Notice period
P D G Chavasse	15 Nov 2011	12 months
P L Howell	12 Feb 2013	12 months
A D Pomfret	13 Oct 2011	12 months
R P Stockton	14 Oct 2011	6 months

There are no provisions within the contracts to provide automatic payments in excess of payment in lieu of notice upon termination by the company and no predetermined compensation package exists in the event of termination of employment. Payment in lieu of notice would include basic salary, pension contributions and benefits. There are no provisions for the payment of liquidated damages or any statements in respect of the duty of mitigation. Compensation payments will be determined on a case by case basis in the light of current market practice. Compensation will include loss of salary and other contractual benefits but mitigation will be applied where appropriate. In the event of entering into a termination agreement, the board will take steps to impose a legal obligation on the director to mitigate any loss incurred. There are no clauses in contracts amending employment terms and conditions on a change of control. Executive directors' contracts of service, which include details of remuneration, are available for inspection at the company's registered office and will be available for inspection at the AGM.

Non-executive directors have a letter of appointment rather than a contract of employment. As with all other directors, they are required to stand for re-election annually in accordance with the UK Corporate Governance Code. The effectiveness of the non-executive directors is subject to an annual assessment. Any term beyond six years is subject to particularly rigorous review and takes into account the need for progressive refreshing of the board. The executive directors are responsible for determining the fees of the non-executive directors.

**Directors' remuneration policy** Notes to the directors' remuneration policy table

**Other directorships**

Executive directors are encouraged to take on external appointments as non-executive directors, but are discouraged from holding more than one other position in a quoted company given the time commitment. Prior approval of any new appointment is required by the board with fees being payable to the company. Paul Stockton is a director of the Financial Services Compensation Scheme with his remuneration being paid to the company.

**Statement of implementation of the remuneration policy in the current financial year**

The charts below show the relative split of fixed and variable remuneration under the proposed new policy showing minimum, on-target and maximum awards.

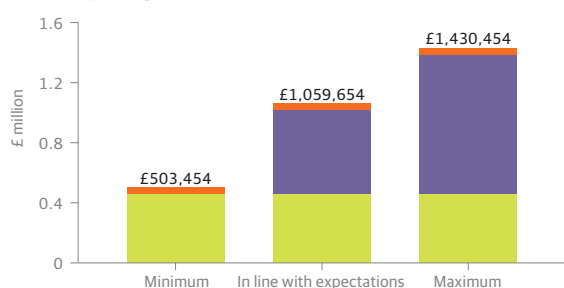
**Legacy arrangements**

For the avoidance of doubt, in approving this policy, authority is given to the committee to honour previous remuneration awards or arrangements entered into with current or former directors (such as the payment of a pension or the unwind of legacy share schemes). Details of any payments will be set out in the annual report on remuneration as they arise.

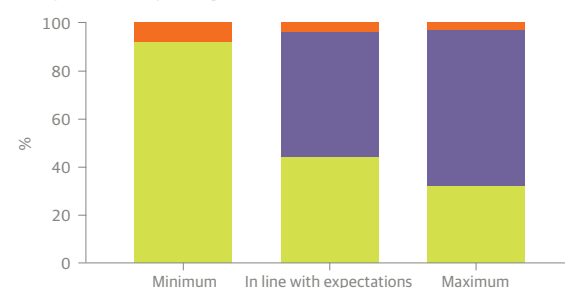
**Statement of implementation of the remuneration policy in the current financial year**

**Philip Howell**

**Value of package**

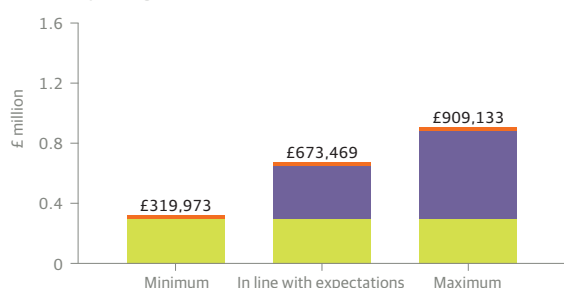


**Composition of package**

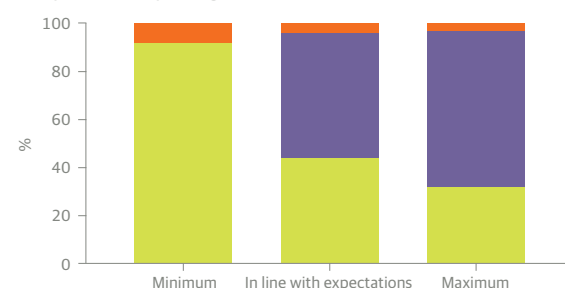


**Paul Stockton**

**Value of package**

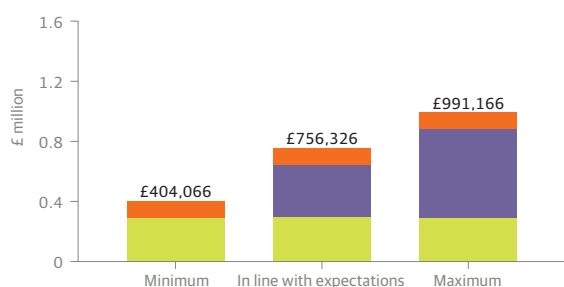


**Composition of package**

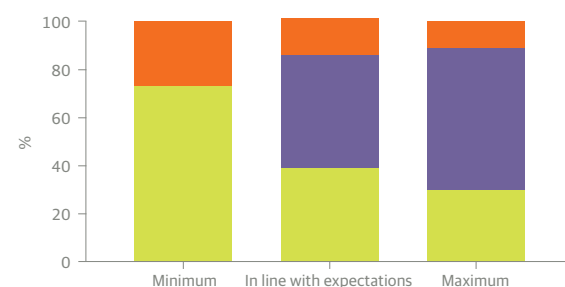


**Paul Chavasse**

**Value of package**



**Composition of package**



- Pension
- EIP
- Salary

- 1 Base salary at 1 January 2015
- 2 Benefits have not been included as they are not material
- 3 Pension benefits are the percentage of salary payable to a personal pension or as a cash allowance or the estimated increase in DB scheme benefits in 2015 (less employee contributions)
- 4 Target EIP awards, where performance is in line with expectations, are set at 60% of the maximum award which equates to 120% of salary

## Annual report on remuneration

The remuneration of directors in 2014 and 2013 is set out in the table below.

### Single total figure of remuneration for each director (audited)

	Salary and fees £'000	Taxable benefits and allowances £'000	2014 bonus for the year – cash £'000	2014 bonus for the year – deferred shares £'000	2012-14 LTIP awards vesting at the year end £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
<b>2014</b>									
<b>Executive directors</b>									
P D G Chavasse	285	2	145	145	300	94	3	-	974
P L Howell	450	2	251	252	-	39	3	2	999
A D Pomfret	57	2	-	-	273	-	-	-	332
R P Stockton	286	13	151	152	267	25	3	3	900
	<b>1,078</b>	<b>19</b>	<b>547</b>	<b>549</b>	<b>840</b>	<b>158</b>	<b>9</b>	<b>5</b>	<b>3,205</b>
<b>Non-executive directors</b>									
O R P Corbett	22	-	-	-	-	-	-	-	22
J W Dean	48	-	-	-	-	-	-	-	48
D T D Harrel	63	-	-	-	-	-	-	-	63
K A Matthews	53	-	-	-	-	-	-	-	53
M P Nicholls	140	-	-	-	-	-	-	-	140
	<b>326</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>326</b>
<b>Total</b>	<b>1,404</b>	<b>19</b>	<b>547</b>	<b>549</b>	<b>840</b>	<b>158</b>	<b>9</b>	<b>5</b>	<b>3,531</b>
	Salary and fees £'000	Taxable benefits and allowances £'000	2013 bonus for the year – cash £'000	2013 bonus for the year – deferred shares £'000	2011-13 LTIP awards vesting at the year end £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
<b>2013</b>									
<b>Executive directors</b>									
P D G Chavasse	256	2	96	192	292	72	2	2	914
P L Howell	25	-	17	-	-	2	-	4	48
A D Pomfret	349	2	137	274	398	40	2	2	1,204
R P Stockton	227	2	74	148	260	24	2	1	738
	<b>857</b>	<b>6</b>	<b>324</b>	<b>614</b>	<b>950</b>	<b>138</b>	<b>6</b>	<b>9</b>	<b>2,904</b>
<b>Non-executive directors</b>									
C R R Avery	15	-	-	-	-	-	-	-	15
C M Burton	15	-	-	-	-	-	1	-	16
O R P Corbett	50	-	-	-	-	-	2	-	52
J W Dean	7	-	-	-	-	-	-	-	7
D T D Harrel	60	-	-	-	-	-	2	-	62
K A Matthews	50	-	-	-	-	-	2	-	52
M P Nicholls	120	-	-	-	-	-	2	-	122
	<b>317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>326</b>
<b>Total</b>	<b>1,174</b>	<b>6</b>	<b>324</b>	<b>614</b>	<b>950</b>	<b>138</b>	<b>15</b>	<b>9</b>	<b>3,230</b>

Annual report on remuneration

Notes to the single total figure of remuneration for each director table

Base salary

As reported last year, executive directors' salaries were increased on 1 January 2014 following a benchmarking of salaries against those of companies of similar size and complexity and the introduction of a new performance-targeted bonus scheme. Increases at 1 January 2015 were 3%, consistent with the typical increases awarded across the group. The new salaries are set out in the remuneration policy statement.

Non-executive directors' fees

On 1 January 2014, the chairman's fee was increased from £120,000 to £140,000 per annum and the basic non-executive director's fee was increased from £40,000 to £42,500 per annum.

The responsibilities of and demands on non-executive directors, particularly in regulated financial services organisations have increased considerably in recent years. In December 2014, the board commissioned an independent analysis of chairman and non-executive director fees paid in the FTSE 250 financial services sector which indicated that our fees remained lower than our peer group. To correct this position, the board has approved an increase in the chairman's fee to £160,000 per annum and an increase in the basic fee for a non-executive director to £50,000 per annum with effect from 1 January 2015. Any future increases will depend upon a rigorous assessment of the burden of responsibilities and market rates.

Taxable benefits

Taxable benefits are the provision of private medical insurance for executive directors and their dependants.

Bonus

Revised bonus arrangements were introduced for 2014 with robust corporate performance targets and personal targets. The table at the bottom of the page shows the methodology for the bonus calculations.

The corporate performance measures are three key performance indicators used by the business and are closely aligned to our strategy. The organic growth in investment funds under management covers both our Investment Management and Unit Trusts businesses. Adjustments have been made to the reported PBT and underlying operating profit margin to exclude the cost of settling the legacy legal action, capital profits on asset sales and FSCS refunds relating to Keydata. More details of these adjustments can be found on page 102.

For each corporate performance measure, 3.75% of salary would be paid for threshold performance and 25% of salary for on-target performance. The maximum award for each measure is 31.25% of salary. A director's corporate performance award is reduced if their personal performance score is below 50% of the maximum.

Personal performance has been assessed against a range of individual key performance indicators appropriate to the individual's role and the company's strategy, including objectives relating to client service, fund performance, marketing, the efficiency and effectiveness of the organisation, technology, talent, risk management and financial strength. Individual award levels (out of the maximum 31.25% of salary available) are detailed in the table below.

Director	Role	Percentage of salary awarded (out of a maximum of 31.25%)
Philip Howell	Chief executive	30.00%
Paul Stockton	Finance director	24.00%
Paul Chavasse	Head of investment management	20.00%
Average		24.67%

Bonus calculations

Measure	As a % of maximum bonus opportunity	Maximum bonus as % of salary	Performance required			Payout as Actual	% of salary
			Threshold	On-target	Maximum		
Profit before tax compared to budget	25.00%	31.25%	£42.7m	£50.2m	£60.2m	£54.3m	23.90%
Organic growth in investment funds under management	25.00%	31.25%	4.7%	5.5%	6.7%	6.2%	26.70%
Operating margin	25.00%	31.25%	26.6%	28.0%	30.8%	31.1%	31.25%
Personal performance targets	25.00%	31.25%	Acceptable contribution	Good contribution	Outstanding contribution	See notes above	24.67%
	100.00%	125.00%					106.52%

Annual report on remuneration Notes to the single total figure of remuneration for each director table

#### Long Term Incentive Plan (LTIP)

The LTIP awards reported are the historic awards vesting at the end of the three year cycle, including an adjustment for dividends paid during the three years, valued using the average share price over the last three months of the year. Executive directors are awarded rights to acquire ordinary shares at the start of a three year plan cycle. Awards are limited to 75% of salary other than in exceptional circumstances when the committee considers that a 100% limit would be appropriate. At the end of each plan cycle, the company's performance is assessed against the total shareholder return (TSR) and earnings per share (EPS) performance targets for that cycle. The extent to which the targets have been achieved determines the actual number of shares (if any) attributable to each participant.

#### TSR over the plan cycle (50%)

Rathbone Brothers Plc Total Return Index (TRI) relative to the FTSE All Share TRI	Vesting of award (TSR element)
Below the percentage change in the FTSE All Share TRI	0%
Equal to the percentage change in the FTSE All Share TRI	25%
Greater than the percentage change in the FTSE All Share TRI by 0.1% to 9.9%	<b>Straight line increase</b>
Equal to or greater than the percentage change in the FTSE All Share TRI plus 10%	100%

#### EPS growth over the plan cycle (50%)

	Vesting of award (EPS element)
Less than 15%	0%
15%	25%
Over 15% but less than 37.5%	<b>Straight line increase</b>
37.5% or over	100%

For the 2012-14 plan cycle, the Rathbone Brothers Plc TRI increased by 112% while the FTSE All Share TRI increased by 37%, a differential of 75%, comfortably exceeding the 10% threshold for a 100% award.

EPS (adjusted to exclude the cost of settling the legacy legal action, capital profits on asset sales and FSCS refunds relating to Keydata) increased by 35% from 66.7p in 2011 to 90.4p in 2014, which resulted in a 91.7% award for this element of the plan. The awards will vest on 20 March 2015 and have been valued using the average share price for the last quarter of 2014 of £19.17 (2013: £15.66).

#### Pensions

Paul Chavasse is a member of the Rathbone 1987 Scheme. The figure disclosed is the increase in the value of his pension benefits (excluding CPI inflation) less his contributions. An actuarial error in the calculation of his 2013 pension benefit has been corrected in these accounts. His 2013 pension benefits were £72,000 and not £37,000 as reported.

Philip Howell and Paul Stockton participate in the scheme for death in service benefits only. Paul Stockton has a self-invested personal pension scheme arrangement and contributions were paid at 10% of salary per annum until 28 February 2014. Since then, a cash allowance of 8.62% of salary has been paid. Philip Howell is paid a cash allowance of 8.62% of salary. Andy Pomfret had death in service benefits and a self-invested personal pension scheme arrangement.

#### Share Incentive Plan (SIP)

This benefit is the value of the SIP matching and free share awards made in the year. Employees may contribute up to £150 per month with contributions matched on a one-for-one basis by the company. Free share awards are linked to EPS growth.

#### SAYE

This benefit is the value of the discount on SAYE options granted during the year.

#### Scheme interests awarded during the year (audited)

Performance share (LTIP) awards for the three year cycle to 31 December 2016 were made during the year. The 2014-16 awards were conditional awards of shares subject to the performance conditions described above (with 25% of each part of an award vesting at a threshold level of performance). The awards were made on 25 March 2014 and were calculated using 75% of salary at 1 January 2014 and the average closing share price for the 20 days to the award date of £17.365. The face value of the awards and number of shares awarded are shown below. The awards are contingent on the satisfaction of the performance conditions.

Philip Howell and Paul Stockton were also awarded interests in shares under the all employee SAYE scheme. A SAYE option grant was made on 1 May 2014 at £15.56, which was 80% of the closing mid-market share price on 8 April 2014 of £19.45. Options may be exercised after three or five years.

Scheme	Date of award	Number of shares	Market value of shares at grant	Face value	Date of vesting
<b>P D G Chavasse</b>					
LTIP	25/03/14	12,309	£17.365	£213,746	31/12/16
SAYE	-	-	-	-	-
<b>P L Howell</b>					
LTIP	25/03/14	19,436	£17.365	£337,506	31/12/16
SAYE	01/05/14	578	£15.56	£8,994	01/06/19
<b>R P Stockton</b>					
LTIP	25/03/14	12,352	£17.365	£214,492	31/12/16
SAYE	01/05/14	867	£15.56	£13,491	01/06/17



## Annual report on remuneration

**Directors' interests in shares and shareholding guidelines (audited)**

New executive directors are encouraged to build up and maintain a shareholding at least equivalent to the value of one year's basic salary within five years of taking up their appointment. At 31 December 2014, directors' shareholdings were as set out in table 1.

**Table 1: Directors' shareholdings at 31 December 2014**

	Beneficially owned shares			Interests in shares				
	Non-SIP	SIP <sup>1</sup>	Total <sup>2</sup>	LTIP	Bonus scheme	SIP (not yet beneficially owned) <sup>1</sup>	SAYE	Total
<b>Executive directors</b>								
P D G Chavasse	57,313	6,483	63,796	40,524	38,189	500	813	80,026
P L Howell	-	95	95	35,159	-	144	1,934	37,237
R P Stockton	17,619	1,708	19,327	37,517	34,773	500	1,273	74,063
<b>Chairman</b>								
M P Nicholls	3,000	405	3,405	-	-	344	-	344
<b>Non-executive directors</b>								
J W Dean	1,000	-	1,000	-	-	-	-	-
D T D Harrel	-	421	421	-	-	344	-	344
K A Matthews	-	916	916	-	-	344	-	344
	<b>78,932</b>	<b>10,028</b>	<b>88,960</b>	<b>113,200</b>	<b>72,962</b>	<b>2,176</b>	<b>4,020</b>	<b>192,358</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

2 There were no changes in beneficially owned shareholdings between 1 January 2015 and 7 March 2015

**Table 2: LTIP**

	Plan cycle	Grant date	Market value of shares at date of grant	Performance period end date	Vesting date	Number of shares				
						At 1 January 2014	Granted in 2014	Exercised in 2014	Lapsed in 2014	At 31 December 2014
P D G Chavasse	2011/13	12/12/11	£10.825	31/12/13	01/03/14	16,766	-	16,766	-	-
	2012/14	20/03/12	£12.610	31/12/14	20/03/15	14,825	-	-	-	14,825
	2013/15	19/03/13	£14.310	31/12/15	19/03/16	13,390	-	-	-	13,390
	2014/16	25/03/14	£17.365	31/12/16	25/03/17	-	12,309	-	-	12,309
P L Howell	2011/13	12/12/11	£10.825	31/12/13	01/03/14	-	-	-	-	-
	2012/14	20/03/12	£12.610	31/12/14	20/03/15	-	-	-	-	-
	2013/15	19/03/13	£14.310	31/12/15	19/03/16	15,723	-	-	-	15,723
	2014/16	25/03/14	£17.365	31/12/16	25/03/17	-	19,436	-	-	19,436
R P Stockton	2011/13	12/12/11	£10.825	31/12/13	01/03/14	14,951	-	14,951	-	-
	2012/14	20/03/12	£12.610	31/12/14	20/03/15	13,221	-	-	-	13,221
	2013/15	19/03/13	£14.310	31/12/15	19/03/16	11,944	-	-	-	11,944
	2014/16	25/03/14	£17.365	31/12/16	25/03/17	-	12,352	-	-	12,352
						<b>100,820</b>	<b>44,097</b>	<b>31,717</b>	<b>-</b>	<b>113,200</b>
<b>Former director</b>										
A D Pomfret	2011/13	12/12/11	£10.825	31/12/13	01/03/14	22,863	-	22,863	-	-
	2012/14	20/03/12	£12.610	31/12/14	20/03/15	20,222	-	-	6,740	13,482
	2013/15	19/03/13	£14.310	31/12/15	19/03/16	18,265	-	-	12,176	6,089
	2014/15	25/03/14	£17.365	31/12/16	25/03/17	-	-	-	-	-
						<b>61,350</b>	<b>-</b>	<b>22,863</b>	<b>18,916</b>	<b>19,571</b>

Adjustments are made to awards on exercise to reflect dividends paid since the date of grant

Annual report on remuneration Directors' interests in shares and shareholding guidelines (audited)

Table 3: Bonus scheme

	Number of shares				
	At 1 January 2014	Final award for 2013	Vested in 2014	Dividend adjustment in 2014	At 31 December 2014
<b>P D G Chavasse</b>					
2010	13,039	-	13,039	-	-
2011	13,949	-	-	367	14,316
2012	11,738	-	-	309	12,047
2013	5,266	6,256	-	304	11,826
	43,992	6,256	13,039	980	38,189
<b>R P Stockton</b>					
2010	12,604	-	12,604	-	-
2011	13,027	-	-	343	13,370
2012	11,930	-	-	314	12,244
2013	3,735	5,189	-	235	9,159
	41,296	5,189	12,604	892	34,773
	<b>85,288</b>	<b>11,445</b>	<b>25,643</b>	<b>1,872</b>	<b>72,962</b>
<b>Former director</b>					
<b>A D Pomfret</b>					
2010	22,970	-	22,970	-	-
2011	19,027	-	-	501	19,528
2012	13,017	-	-	343	13,360
2013	5,753	10,639	-	431	16,823
	<b>60,767</b>	<b>10,639</b>	<b>22,970</b>	<b>1,275</b>	<b>49,711</b>

Table 4: SAYE option exercises

	Grant date	Number of shares				At 31 December 2014	Earliest exercise date	Latest exercise date	Market price on grant (pence)	Exercise price (pence)	Exercise date	Market price on exercise (pence)
		At 1 January 2014	Granted in 2014	Exercised in 2014	Lapsed in 2014							
P D G Chavasse	28/03/13	813	-	-	-	813	01/05/16	01/11/16	1,397	1,106	-	-
P L Howell	28/03/13	1,356	-	-	-	1,356	01/05/18	01/11/18	1,397	1,106	-	-
P L Howell	01/05/14	-	578	-	-	578	01/06/19	01/12/19	1,945	1,556	-	-
R P Stockton	29/03/11	483	-	483	-	-	01/05/14	01/11/14	1,167	934	01/05/14	1,953
R P Stockton	28/03/13	406	-	-	-	406	01/05/16	01/11/16	1,397	1,106	-	-
R P Stockton	01/05/14	-	867	-	-	867	01/06/17	01/12/17	1,945	1,556	-	-
		<b>3,058</b>	<b>1,445</b>	<b>483</b>	<b>-</b>	<b>4,020</b>						

Annual report on remuneration

**Payments for loss of office (audited)**

Andy Pomfret retired as chief executive on 28 February 2014. On retirement, he received a termination payment of £261,375 being his base salary for the unexpired period of his contractual notice period, a payment in lieu of outstanding holiday entitlements (£6,702) and compensation in respect of losses incurred as a result of leaving the SIP and SAYE plans on terms which are outside our retirement policies and practices (£18,215).

Deferred bonus scheme awards for 2013 and earlier years will continue to vest on the third anniversary of the end of the financial year for which the award was made as shown in table 3.

Long Term Incentive Plan awards for the 2011-13, 2012-14 and 2013-15 plan cycles will continue until their maturity, be subject to existing performance conditions but will be reduced pro-rata to reflect his period of service to 31 December 2013. Details of his outstanding LTIP awards at 31 December 2014 are shown in table 2.

**Payments to past directors (audited)**

A number of current employees have stepped down from the board in recent years but remain employees and/or directors of subsidiary companies. They remain eligible to receive LTIP awards made when they were on the board or on the group executive committee (subject to the achievement of the performance conditions) but these awards may be reduced pro-rata to reflect the fact that they were not a director or group executive committee member for the full cycle.

The following LTIP awards will be made in respect of the 2012-14 plan cycle which ended on 31 December 2014. The conditional share awards were granted on 20 March 2012 using a share price of £12.61. The performance conditions were in large part achieved and the awards will vest on 20 March 2015. Adjustments have been made to reflect dividends paid since the date of grant.

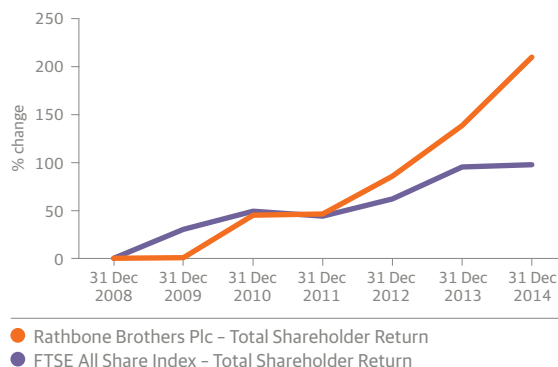
2012-14 LTIP actual award	Number of shares
I M Buckley	13,428
R P Lanyon	1,752
A T Morris	13,230
R I Smeeton	14,834
	43,244

A T Morris' and R I Smeeton's LTIP awards are paid in full but their other non-pensionable remuneration is reduced by the value of the LTIP award

**Performance graph (unaudited)**

Chart 1 shows the company's TSR against the FTSE All Share Index for the six years to 31 December 2014. 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 LTIP plan cycles since 2005-07.

Chart 1: TSR against the FTSE



**Chief executive officer single figure (unaudited)**

During the six years to 31 December 2014, Andy Pomfret was chief executive until 28 February 2014 when he was succeeded by Philip Howell.

Year	CEO	CEO single figure of total remuneration £'000	Short term bonus as a % of maximum opportunity	Long term incentive awarded as % of maximum opportunity
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%	0%
2010	Andy Pomfret	736	52%	24%
2009	Andy Pomfret	508	25%	0%

**Percentage change in the remuneration of the chief executive officer and employees (unaudited)**

The table below shows the percentage year-on-year change in salary, benefits and bonus in 2014 for the chief executive compared with the average Rathbones employee.

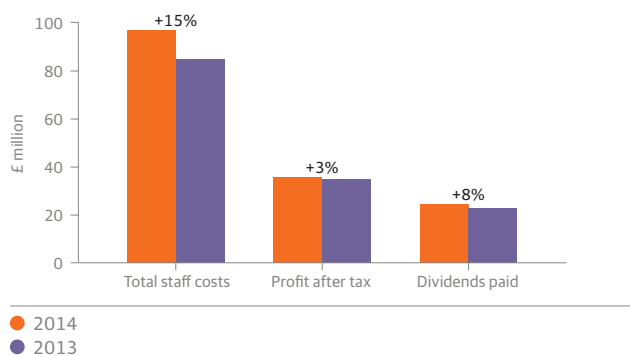
	Salary	Benefits	Annual bonus
CEO	3%	0%	22%
Average pay based on all Rathbones employees	3%	0%	0%

Annual report on remuneration

Relative importance of spend on pay

Chart 2 shows the relationship between total employee remuneration, profit after tax and dividend distributions for 2013 and 2014. The reported profit after tax has been selected by the directors as a useful indicator when assessing the relative importance of spend on pay.

Chart 2: Relative importance of spend on pay



Remuneration committee members

Current committee members are the independent non-executive directors David Harrel (chairman), James Dean, Sarah Gentleman and Kathryn Matthews. Mark Nicholls was considered to be independent on his appointment as company chairman and is also a member of the committee. Oliver Corbett was a committee member until his retirement from the board on 3 June 2014. Sarah Gentleman joined the committee on her appointment to the board on 21 January 2015. The committee met on four occasions in 2014 (2013: eight). Details of attendance by members are set out on page 56.

Advisers to the committee and their fees

Deloitte LLP were advisers to the committee until 30 June 2014. Their fees during this period were £35,000. On 1 July 2014, New Bridge Street were appointed as advisers to the committee on remuneration package assessments, scheme design and reporting best practice. They do not provide other services to the company. Their fees are charged on a time cost basis and were £47,000 for the six months to 31 December 2014.

The company secretary and head of strategy and organisation development attend committee meetings.

Statement of voting at the Annual General Meeting

At the AGM held on 14 May 2014, the resolution seeking approval of the remuneration report received votes as shown in the table at the bottom of the page.

Approval

The directors' remuneration report, incorporating both the directors remuneration policy and annual report on remuneration, has been approved by the board.

Signed on behalf of the board

David Harrel  
Chairman of the remuneration committee

18 February 2015

Statement of voting at the 2014 Annual General Meeting

	Remuneration policy		Annual report on remuneration	
	Votes	%	Votes	%
Votes cast in favour	28,377,124	95.7%	28,169,631	84.2%
Votes cast against	1,283,037	4.3%	5,281,939	15.8%
Total votes cast	29,660,161	100.0%	33,451,570	100.0%
Votes withheld	4,534,274		742,866	

## Audit committee report

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### Audit committee chairman's annual statement

This is my first report as chairman of the audit committee having taken over from Oliver Corbett on his retirement from the board in June 2014. As you will have read already, 2014 has been a busy year for Rathbones with the successful completion of a number of corporate transactions. From an audit committee perspective, their impact on regulatory capital and distributable reserves and their accounting treatment have been areas of particular focus during the year. The committee has also been mindful of the need to ensure that the business' systems, procedures and internal controls develop in step with the growing business. Examples of this are investments in the finance team and their systems (particularly for budgeting and business planning) and the recruitment of both a head of strategy and organisation development and a chief risk officer. Finally, we discussed a report produced following an independent review of our internal audit department which recommended some enhancements to our processes.

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### Committee members

Our current members are the independent non-executive directors James Dean (chairman), Sarah Gentleman, David Harrel and Kathryn Matthews. Oliver Corbett chaired the committee until his retirement from the board on 3 June 2014 while Sarah Gentleman joined the committee on her appointment to the board on 21 January 2015.

The board is satisfied that at least one member of the committee has recent and relevant financial experience. I am a chartered accountant while the other committee members have extensive experience of financial matters and of the financial services industry. We met on eight occasions in 2014 (2013: six). Details of attendance by members are set out on page 56. The chief executive, finance director, head of internal audit and the audit partner and manager attend most meetings by invitation. The head of compliance may also attend when required.

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### Role and responsibilities of the committee

These are set out in the terms of reference of the committee, which are reviewed annually and approved by the board.

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### What we have done

#### Financial reporting

During the year, we considered the significant financial and regulatory reporting issues and judgments made in connection with the financial statements and the appropriateness of accounting policies. We reviewed the narrative statements in the report and accounts and interim statement to ensure that they were fair, balanced and understandable and consistent with the reported results.

The significant judgment issues considered in 2014 included:

#### Client relationship intangible assets

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. Payments made for the acquisition of client relationship intangibles are capitalised whereas those that are judged to be in relation to the provision of ongoing services are expensed in the period in which they are incurred (note 2.1 to the financial statements). Typically, any payments made 12 or more months after the cessation of any non-compete period will be expensed. The audit committee agree that this approach continues to be appropriate.

#### Acquisitions and funding

The committee considered the funding, capital, distributable reserves and accounting implications of the two significant transactions entered into by Rathbone Investment Management in April 2014. Capital was raised by a placing of 1,343,000 Rathbone Brothers Plc shares at £18.14 on 1 April 2014 which raised gross proceeds of £24.4 million. These funds were used to help finance a £43.1 million investment in Rathbone Investment Management prior to its completion of the acquisition of Jupiter Asset Management Limited's private client and charity investment management business for £40.0 million on 26 September 2014.

The committee was particularly focused upon ensuring that the associated capital injection into Rathbone Investment Management did not have any consequent impact on the ongoing future flow of dividends from Rathbone Investment Management. This is a complex area of accounting so the committee considered detailed guidance provided by the accountancy profession and also took legal advice.

**What we have done** Financial reporting

The committee agreed with management that the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business was not a 'business combination' under IFRS as the main element of the consideration was payable to the investment managers. This transaction has therefore been treated as a purchase of client relationship assets. The acquisition of Jupiter Asset Management Limited's private client and charity investment management business was accounted for as a business combination.

The acquisition of Rooper & Whately by Rathbone Trust Company on 1 May 2014 and the creation of an 'Alternative Business Structure', regulated by the Solicitors Regulation Authority was also discussed. This was accounted for as a business combination, with the purchase consideration being allocated to the assets acquired, including intangible client relationships, with the surplus being recognised as goodwill. This accounting treatment was reviewed and agreed.

**The carrying value of assets**

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

**The valuation of defined benefit pension obligations**

We reviewed the key assumptions made, particularly salary increases, investment returns, inflation and the discount rate when valuing the company's pension schemes liabilities, which are disclosed in note 29 to the financial statements. We reviewed the professional advice taken and considered feedback provided by the auditors on the assumptions used by us and by other companies. We satisfied ourselves that the assumptions used were reasonable.

**Provisions and contingent liabilities**

We discussed and reviewed provisions totalling £20.9 million summarised in note 28 to the financial statements. These primarily include provisions made in respect of future property dilapidation liabilities and future payments to be made following the acquisition of businesses or amounts payable to new investment managers as outlined above.

We discussed the accounting treatment and background analysis of the settlement of legal proceedings in Jersey involving a former director and employee of a former subsidiary Rathbone Trust Company Jersey Limited. Discussions regarding the settlement amount took place at board level. The accounting treatment of the profit arising on the repayment of the loan notes received on the sale of the Jersey trust operations in 2008 was also discussed.

**Internal controls and risk management systems**

Our review of the effectiveness of the group's internal financial controls is achieved primarily by the assessment of the work of the group internal audit department, reports produced by the compliance function, the findings of the annual external audit and periodic reviews of identified risks and mitigating controls undertaken by senior management. A separate group risk committee report considers risk management issues (see pages 18 to 22).

During the year, we considered the planned growth of the client loan book and the related enhancement of systems and controls. We received updates from internal audit on attempted frauds affecting our business and our industry. We also had regular updates from the head of compliance on the work of the compliance team and on any areas of particular focus or concern. We discussed the changes made in the finance department following an organisational review in 2013, including the implementation of business planning and consolidation software to reduce the use of complex spreadsheets, succession planning for key roles and recruitment in key areas of the team.

**Internal audit**

Towards the end of the year, we approved the 2015 internal audit plan. The frequency of internal audit reviews is determined by a risk-based approach. This ensures that while the focus is on higher-risk areas, all parts of the business are covered over a three year cycle. Regular updates are given to the committee on the findings of completed internal audit reviews, the status of scheduled work and on the follow up of reviews by management to ensure that the agreed recommendations are acted upon promptly. We saw all reviews containing high-risk-related recommendations and a sample of other reviews.

Some spare capacity is allowed in the plan so that ad hoc reviews at the request of management or the committee can be undertaken. For example, additional reviews were undertaken in 2014 on investment management client summaries, project documentation and third party payment procedures.

We also reviewed internal audit resources and approved the internal audit charter. We approved the appointment of KPMG LLP to undertake an independent assessment of our internal audit function as required by the Chartered Institute of Internal Auditors standards. The KPMG team used for this work was completely separate from the audit team.

**What we have done****External audit**

We reviewed the external audit process, including the performance of the external auditors, by gathering feedback from committee members and from management. We also reviewed the annual Financial Reporting Council (FRC) Audit Quality Inspection report prepared on our external auditor and discussed this report with the audit partner.

We are responsible for reviewing external audit arrangements and for any recommendation to the board regarding change of audit firm. This includes consideration of the external auditor's period in office, their compensation and the scope, quality and cost-effectiveness of their work. The last audit services contract tender process was undertaken in June 2009, which led to the appointment of KPMG. We plan to undertake an audit services contract tender process again before the tenth anniversary of their appointment.

We reviewed reports from the external auditor on their audit plans (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 judgment areas and possible audit adjustments. We can confirm that there are no such material items remaining unadjusted in the financial statements. We also reviewed a benchmarking of our IT controls against a peer group of other investment managers.

We reviewed the independence and the nature of non-audit services supplied by the external auditor and non-audit fee levels relative to the audit fee. Our prior approval is required where the fee for an individual non-audit service is expected to exceed £25,000. Fees for non-audit services paid to the auditor should not, in aggregate, exceed 50% of the audit fee in any year without our prior written approval. Non-audit fees payable to the auditor in 2014 were £206,000. This represents 37.3% of the fees for assurance services of £517,000, which includes the assurance reports required by our regulators and the review of the interim statement (2013: £71,000, 14.2% of £499,000). We recognise that, given their 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.

We agreed the external auditor's fees (which are shown in note 10 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.

**Confidential reporting policy**

We annually review the group's Public Interest Disclosure Act 1998 confidential reporting policy, approve any changes to the document and receive details of any reports made.

**Other**

We also discussed FRC publications including reports on the application of materiality, the content of the strategic report and a review of the audit of banks. We discussed updates on any client complaints and attempted frauds. Client identity theft remains a significant issue affecting the financial services industry with fraudsters becoming increasingly sophisticated in their approach. Regular meetings are held on a one-to-one basis with the head of internal audit and head of compliance before audit committee meetings to ensure that any concerns can be raised in confidence. I also have regular one-to-one meetings between audit committee meetings. We can access independent professional advice if we consider it necessary.

**James Dean**

Chairman of the audit committee

18 February 2015

# Nomination committee report

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## Nomination committee chairman's annual statement

The nomination committee's primary focus this year has been on board composition and skills.

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## Committee members

Our current members are Mark Nicholls (chairman), James Dean, Sarah Gentleman, David Harrel, Philip Howell and Kathryn Matthews. Andy Pomfret and Oliver Corbett served on the committee until their retirement from the board on 28 February and 3 June 2014 respectively. Sarah Gentleman joined the committee on her appointment to the board on 21 January 2015. The committee continues to think it appropriate that the chief executive is a member, recognising that no individual participates in discussions relating to them personally.

We met on three occasions in 2014 (2013: four). Details of attendance by members are set out on page 56.

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## Role and responsibilities of the committee

The remit of the committee is to consider and make recommendations to the board for the appointment of directors. The board as a whole then decides upon any such appointment. The committee also considers issues such as appraisals, training and director development. The terms of reference of the committee are reviewed annually and approved by the board.

An external search consultancy is generally used when recruiting new non-executive directors and may be used when recruiting executive directors. When considering possible candidates, the committee evaluates the skills, knowledge and experience of the candidates and, in the case of non-executive appointments, their other commitments. The committee is mindful of the benefits of a diverse board with a broad range of skills and experience.

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## What we have done

In June 2014 the nomination committee approved the appointment of James Dean as chairman of the audit committee in succession to Oliver Corbett, who was nearing the end of his tenure as a non-executive director and was due to take up an appointment to the Close Brothers board.

The principal focus has been on appointing a new non-executive director. The reduction in the size of our board (from 12 directors at 31 December 2012 to seven at 31 December 2014) has been beneficial in encouraging easier and more constructive debate, but the board agreed that the introduction of a non-executive with new skills would be beneficial. The board were also mindful of the commitment given to achieve a minimum of 25% female representation on the board by 2015.

Considerable discussion took place between the directors in early 2014, both formally and informally, about the skills we were seeking in a new non-executive director. A number of additive skills were identified at a nomination committee meeting in May 2014 including digital technology, distribution, media and brands. It was also agreed, however, that any candidate had to be familiar with the financial services sector, and to be able to contribute to strategic discussions rather than solely day-to-day operations. A job description was prepared and used as a basis for interviewing four search firms. Egon Zehnder were chosen to undertake the search. As part of their brief they were asked to include as many suitable candidates as possible. Five candidates were shortlisted from a long list and two strong, appointable candidates were interviewed by the whole board. At a nomination committee meeting in October 2014, it was unanimously agreed that Sarah Gentleman be appointed subject to regulatory approval. Final approval from all three regulators was only received in January 2015. In the meantime it was agreed that Sarah should commence her induction programme.

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## Looking forward

We will continue to consider what additional skills are needed on the board and we will 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 remain aware that the executive committee includes no women. We will continue to challenge management to develop the talent that exists in the firm which may include suitable candidates taking non-executive roles outside the firm.

**Mark Nicholls**

Chairman of the nomination committee

18 February 2015



## Approval of strategic report

The strategic report for the group comprises the following sections of the report and accounts:

- Chairman's statement
- Chief executive's statement
- Our market
- Our business model
- Our approach
- Strategy and key performance indicators
- Risk management
- Rathbones' performance
- Segmental review
- Financial position
- Liquidity and cash flows
- Corporate responsibility report.

The strategic report has been drawn up in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

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.

The strategic report has been prepared for the group as a whole, and therefore gives greater emphasis to those matters which are significant to the company and its subsidiaries when reviewed as a whole.

By Order of the Board

**Philip Howell**  
Chief Executive

18 February 2015

# Statement of directors' responsibilities in respect of the report and accounts

The directors are responsible for preparing the annual report and the consolidated and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with 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 consolidated 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 and prudent
- state whether they have been prepared in accordance with IFRS as adopted by the EU
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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 report that complies with that law and those regulations.

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

The board confirms that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

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## Disclosure of information to the auditor

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

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## Statement as a result of the disclosure and transparency rules of the Financial Conduct Authority

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 of the parent company and its undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report include a fair view 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.

By Order of the Board

**Philip Howell**  
Chief Executive

18 February 2015

# Consolidated financial statements

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# Independent auditor's report to the members of Rathbone Brothers Plc only

Opinions and conclusions arising from our audit.

## 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Rathbone Brothers Plc for the year ended 31 December 2014 set out on pages 86 to 164. 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 2014 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 parent 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.

## 2 Our assessment of risks of material misstatement

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

### **Recognition and impairment of client relationship intangibles: £95,720,000**

Refer to page 75 (audit committee report), page 95 (accounting policy) and pages 98 and 113 to 114 (financial disclosures).

**The risk:** Individually purchased client relationships are initially recognised at cost with those acquired as part of a business combination initially recognised at fair value. The key judgments on which our audit concentrated in this area were the classification of the individually purchased client relationships, impairment and the useful economic life of the intangible assets.

The primary areas of estimation arise in:

- The group's assessment of whether payments made to newly recruited investment managers under contractual arrangements represent payments for the acquisition of client relationship intangibles (which would be capitalised) or payments in respect of providing ongoing services to Rathbones (which would be expensed). In forming this judgment, the group has determined that the appropriate accounting policy is to capitalise payments made to investment managers relating to client relationships acquired during the 12 month period after the conclusion of any 'non-compete' arrangements between an investment manager and their previous employer. Further judgment is applied in exceptional circumstances where management consider that the investment manager is introducing client relationships that previously existed beyond the 12 month period. In such circumstances, where management believe it is appropriate to do so, the period during which such payments are capitalised is extended beyond 12 months.
- The fair values of the client relationship intangibles purchased during the year as part of the acquisition of the private client and charity investment management business of Jupiter Asset Management Limited.
- The group's assessment of whether the ongoing benefits offered by the capitalised client relationship intangibles are greater than their carrying value or whether there is an indication of impairment.
- The group's estimation of the useful economic lives of the client relationships over which these intangible assets are subsequently amortised ranges typically between 10 and 15 years using a straight line method. The decisions made by the group in respect of the useful economic life may make a material difference to the financial statements and this is considered to be a significant audit risk. The sensitivity of this estimate is disclosed in the critical accounting judgments and key sources of estimated uncertainty in note 2 to the financial statements.

**2 Our assessment of risks of material misstatement** Recognition and impairment of client relationship intangibles: £95,720,000

**Our response:** To assess the appropriateness of the above accounting policy we used our industry knowledge and experience and considered the criteria for the recognition of payments to secure an asset management contract as an asset in accordance with IAS 18 Revenue. In this area our audit procedures included:

- We assessed the appropriateness of the 12 month period during which payments are capitalised and performed testing of a risk-based sample of newly recognised client relationship intangibles. This testing assessed whether such costs were only capitalised when they fell within 12 months of the conclusion of any non-compete arrangements and that such costs related to relationships already held by the investment manager. In respect of those instances where payments were capitalised beyond the 12 month period, we assessed the detailed breakdown of the client relationship intangibles that had been capitalised outside of the 12 month period and for each significant addition we challenged whether these relationships were held by the investment manager in a previous employment and obtained documentation to evidence the relationship.
- We assessed the appropriateness of the fair value of the client relationship intangibles purchased in the acquisition of the private client and charity investment management business of Jupiter Asset Management Limited and challenged management's assumptions such as the discount rate and the funds under management growth rate.
- In considering the adequacy of the impairment assessment performed by the group to support the carrying valuation of client relationship intangibles, we performed testing which included challenging the assumptions used, based on our knowledge of the client and experience of the industry, and an assessment of the population of capitalised client relationships to ensure that client relationship intangibles relating to closed accounts and those clients with balances that do not generate income for the group are no longer recognised on the balance sheet.
- Our consideration of the appropriateness of the useful economic lives of the client relationships and amortisation periods included performing an analysis of the length of the client relationships held by the group with reference to the historic gross outflows of funds under management. We have also considered the adequacy of the group's disclosure in respect of intangible assets in note 25 to the financial statements.

**Valuation of defined benefit pension obligation: £13,710,000**

Refer to page 76 (audit committee report), page 97 (accounting policy) and pages 117 to 121 (financial disclosures).

**The risk:** The parent company has recognised a pension deficit of £13,710,000 as at 31 December 2014. The valuation of the defined benefit pension deficit is an important judgment as this balance is volatile and impacts the parent company's distributable reserves. The group obtained advice from actuarial specialists in order to calculate this deficit and 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 actual surplus or deficit realised by the group may be significantly different to that recognised on the balance sheet since small changes to the assumptions used in the calculation materially affect the valuation and may result in the recognition of a deficit materially different from the liability recognised at the year end.

**Our response:** With the support of our own actuarial specialists, we challenged key assumptions and estimated inputs used in the calculation of the pension deficit. The key assumptions and estimates we tested included the discount rate, RPI inflation, salary growth, life expectancy and expected return on equities that were applied to the valuation. This included a comparison of key assumptions against externally derived data and our benchmark ranges for similar schemes. We have also considered the adequacy of the group's disclosure in respect of the deficit and the assumptions used in note 29 to the financial statements.

2 Our assessment of risks of material misstatement

**Accounting for acquisitions**

Refer to page 75 (audit committee report), page 91 (accounting policy) and pages 98 and 140 to 141 (financial disclosures).

**The risk:** During the year ended 31 December 2014, the group made two significant acquisitions - part of Deutsche Asset & Wealth Management's London-based investment management business and the private client and charity investment management business of Jupiter Asset Management Limited. This is considered to be a significant risk to the group as a result of the complex judgments involved, including: whether they should be accounted for as a business combination under IFRS 3 Business Combinations or as a purchase of client relationships under IAS 18 Revenue; and the accounting for any deferred and/or contingent consideration. The accounting of the Jupiter Asset Management Limited acquisition under IFRS 3 and the Deutsche Asset & Wealth Management acquisition under IAS 18 results in different presentations on the balance sheet in respect of intangible assets (purchased client relationship intangibles and goodwill) and in the income statement in respect of remuneration expense. The accounting under IFRS 3 also results in significant judgment in the calculation of the fair values of the assets and liabilities acquired. A further consideration is the potential impact of the acquisitions and the way they were funded on the distributable reserves of the acquiring entity. The application of published guidance in respect of distributable reserves, to these acquisitions and the structure of the Rathbones group, is complex and the interpretation of this guidance could have a significant impact on the level of retained profits in the parent company considered to be distributable in the form of dividends.

**Our response:** For each of the acquisitions, we performed a detailed review of the substance of the transactions and considered and challenged management's assessment of the appropriate accounting treatment. Our procedures included inspecting the sale and purchase agreements to corroborate key elements such as the party or parties to which the consideration was being paid and assessing whether the substance of the acquisition indicated that a business with inputs, processes and outputs had been purchased. We corroborated payments made to underlying bank statements and considered the appropriateness of the accounting for any deferred and/or contingent elements to the purchase price, including challenging the assumptions used in the group's assessment. The Jupiter Asset Management Limited acquisition is accounted for as a Business Combination under IFRS 3 and we reviewed the fair value calculation of the assets and liabilities being transferred and challenged management's assumptions within the model such as the discount rate and the funds under management growth rate. We have inspected the group's assessment of the impact of the acquisitions on the distributable reserves position of the parent company.

We considered the appropriateness of this with regard to the application of published guidance to the calculation of distributable reserves and assessed the legal opinion obtained by the group. We have also considered the adequacy of the group's disclosure in respect of the acquisitions in note 36 to the financial statements.

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

The materiality for the group financial statements as a whole was set at £2.5 million, determined with reference to a benchmark of group profit before tax, adjusted to exclude this year's gain on disposal of financial securities as disclosed in note 8 and the legal settlement made during the year as disclosed in note 11, of which it represents 5%. We report to the audit committee any corrected or uncorrected identified misstatements exceeding £125,000, in addition to other identified misstatements that warrant reporting on qualitative grounds.

All six of the group's reporting components were subjected to audit for group reporting purposes. These audits covered 100% of group revenue, 100% of group profit before tax and 100% of group total assets.

The group audit team performed the audits of the six reporting components in accordance with the materiality levels used for local audits, which ranged from £0.1 million to £2.4 million.

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

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the corporate governance report set out on pages 55 to 58 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

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

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

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the audit committee report does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 54, in relation to going concern; and
- the part of the corporate governance report on page 55 relating to the company's compliance with the 10 provisions of the 2012 UK Corporate Governance Code specified for our review.

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

## Scope and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Nicholas Edmonds (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

London

18 February 2015

# Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000 (re-presented - note 1)
Interest and similar income		10,024	9,212
Interest expense and similar charges		(865)	(604)
<b>Net interest income</b>	4	<b>9,159</b>	8,608
Fee and commission income		196,637	173,251
Fee and commission expense		(9,126)	(8,864)
<b>Net fee and commission income</b>	5	<b>187,511</b>	164,387
Dividend income	6	74	127
Net trading income	6	1,878	1,226
Other operating income	6	2,012	1,972
Share of profit of associates	24	169	89
Refund of levies for the Financial Services Compensation Scheme	7	982	-
Gain on disposal of financial securities	8	6,833	-
Gain on disposal of pension administration business	9	683	-
<b>Operating income</b>		<b>209,301</b>	176,409
Charges in relation to client relationships and goodwill	10	(8,287)	(6,306)
Contribution to legal settlement	11	(15,000)	-
Transaction costs	12	(1,057)	-
Other operating expenses		(139,299)	(125,899)
<b>Operating expenses</b>	10	<b>(163,643)</b>	(132,205)
<b>Profit before tax</b>		<b>45,658</b>	44,204
Taxation	14	(10,021)	(9,453)
<b>Profit after tax</b>		<b>35,637</b>	34,751
<b>Profit for the year attributable to equity holders of the company</b>		<b>35,637</b>	34,751
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Net remeasurement of defined benefit liability/asset	29	(17,466)	2,188
Deferred tax relating to net remeasurement of defined benefit liability/asset	23	3,493	(788)
<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	20	959	2,072
- net profit on disposal transferred to profit or loss during the year		(6,820)	(5)
		(5,861)	2,067
Deferred tax relating to revaluation of available for sale investment securities	23	1,172	(298)
<b>Other comprehensive income net of tax</b>		<b>(18,662)</b>	3,169
<b>Total comprehensive income for the year net of tax attributable to equity holders of the company</b>		<b>16,975</b>	37,920
Dividends paid and proposed for the year per ordinary share	15	52.0p	49.0p
Dividends paid and proposed for the year		24,863	22,645
Earnings per share for the year attributable to equity holders of the company:	16		
- basic		75.9p	76.1p
- diluted		75.3p	75.6p

The accompanying notes form an integral part of the consolidated financial statements.



# Consolidated statement of changes in equity

for the year ended 31 December 2014

	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 2013		2,298	62,160	31,835	2,948	(5,844)	136,096	229,493
Profit for the year							34,751	34,751
Net remeasurement of defined benefit asset	29						2,188	2,188
Revaluation of available for sale investment securities:								
– net gain from changes in fair value	20				2,072			2,072
– net profit on disposal transferred to profit or loss during the year					(5)			(5)
Deferred tax relating to components of other comprehensive income	23				(298)		(788)	(1,086)
Other comprehensive income net of tax		-	-	-	1,769	-	1,400	3,169
Dividends paid	15						(22,096)	(22,096)
Issue of share capital	30	17	3,324					3,341
Share-based payments:								
– value of employee services							2,918	2,918
– cost of own shares acquired	31					(609)		(609)
– cost of own shares vesting	31					731	(731)	-
– tax on share-based payments	23						33	33
<b>At 1 January 2014</b>		<b>2,315</b>	<b>65,484</b>	<b>31,835</b>	<b>4,717</b>	<b>(5,722)</b>	<b>152,371</b>	<b>251,000</b>
Profit for the year							<b>35,637</b>	<b>35,637</b>
Net remeasurement of defined benefit liability	29						(17,466)	(17,466)
Revaluation of available for sale investment securities:								
– net gain from changes in fair value	20				959			959
– net profit on disposal transferred to profit or loss during the year					(6,820)			(6,820)
Deferred tax relating to components of other comprehensive income	23				1,172		3,493	4,665
Other comprehensive income net of tax		-	-	-	(4,689)	-	(13,973)	(18,662)
Dividends paid	15						(23,793)	(23,793)
Issue of share capital	30	80	27,503					27,583
Share-based payments:								
– value of employee services							374	374
– cost of own shares acquired	31					(1,655)		(1,655)
– cost of own shares vesting	31					1,846	(1,846)	-
– tax on share-based payments	23						248	248
<b>At 31 December 2014</b>		<b>2,395</b>	<b>92,987</b>	<b>31,835</b>	<b>28</b>	<b>(5,531)</b>	<b>149,018</b>	<b>270,732</b>

The accompanying notes form an integral part of the consolidated financial statements.

# Consolidated balance sheet

as at 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Assets</b>			
Cash and balances with central banks	17	<b>727,178</b>	211,005
Settlement balances		<b>15,890</b>	19,611
Loans and advances to banks	18	<b>144,399</b>	106,327
Loans and advances to customers	19	<b>101,640</b>	95,543
Investment securities:			
– available for sale	20	<b>15,514</b>	53,985
– held to maturity	20	<b>429,974</b>	575,838
Prepayments, accrued income and other assets	21	<b>55,272</b>	46,368
Property, plant and equipment	22	<b>10,242</b>	11,522
Net deferred tax asset	23	<b>7,042</b>	1,699
Investment in associates	24	<b>1,434</b>	1,296
Intangible assets	25	<b>159,654</b>	104,969
Surplus on retirement benefit schemes	29	-	1,614
<b>Total assets</b>		<b>1,668,239</b>	1,229,777
<b>Liabilities</b>			
Settlement balances		<b>22,584</b>	27,626
Due to customers	26	<b>1,282,426</b>	891,897
Accruals, deferred income, provisions and other liabilities	27	<b>74,574</b>	55,282
Current tax liabilities		<b>4,213</b>	3,972
Retirement benefit obligations	29	<b>13,710</b>	-
<b>Total liabilities</b>		<b>1,397,507</b>	978,777
<b>Equity</b>			
Share capital	30	<b>2,395</b>	2,315
Share premium	30	<b>92,987</b>	65,484
Merger reserve		<b>31,835</b>	31,835
Available for sale reserve		<b>28</b>	4,717
Own shares	31	<b>(5,531)</b>	(5,722)
Retained earnings		<b>149,018</b>	152,371
<b>Total equity</b>		<b>270,732</b>	251,000
<b>Total liabilities and equity</b>		<b>1,668,239</b>	1,229,777

The financial statements were approved by the board of directors and authorised for issue on 18 February 2015 and were signed on its behalf by:

P L Howell  
Chief Executive

R P 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 2014

	Note	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		45,658	44,204
Share of profit of associates	24	(169)	(89)
Net profit on disposal of available for sale investment securities		(6,820)	(5)
Net interest income		(9,159)	(8,608)
Net (recoveries)/impairment charges on impaired loans and advances	19	(589)	290
Net charge for provisions	28	380	500
Loss/(profit) on disposal of property, plant and equipment		517	(1)
Depreciation, amortisation and impairment		13,367	10,580
Defined benefit pension scheme charges	29	3,332	3,188
Defined benefit pension contributions paid	29	(5,474)	(4,744)
Share-based payment charges	13	5,477	4,833
Interest paid		(852)	(615)
Interest received		10,284	9,802
		<b>55,952</b>	<b>59,335</b>
Changes in operating assets and liabilities:			
– net (increase)/decrease in loans and advances to banks and customers		(11,074)	37,904
– net decrease/(increase) in settlement balance debtors		3,721	(7,005)
– net increase in prepayments, accrued income and other assets		(8,982)	(6,678)
– net increase in amounts due to customers and deposits by banks		390,529	62,936
– net (decrease)/increase in settlement balance creditors		(5,042)	9,034
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		2,842	(409)
		<b>427,946</b>	<b>155,117</b>
<b>Cash generated from operations</b>		<b>427,946</b>	<b>155,117</b>
Tax paid		(10,215)	(9,830)
		<b>417,731</b>	<b>145,287</b>
<b>Net cash inflow from operating activities</b>		<b>417,731</b>	<b>145,287</b>
<b>Cash flows from investing activities</b>			
Dividends received from associates	24	31	30
Acquisition of business combinations, net of cash acquired	36	(40,129)	-
Purchase of property, plant, equipment and intangible assets		(15,953)	(19,415)
Proceeds from sale of property, plant and equipment		(517)	1
Purchase of investment securities	20	(641,858)	(839,938)
Proceeds from sale and redemption of investment securities	20	794,548	823,062
		<b>96,122</b>	<b>(36,260)</b>
<b>Net cash generated from/(used in) investing activities</b>		<b>96,122</b>	<b>(36,260)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	38	25,928	2,732
Dividends paid	15	(23,793)	(22,096)
		<b>2,135</b>	<b>(19,364)</b>
<b>Net cash generated from/(used in) financing activities</b>		<b>2,135</b>	<b>(19,364)</b>
		<b>515,988</b>	<b>89,663</b>
<b>Net increase in cash and cash equivalents</b>		<b>515,988</b>	<b>89,663</b>
Cash and cash equivalents at the beginning of the year		319,828	230,165
		<b>835,816</b>	<b>319,828</b>
<b>Cash and cash equivalents at the end of the year</b>	38	<b>835,816</b>	<b>319,828</b>

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 Developments in reporting standards and interpretations

#### Standards affecting the reported results or the financial position

In the current year, there have been no new or revised standards and interpretations that have been adopted and which have had a significant impact on the amounts reported in these financial statements.

#### Changes in accounting disclosure

Segmental information has been re-presented to show the constitution of centrally incurred indirect expenses in the segmental table (note 3).

Net fee and commission income previously included a fund management fee in Investment Management receivable from Unit Trusts. The group has concluded that this should be classified as intersegment sales and it has been re-presented accordingly. This re-presentation has decreased fee and commission income by £1,404,000 (2013: £1,074,000) and decreased fee and commission expense by the same amount. The re-presentation has had no impact on operating income, profit or equity in either year.

#### Standards not affecting the reported results or the financial position

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

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Equity Method in Separate Financial Statements (Amendments to IAS 27).

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of Interests in Other Entities', which are effective in 2014, were adopted early in 2013.

#### New standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and, therefore, have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except for IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRIC 21 'Levies'.

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are not expected to become mandatory for periods commencing before 1 January 2018 and 1 January 2017 respectively. The group does not plan to adopt these standards early and the extent of their impact has not been determined. These standards have not yet been adopted by the EU. IFRS 9 'Financial Instruments' could change the classification and measurement of financial assets and the timing and extent of credit provisioning. IFRS 15 'Revenue from Contracts with Customers' could change how and when revenue is recognised from contracts with customers and is expected to extend the period during which awards accruing to new investment managers are capitalised.

IFRIC 21 'Levies' has been endorsed by the EU and is applicable for periods commencing on or after 17 June 2014; the group will adopt it from 1 January 2015. IFRIC 21 'Levies' will change the point at which the group recognises a liability in respect of Financial Services Compensation Scheme (FSCS) levies. From 1 January 2015, the group will recognise a liability in respect of FSCS levies from the date at which the triggering event specified in the legislation occurs. The triggering event for recognition of FSCS levies will change from 31 December of the preceding financial year to 1 April of the current financial year, resulting in levies recognised in the current financial year being derecognised and recognised in the following financial year. If the company had adopted IFRIC 21 in 2014, it would have resulted in an increase in profit after tax of £41,000 (31 December 2013: £92,000 increase) and an increase (31 December 2013: increase) in equity of the same amount.

## 1 Principal accounting policies

### 1.2 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 144 to 164.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (notes 1.13 and 1.17). 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.

### 1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries and special purpose entities), 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 and special purpose entities are fully consolidated from the date on which control is obtained and deconsolidated 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.

Associates are companies over which the group has significant influence, but not control or joint control, over the financial and operating policies of the associate (note 1.5).

For associates with non-coterminous year ends, financial statements are drawn up to 31 December for the purposes of equity accounting.

### 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 given, liabilities incurred or 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.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date, except for deferred tax assets or liabilities, and liabilities or assets related to employee benefit arrangements, which are measured in accordance with applicable accounting policies described in this note.

### 1.5 Investments in associates

Investments in associates are accounted for under the equity method and are recognised initially at cost. The consolidated financial statements include the group's share of the profit or loss and other comprehensive income of the associates from the date that significant influence commences until the date that significant influence ceases.

### 1.6 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 for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the directors' report on page 54.

### 1.7 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 Principal accounting policies****1.8 Income****Net interest income**

Interest income or expense from interest-bearing financial instruments, except those classified as held for trading, is calculated using the effective interest method and recognised within net interest income. Dividends received from money market funds are included in net interest income when received.

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 net carrying amount of the instrument. 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.

**Net fee and commission income**

Portfolio or asset management fees, trail 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.

**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.

**1.9 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.

**1.10 Share-based payments**

The group engages in cash-settled and equity-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 Principal accounting policies

### 1.11 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.

### 1.12 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.

### 1.13 Financial assets

#### Initial recognition

Financial assets are initially recognised at fair value.

#### Classification and subsequent valuation

Financial assets are classified in the following categories:

- At fair value through profit or loss

Financial instruments are classified in this category if they are held for trading, or if they are designated in this category by the group. Financial assets held at fair value through profit or loss are carried at fair value, with gains and losses arising from changes in fair value taken directly to profit or loss.

Derivatives are categorised as held for trading. Fair values of derivatives are determined using valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless the company has the legal ability and intention to settle net.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services to a debtor or purchases a loan or other debtor with no intention of trading the receivable. Loans and receivables are measured at amortised cost using the effective interest method (note 1.8), less any impairment.

If the fair value of the loan on initial recognition is lower than the amount advanced, the shortfall is charged to profit or loss.

**1 Principal accounting policies 1.13 Financial assets**

- Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities (other than those that meet the definition of loans and receivables or that the group has classified as available for sale or fair value through profit or loss) that the group has the positive intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method (note 1.8), less any impairment.

- Available for sale

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

Available for sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in other comprehensive income and presented in the available for sale reserve in equity. When the financial asset is sold, derecognised or impaired, the cumulative gain or loss previously recognised in equity is recycled to profit or loss.

**Trade date accounting**

Financial assets, excluding loans and receivables, are recognised on trade date, being the date on which the group commits to purchase the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows have expired or the group has transferred substantially all the risks and rewards of ownership.

**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.

**Impairment of financial assets**

- Financial assets carried at amortised cost

If there is objective evidence that a financial asset carried at amortised cost, or a group of such financial assets, has suffered an impairment loss, the recoverable amount of the asset, or group of assets, is estimated in order to determine the extent of the impairment loss. The group measures the amount of the impairment loss as the difference between the carrying amount of the asset, or group of assets, and the present value of estimated future cash flows from the asset, or group of assets, discounted at the effective interest rate of the asset, or group of assets, at initial recognition. The present value of estimated future cash flows excludes the impact of future credit losses that have not been incurred. Any impairment loss is recognised in profit or loss.

All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed through profit or loss.

Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

- Financial assets carried at fair value

When a decline in the fair value of a financial asset classified as available for sale has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through profit or loss, but those on available for sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.



## 1 Principal accounting policies

### 1.14 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.

### 1.15 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 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.

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 2.1.

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 2.1 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 Principal accounting policies

### 1.16 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 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 on an individual client account basis by comparing the fair value of funds under management for 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 client relationships or goodwill 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.

### 1.17 Financial liabilities

Financial liabilities are initially recognised at fair value and classified as fair value through profit or loss (if designated as such or if held for trading) or at amortised cost. The group derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

The group has not designated any liabilities as fair value through profit or loss and holds no liabilities as held for trading.

#### Deposits and borrowings

After initial recognition, deposits and borrowings, except deposits on demand, are subsequently measured at amortised cost using the effective interest rate method through net interest income (note 1.8). Amortised cost is calculated by taking into account any issue costs and any discounts or premiums on settlement. Deposits on demand continue to be held at face value.

### 1.18 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. The increase in the provision due to the passage of time is recognised as an interest expense.

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

### 1.19 Retirement benefit obligations/surplus on retirement benefit schemes

The group's net asset/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 asset/liability are recognised in full in the period in which they occur in other comprehensive income.

Past service cost is 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.

Contributions to defined contribution retirement benefit schemes are charged to profit or loss as an expense as they fall due.

The company determines the net interest on the net defined benefit asset/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 asset/liability.

### 1.20 Segmental reporting

The group determines and presents operating segments based on the information that is provided internally to the 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 the our approach section on pages 11 to 12. 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; inter-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.

### 1.21 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.

### 1.22 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.

## 2 Critical accounting judgements and key sources of estimation and uncertainty

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

### 2.1 Client relationship intangibles (note 25)

#### 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 in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction, whether ownership of a corporate entity has been acquired and to whom any amounts payable under the transaction are payable, among other factors.

During the year, the group entered into transactions to purchase part of Deutsche Asset & Wealth Management's London-based private client investment business (note 25) and to acquire Jupiter's private client and charity investment management business (note 36). The group treated the transaction with Deutsche Asset & Wealth Management as a separate purchase of intangible assets as the main element of the consideration was payable to the investment managers. The transaction with Jupiter was treated as a business combination, principally due to the scale of operations acquired and the fact that consideration was payable to Jupiter (the previous corporate owner of the business).

#### 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. Payments made for the acquisition of client relationship intangibles are capitalised whereas those that are judged to be in relation to the provision of ongoing services are expensed in the period in which they are incurred.

The group determines a suitable period during which awards accruing to new investment managers are capitalised. Typically, this will be for 12 months after the cessation of any non-compete period. After the defined period has elapsed, any payments made are charged to profit or loss.

During the year the group capitalised £22,073,000 of payments made to investment managers and expensed £2,824,000 (2013: £13,245,000 capitalised and £487,000 expensed). A reduction in the capitalisation period by one month would decrease client relationship intangibles by £257,000 and decrease profit before tax by £257,000 (2013: £56,000 and £56,000 respectively).

#### 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 for the future. During the year client relationship intangible assets were amortised over a 10-15 year period. Amortisation of £8,287,000 (2013: £6,306,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £700,000 (2013: £600,000). At 31 December 2014, the carrying value of client relationship intangibles was £95,720,000 (2013: £52,487,000).

### 2.2 Retirement benefit obligations (note 29)

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 £13,710,000 (2013: £1,614,000 surplus) and information on the sensitivity of the retirement benefit obligations to changes in underlying estimates are set out in note 29.

### 3 Segmental information

For management purposes the group is currently organised into two operating segments: Investment Management and Unit Trusts. The products and services from which each reportable segment derives its revenues are described in our services on pages 11 to 12. All services other than unit trust funds and multi asset funds, as described under the investment and advisory heading in the our approach section, are reported within the Investment Management segment. These segments are the basis on which the group reports its performance to the executive committee, which is the group's chief operating decision maker. Certain items of income are presented within different categories of operating income in the financial statements compared to the presentation for internal reporting. Staff costs for internal reporting purposes include only those staff directly involved in the provision of the services from which each segment's revenue is generated. The cost of staff providing support services is included in indirect expenses. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the executive committee.

31 December 2014	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	120,561	13,281	-	133,842
Net commission income	43,723	-	-	43,723
Net interest income	9,159	-	-	9,159
Fees from advisory services and other income	11,908	2,171	-	14,079
<b>Underlying operating income</b>	<b>185,351</b>	<b>15,452</b>	<b>-</b>	<b>200,803</b>
Staff costs – fixed	(43,885)	(3,304)	(14,760)	(61,949)
Staff costs – variable	(25,790)	(2,751)	(6,664)	(35,205)
<b>Total staff costs</b>	<b>(69,675)</b>	<b>(6,055)</b>	<b>(21,424)</b>	<b>(97,154)</b>
Other direct expenses	(17,065)	(2,788)	(22,292)	(42,145)
Allocation of indirect expenses	(41,085)	(2,631)	43,716	-
<b>Underlying operating expenses</b>	<b>(127,825)</b>	<b>(11,474)</b>	<b>-</b>	<b>(139,299)</b>
<b>Underlying profit before tax</b>	<b>57,526</b>	<b>3,978</b>	<b>-</b>	<b>61,504</b>
Refund of levies for the Financial Services Compensation Scheme (note 7)	907	75	-	982
Gain on disposal of pension administration business (note 9)	683	-	-	683
Charges in relation to client relationships and goodwill (note 25)	(8,287)	-	-	(8,287)
Transaction costs (note 12)	(1,057)	-	-	(1,057)
<b>Segment profit before tax</b>	<b>49,772</b>	<b>4,053</b>	<b>-</b>	<b>53,825</b>
Gain on disposal of financial securities (note 8)				6,833
Contribution to legal settlement (note 11)				(15,000)
<b>Profit before tax attributable to equity holders of the company</b>				<b>45,658</b>
Taxation (note 14)				(10,021)
<b>Profit for the year attributable to equity holders of the company</b>				<b>35,637</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	1,630,464	32,878		1,663,342
Unallocated assets				4,897
<b>Total assets</b>				<b>1,668,239</b>

## 3 Segmental information

31 December 2013 (re-presented - note 1)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	104,222	9,651	-	113,873
Net commission income	42,051	-	-	42,051
Net interest income	8,608	-	-	8,608
Fees from advisory services and other income	10,456	1,421	-	11,877
<b>Underlying operating income</b>	<b>165,337</b>	<b>11,072</b>	<b>-</b>	<b>176,409</b>
Staff costs - fixed	(39,848)	(3,059)	(13,939)	(56,846)
Staff costs - variable	(20,588)	(1,799)	(5,546)	(27,933)
<b>Total staff costs</b>	<b>(60,436)</b>	<b>(4,858)</b>	<b>(19,485)</b>	<b>(84,779)</b>
Other direct expenses	(19,456)	(2,400)	(19,264)	(41,120)
Allocation of indirect expenses	(36,348)	(2,401)	38,749	-
<b>Underlying operating expenses</b>	<b>(116,240)</b>	<b>(9,659)</b>	<b>-</b>	<b>(125,899)</b>
<b>Underlying profit before tax</b>	<b>49,097</b>	<b>1,413</b>	<b>-</b>	<b>50,510</b>
Charges in relation to client relationships and goodwill (note 25)	(6,306)	-	-	(6,306)
<b>Profit before tax attributable to equity holders of the company</b>	<b>42,791</b>	<b>1,413</b>	<b>-</b>	<b>44,204</b>
Taxation (note 14)				(9,453)
<b>Profit for the year attributable to equity holders of the company</b>				<b>34,751</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	1,195,571	23,556		1,219,127
Unallocated assets				10,650
<b>Total assets</b>				<b>1,229,777</b>

The following table reconciles underlying operating income to operating income:

	2014 £'000	2013 £'000
Underlying operating income	<b>200,803</b>	176,409
Refund of levies for the Financial Services Compensation Scheme (note 7)	<b>982</b>	-
Gain on disposal of financial securities (note 8)	<b>6,833</b>	-
Gain on disposal of pension administration business (note 9)	<b>683</b>	-
<b>Operating income</b>	<b>209,301</b>	176,409

The following table reconciles underlying operating expenses to operating expenses:

	2014 £'000	2013 £'000
Underlying operating expenses	<b>139,299</b>	125,899
Charges in relation to client relationships and goodwill (note 25)	<b>8,287</b>	6,306
Transaction costs (note 12)	<b>1,057</b>	-
Contribution to legal settlement (note 11)	<b>15,000</b>	-
<b>Operating expenses</b>	<b>163,643</b>	132,205

Centrally incurred indirect expenses are allocated to 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 the segment's total revenue.

## 3 Segmental information

## Geographic analysis

The following table presents operating income analysed by the geographical location of the group entity providing the service:

	2014 £'000	2013 £'000
United Kingdom	202,634	170,786
Jersey	6,667	5,623
<b>Operating income</b>	<b>209,301</b>	176,409

The following is an analysis of the carrying amount of non-current assets analysed by the geographical location of the assets:

	2014 £'000	2013 £'000
United Kingdom	162,901	114,015
Jersey	6,995	2,476
<b>Non-current assets</b>	<b>169,896</b>	116,491

## Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues.

## 4 Net interest income

	2014 £'000	2013 £'000
<b>Interest income</b>		
Cash and balances with central banks	2,991	948
Held to maturity investment securities	3,233	4,322
Available for sale investment securities	109	227
Loans and advances to banks	973	1,522
Loans and advances to customers	2,718	2,193
	<b>10,024</b>	9,212
<b>Interest expense</b>		
Banks and customers	(865)	(604)
<b>Net interest income</b>	<b>9,159</b>	8,608

In 2013, interest income from loans and advances to customers included £282,000 in relation to impaired financial assets. These financial assets were settled during the year and no such interest income was recognised in 2014 (note 19).

## 5 Net fee and commission income

	2014 £'000	2013 £'000 (re-presented - note 1)
<b>Fee and commission income</b>		
Investment Management	174,945	155,272
Unit Trusts	21,692	17,979
	<b>196,637</b>	173,251
<b>Fee and commission expense</b>		
Investment Management	(2,527)	(2,439)
Unit Trusts	(6,599)	(6,425)
	<b>(9,126)</b>	(8,864)
<b>Net fee and commission income</b>	<b>187,511</b>	164,387

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## 6 Dividend, net trading and other operating income

### Dividend income

Dividend income comprises income from available for sale equity securities of £74,000 (2013: £127,000).

### Net trading income

Net trading income of £1,878,000 (2013: £1,226,000) comprises unit trust net dealing profits.

### Other operating income

Other operating income of £2,012,000 (2013: £1,972,000) comprises rental income from sub-leases on certain properties leased by group companies, £565,000 gain on sale of loan notes (note 19) and sundry income.

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## 7 Refund of levies for the Financial Services Compensation Scheme

In 2010, the group reported that it had incurred levies for the Financial Services Compensation Scheme (FSCS) totalling £3,203,000 arising from the failure of Keydata Investment Services Limited and other intermediaries. During the year, the FSCS was successful in recovering some of its costs in relation to Keydata from parties that were found to be culpable for Keydata's failure. As a result, in December 2014, the group received partial refunds of its 2010/2011 year levies totalling £982,000.

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## 8 Gain on disposal of financial securities

During the year, the group disposed of its remaining holding of 300,000 shares in London Stock Exchange Group Plc for cash consideration of £5,932,000. The group recognised a gain on disposal of £5,932,000, which was recycled from the available for sale reserve.

On 11 December 2014, the group disposed of its holding of 1,809 shares in Euroclear Plc for cash consideration of £931,000. The group recognised a gain on disposal of £901,000, of which £888,000 was recycled from the available for sale reserve.

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## 9 Gain on disposal of pension administration business

On 31 December 2014, the group disposed of its self invested personal pension (SIPP) administration business to Curtis Banks for cash consideration of £800,000. A gain on disposal of £683,000, after deducting related costs, has been included in profit for the year. The SIPP administration business that was disposed of contributed £673,000 to the group's profit in 2014.



## 10 Operating expenses

	2014 £'000	2013 £'000
Staff costs (note 13)	97,155	84,778
Depreciation of property, plant and equipment (note 22)	2,946	2,813
Amortisation of internally generated intangible assets included in operating expenses (note 25)	351	331
Amortisation of purchased software (note 25)	1,783	1,130
Auditor's remuneration (see below)	723	570
Net (recoveries)/impairment charges on impaired loans and advances (note 19)	(589)	290
Operating lease rentals	6,060	6,006
Other	30,870	29,981
<b>Other operating expenses</b>	<b>139,299</b>	<b>125,899</b>
Charges in relation to client relationships and goodwill (note 25)	8,287	6,306
Contribution to legal settlement (note 11)	15,000	-
Transaction costs (note 12)	1,057	-
<b>Total operating expenses</b>	<b>163,643</b>	<b>132,205</b>

A more detailed analysis of auditor's remuneration is provided below.

	2014 £'000	2013 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	91	90
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	245	241
– audit-related assurance services	181	168
– tax compliance services	81	6
– other assurance services	125	65
	<b>723</b>	<b>570</b>

Of the above, audit-related services for the year totalled £517,000 (2013: £499,000).

Fees for audit-related assurance services include £83,000 for the provision of assurance reports to our regulators and review of the interim statement (2013: £77,000).

## 11 Contribution to legal settlement

On 23 July 2014 the company entered into a conditional agreement to contribute to a settlement of legal proceedings in Jersey involving a former director and employee of Rathbone Trust Company Jersey Limited and in respect of legal proceedings against certain of Rathbones' civil liability (professional indemnity) insurers.

The settlement became unconditional on 18 August 2014 and the company contributed £15,000,000 as its share of the settlement.

## 12 Transaction costs

Transaction costs incurred in the year include £1,031,000 of legal and advisory fees in relation to the acquisitions of Rooper & Whately and Jupiter Asset Management Limited's private client and charity investment management business (note 36) and the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business.

Listing authority fees of £26,000 in relation to the placing of ordinary shares (note 30) have also been included in transaction costs.

### 13 Staff costs

	2014 £'000	2013 £'000
Wages and salaries	75,205	65,449
Social security costs	9,828	8,419
Share-based payments (note 32)	5,477	4,833
Pension costs: (note 29)		
– defined benefit schemes	3,332	3,188
– defined contribution schemes	3,313	2,889
	<b>6,645</b>	6,077
	<b>97,155</b>	84,778

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2014	2013
Investment Management:		
– investment management services	543	506
– advisory services	73	70
Unit Trusts	32	30
Shared services	232	227
	<b>880</b>	833

### 14 Income tax expense

	2014 £'000	2013 £'000
Current tax:		
– charge for the year	10,587	11,096
– adjustments in respect of prior years	(136)	(821)
Deferred tax: (note 23)		
– charge for the year	(521)	(687)
– adjustments in respect of prior years	91	(135)
	<b>10,021</b>	9,453

The tax charge is calculated based on our best estimate of the amount payable as at the balance sheet date. Any subsequent difference between these estimates and the actual amount paid are recorded as adjustments in respect of prior years.

The tax charge on profit for the year is higher (2013: lower) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.2%). The differences are explained below.

	2014 £'000	2013 £'000
Tax on profit from ordinary activities at the standard rate of 21.5% (2013: 23.2%)	9,813	10,276
Effects of:		
– disallowable expenses	587	348
– share-based payments	(339)	(232)
– tax on overseas earnings	(143)	(44)
– overprovision for tax in previous years	(45)	(956)
– other	112	(31)
Effect of change in corporation tax rate on deferred tax	36	92
	<b>10,021</b>	9,453

## 15 Dividends

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2013 of 31.0p (2012: 30.0p) per share	14,734	13,800
– interim dividend for the year ended 31 December 2014 of 19.0p (2013: 18.0p) per share	9,059	8,296
Dividends paid in the year of 50.0p (2013: 48.0p) per share	23,793	22,096
Proposed final dividend for the year ended 31 December 2014 of 33.0p (2013: 31.0p) per share	15,804	14,349

An interim dividend of 19.0p per share was paid on 8 October 2014 to shareholders on the register at the close of business on 12 September 2014 (2013: 18.0p).

A final dividend declared of 33.0p per share (2013: 31.0p) is payable on 19 May 2015 to shareholders on the register at the close of business on 24 April 2015. The final dividend is subject to approval by shareholders at the Annual General Meeting on 14 May 2015 and has not been included as a liability in these financial statements.

## 16 Earnings per share

Earnings used to calculate earnings per share on the bases reported in these financial statements were:

	2014 Pre-tax £'000	2014 Taxation £'000	2014 Post-tax £'000	2013 Pre-tax £'000	2013 Taxation £'000	2013 Post-tax £'000
Underlying profit attributable to shareholders	61,504	(13,426)	48,078	50,510	(10,919)	39,591
Refund of levies for the Financial Services Compensation Scheme (note 7)	982	(211)	771	–	–	–
Gain on disposal of financial securities (note 8)	6,833	(1,469)	5,364	–	–	–
Gain on disposal of pension administration business (note 9)	683	(147)	536	–	–	–
Charges in relation to client relationships and goodwill (note 25)	(8,287)	1,781	(6,506)	(6,306)	1,466	(4,840)
Contribution to legal settlement (note 11)	(15,000)	3,224	(11,776)	–	–	–
Transaction costs (note 12)	(1,057)	227	(830)	–	–	–
<b>Profit attributable to shareholders</b>	<b>45,658</b>	<b>(10,021)</b>	<b>35,637</b>	44,204	(9,453)	34,751

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 46,971,196 (2013: 45,667,571).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Long Term 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:

	2014	2013
Weighted average number of ordinary shares in issue during the year – basic	46,971,196	45,667,571
Effect of ordinary share options/Save As You Earn	21,684	45,814
Effect of dilutive shares issuable under the Share Incentive Plan	63,866	60,078
Effect of contingently issuable ordinary shares under the Long Term Incentive Plan	247,202	222,122
<b>Diluted ordinary shares</b>	<b>47,303,948</b>	45,995,585
	2014	2013
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	102.4p	86.7p
– diluted	101.6p	86.1p

## 17 Cash and balances with central banks

	2014 £'000	2013 £'000
Cash in hand	3	5
Balances with central banks	<b>727,175</b>	211,000
	<b>727,178</b>	211,005

The fair value of balances with central banks is not materially different from their carrying amount. The impact of credit risk is not material.

	2014 £'000	2013 £'000
Repayable:		
– on demand	<b>727,003</b>	211,005
– 3 months or less excluding on demand	<b>175</b>	-
	<b>727,178</b>	211,005
Amounts include balances with:		
– variable interest rates	<b>727,000</b>	211,000
– non-interest-bearing	<b>178</b>	5
	<b>727,178</b>	211,005

## 18 Loans and advances to banks

	2014 £'000	2013 £'000
Repayable:		
– on demand	<b>93,638</b>	61,171
– 3 months or less excluding on demand	<b>40,055</b>	25,000
– 1 year or less but over 3 months	<b>10,424</b>	20,156
– 5 years or less but over 1 year	<b>282</b>	-
	<b>144,399</b>	106,327
Amounts include loans and advances with:		
– variable interest rates	<b>94,225</b>	81,087
– fixed interest rates	<b>50,055</b>	25,000
– non-interest-bearing	<b>119</b>	240
	<b>144,399</b>	106,327

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. The impact of credit risk is not material.

Loans and advances to banks included in cash and cash equivalents at 31 December 2014 were £93,638,000 (note 38) (2013: £61,171,000).

The group's exposure to credit risk arising from loans and advances to banks is described in note 33.

## 19 Loans and advances to customers

	2014 £'000	2013 £'000
Overdrafts	3,331	2,424
Investment management loan book	97,392	89,211
Trust and pension debtors	909	1,071
Other debtors	8	2,837
	<b>101,640</b>	95,543

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 pensions businesses are non-interest-bearing.

	2014 £'000	2013 £'000
Repayable:		
– on demand	3,530	2,448
– 3 months or less excluding on demand	27,544	28,340
– 1 year or less but over 3 months	68,807	61,634
– 5 years or less but over 1 year	1,831	383
With no fixed maturity date	–	3,851
Less: allowance for losses on loans and advances (see below)	(72)	(1,113)
	<b>101,640</b>	95,543
Amounts include loans and advances with:		
– variable interest rates	100,712	94,428
– non-interest-bearing	928	1,115
	<b>101,640</b>	95,543

No overdrafts or investment management loan book balances were impaired as at 31 December 2014 (2013: none impaired).

Other debtors included loan notes ('Notes') with a nominal value of £5,000,000 that were issued by the acquirer of the group's Jersey Trust operations in 2008 and were carried at amortised cost less provision for impairment. The Notes were settled on 28 February 2014 for £3,400,000 in cash. As a result, impairment losses of £565,000 have been reversed in the year and the corresponding gain has been included in other operating income within profit or loss for the year.

## Allowance for losses on loans and advances to customers

	2014 Trust and pension debtors £'000	2014 Other debtors £'000	2014 Total £'000	2013 Trust and pension debtors £'000	2013 Other debtors £'000	2013 Total £'000
At 1 January	97	1,016	1,113	105	760	865
Amounts written off	(1)	(451)	(452)	(42)	–	(42)
(Credit)/charge to profit or loss	(24)	(565)	(589)	34	256	290
<b>At 31 December</b>	<b>72</b>	<b>–</b>	<b>72</b>	97	1,016	1,113

The group's exposure to credit risk arising from loans and advances to customers is described in note 33.

## 20 Investment securities

### Available for sale securities

	2014 £'000	2013 £'000
Equity securities - at fair value:		
- listed	514	5,642
- unlisted	-	691
Money market funds - at fair value:		
- unlisted	15,000	47,652
	<b>15,514</b>	<b>53,985</b>

### Held to maturity securities

	2014 £'000	2013 £'000
Debt securities - at amortised cost:		
- unlisted	429,974	575,838
	<b>429,974</b>	<b>575,838</b>

### Maturity of debt securities

	2014 £'000	2013 £'000
Due within 1 year	429,974	575,838
	<b>429,974</b>	<b>575,838</b>

Available for sale securities include money market funds and direct holdings in equity securities. Equity securities include units in Rathbone Unit Trust Management Limited managed funds. In 2013, the group also held shares in London Stock Exchange Group Plc and Euroclear Plc; both holdings were sold during the year (note 8). 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 group has not reclassified any financial asset between being measured 'at amortised cost' and being measured 'at fair value through profit or loss' during the year (2013: none reclassified).

The change in the group's holdings of investment securities in the year is summarised below.

	Available for sale £'000	Held to maturity £'000	Total £'000
At 1 January 2013	55,749	559,025	614,774
Additions	293,201	839,838	1,133,039
Disposals (sales and redemptions)	(297,037)	(823,025)	(1,120,062)
Gain from changes in fair value	2,072	-	2,072
<b>At 1 January 2014</b>	<b>53,985</b>	<b>575,838</b>	<b>629,823</b>
Additions	15,037	641,821	656,858
Disposals (sales and redemptions)	(54,515)	(787,685)	(842,200)
Gain from changes in fair value	1,007	-	1,007
<b>At 31 December 2014</b>	<b>15,514</b>	<b>429,974</b>	<b>445,488</b>

Included within available for sale securities are additions of £37,000 (2013: £100,000) and disposals of £6,863,000 (2013: £37,000) of financial instruments that are not classified as cash and cash equivalents.

## 21 Prepayments, accrued income and other assets

	2014 £'000	2013 £'000
Trust work in progress	1,182	963
Derivative financial instruments (note 24)	1,030	1,030
Prepayments and other assets	14,832	11,866
Accrued income	38,228	32,509
	<b>55,272</b>	<b>46,368</b>

Included within prepayments and other assets is an investment property which is carried at fair value. The group's interest in the investment property was acquired on 1 June 2012 and was initially recognised in the balance sheet at cost of £733,000. As at 31 December 2014, the fair value of the investment property was £580,000 (2013: £718,000). The decrease in fair value of the investment property in the year of £138,000 (2013: decrease of £34,000) was due to a reduction in management's estimate of its realisable value.

## 22 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2013	11,266	11,587	22,853
Additions	739	1,646	2,385
Disposals	-	(469)	(469)
<b>At 1 January 2014</b>	<b>12,005</b>	<b>12,764</b>	<b>24,769</b>
Additions	177	1,489	1,666
Disposals	-	(517)	(517)
<b>At 31 December 2014</b>	<b>12,182</b>	<b>13,736</b>	<b>25,918</b>
<b>Depreciation</b>			
At 1 January 2013	2,799	8,104	10,903
Charge for the year	1,047	1,766	2,813
Disposals	-	(469)	(469)
<b>At 1 January 2014</b>	<b>3,846</b>	<b>9,401</b>	<b>13,247</b>
Charge for the year	1,079	1,867	2,946
Disposals	-	(517)	(517)
<b>At 31 December 2014</b>	<b>4,925</b>	<b>10,751</b>	<b>15,676</b>
<b>Carrying amount at 31 December 2014</b>	<b>7,257</b>	<b>2,985</b>	<b>10,242</b>
Carrying amount at 31 December 2013	8,159	3,363	11,522
Carrying amount at 1 January 2013	8,467	3,483	11,950

## 23 Net deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20.0% (2013: 20.0%).

The reduction in corporation tax rate to 20.0% over the next year had been substantively enacted at 31 December 2014. Deferred tax has been calculated using the rate expected to apply when the relevant timing difference unwinds.

The movement on the deferred tax account is as follows:

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
<b>As at 1 January 2014</b>	<b>780</b>	<b>(325)</b>	<b>1,731</b>	<b>788</b>	<b>(1,178)</b>	<b>(97)</b>	<b>1,699</b>
Recognised in profit or loss in respect of:							
– current year	135	(460)	65	842	–	(26)	556
– prior year	12	–	–	(103)	–	–	(91)
– change in rate	(9)	32	(2)	(58)	–	2	(35)
<b>Total</b>	<b>138</b>	<b>(428)</b>	<b>63</b>	<b>681</b>	<b>–</b>	<b>(24)</b>	<b>430</b>
Recognised in other comprehensive income in respect of:							
– current year	–	3,754	–	–	1,260	–	5,014
– prior year	–	–	–	–	–	–	–
– change in rate	–	(261)	–	–	(88)	–	(349)
<b>Total</b>	<b>–</b>	<b>3,493</b>	<b>–</b>	<b>–</b>	<b>1,172</b>	<b>–</b>	<b>4,665</b>
Recognised in equity in respect of:							
– current year	–	–	260	(13)	–	–	247
– prior year	–	–	–	–	–	–	–
– change in rate	–	–	–	1	–	–	1
<b>Total</b>	<b>–</b>	<b>–</b>	<b>260</b>	<b>(12)</b>	<b>–</b>	<b>–</b>	<b>248</b>
<b>As at 31 December 2014</b>	<b>918</b>	<b>2,740</b>	<b>2,054</b>	<b>1,457</b>	<b>(6)</b>	<b>(121)</b>	<b>7,042</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	918	2,740	2,054	1,457	–	–	7,169
Deferred tax liabilities	–	–	–	–	(6)	(121)	(127)
<b>As at 31 December 2014</b>	<b>918</b>	<b>2,740</b>	<b>2,054</b>	<b>1,457</b>	<b>(6)</b>	<b>(121)</b>	<b>7,042</b>



## 23 Net deferred tax asset

	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 2013	726	489	1,520	201	(880)	(126)	1,930
Recognised in profit or loss in respect of:							
- current year	23	(362)	384	720	-	15	780
- prior year	148	-	2	(15)	-	-	135
- change in rate	(117)	336	(196)	(130)	-	14	(93)
<b>Total</b>	<b>54</b>	<b>(26)</b>	<b>190</b>	<b>575</b>	<b>-</b>	<b>29</b>	<b>822</b>
Recognised in other comprehensive income in respect of:							
- current year	-	(509)	-	-	(480)	-	(989)
- prior year	-	-	-	-	-	-	-
- change in rate	-	(279)	-	-	182	-	(97)
<b>Total</b>	<b>-</b>	<b>(788)</b>	<b>-</b>	<b>-</b>	<b>(298)</b>	<b>-</b>	<b>(1,086)</b>
Recognised in equity in respect of:							
- current year	-	-	80	11	-	-	91
- prior year	-	-	2	3	-	-	5
- change in rate	-	-	(61)	(2)	-	-	(63)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>33</b>
As at 31 December 2013	780	(325)	1,731	788	(1,178)	(97)	1,699
	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	780	-	1,731	788	-	-	3,299
Deferred tax liabilities	-	(325)	-	-	(1,178)	(97)	(1,600)
As at 31 December 2013	780	(325)	1,731	788	(1,178)	(97)	1,699

## 24 Investment in associates and related derivatives

The group owns 19.9% of the ordinary share capital of Vision Independent Financial Planning Limited and Castle Investment Solutions Limited.

### Investment in associates

Although the group holds less than 20% of the equity shares of both companies, it exercises significant influence by virtue of its contractual right to appoint one director to the board of directors of both companies. The options held by the group to acquire the remaining shares in the associates are not exercisable until the third quarter of 2015. In addition, the group has no other rights which would allow it to exercise control over the operations of the associates. The group is, therefore, not judged to control the associates and they are not consolidated.

The movements in the group's investment in associates were as follows:

	2014 £'000	2013 £'000
<b>At 1 January</b>	<b>1,296</b>	1,237
Share of profit	<b>169</b>	89
Dividends received	<b>(31)</b>	(30)
<b>At 31 December</b>	<b>1,434</b>	1,296

The results of associates, and their aggregated assets and liabilities as at 31 December 2014, are as follows:

Name	Country of incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profit £'000	% interest held
Vision Independent Financial Planning Limited	England and Wales	<b>1,205</b>	<b>423</b>	<b>1,317</b>	<b>313</b>	<b>19.9</b>
Castle Investment Solutions Limited	England and Wales	<b>791</b>	<b>16</b>	<b>918</b>	<b>534</b>	<b>19.9</b>
		<b>1,996</b>	<b>439</b>	<b>2,235</b>	<b>847</b>	
Group's share of profit					<b>169</b>	

### Derivative financial instruments

As part of the transaction to acquire these holdings, the group also entered into certain option contracts over the equity instruments of these companies. Under these contracts the group has the right to acquire the remaining 80.1% of the share capital of both associates for a variable exercise price in the third quarter of 2015.

If the group does not exercise its right to acquire the associates' remaining share capital, the founders of the associates have the right to repurchase the group's stakes in the associates for £2,000,000 in the fourth quarter of 2015.

The group also has the right to sell its entire holdings in the associates to the founders for consideration of £1 at any time until 29 February 2016.

The option contracts are valued together and carried at fair value. At 31 December 2014, the fair value of the option contracts was £1,030,000 (2013: £1,030,000) (note 21). The fair value of the option contracts is calculated using a probability weighted expected return model (note 33).

## 25 Intangible assets

	2014 £'000	2013 £'000
Goodwill	57,884	47,241
Other intangible assets	101,770	57,728
	<b>159,654</b>	104,969

### 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 2013 and 2014	45,287	1,954	-	47,241
Acquired through business combinations (note 36)	10,766	-	227	10,993
<b>At 31 December 2014</b>	<b>56,053</b>	<b>1,954</b>	<b>227</b>	<b>58,234</b>
<b>Impairment</b>				
At 1 January 2013 and 2014	-	-	-	-
Charge in the year	-	350	-	350
<b>At 31 December 2014</b>	<b>-</b>	<b>350</b>	<b>-</b>	<b>350</b>
<b>Carrying amount at 31 December 2014</b>	<b>56,053</b>	<b>1,604</b>	<b>227</b>	<b>57,884</b>
Carrying amount at 31 December 2013	45,287	1,954	-	47,241
Carrying amount at 1 January 2013	45,287	1,954	-	47,241

Goodwill acquired through business combinations comprises goodwill arising on the acquisitions of Jupiter Asset Management Limited's private client and charity investment management business and Rooper & Whately. A separate CGU has been established to which the latter has been allocated.

The recoverable amounts of goodwill allocated to the CGUs are determined from value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming year. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins will be in line with recent historical rates and equity markets will be flat for 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 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 and Rooper & Whately CGUs.

At 31 December	Investment management		Trust and tax		Rooper & Whately	
	2014	2013	2014	2013	2014	2013
Discount rate	<b>11%</b>	10%	<b>13%</b>	12%	<b>13%</b>	n/a
Annual revenue growth rate	<b>7.0%</b>	7.0%	<b>1.5%</b>	3.0%	<b>5.0%</b>	n/a

At 30 June 2014, the group recognised an impairment charge of £350,000 in relation to goodwill allocated to the trust and tax CGU. An impairment was recognised as the recoverable amount of the goodwill allocated to the CGU at 30 June 2014 was £1,604,000, which was lower than the carrying value of £1,954,000 at 31 December 2013. The recoverable amount was calculated based on forecast earnings for 2014, extrapolated over 10 years based on an annual revenue growth rate of 1.5%. The pre-tax rate used to discount the forecast cash flows was 14%. The impairment was recognised in the Investment Management segment in the segmental analysis. No further impairment was recognised at 31 December 2014.

## 25 Intangible assets Goodwill

Based on the above assumptions, the calculated recoverable amount of the goodwill allocated to the trust and tax CGU at 31 December 2014 was £2,055,000, which was higher than its carrying value of £1,604,000. Reducing the assumed growth rate for income in the trust and tax CGU by two percentage points would reduce the calculated recoverable amount of the allocated goodwill to £1,158,000. No reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the investment management CGU 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 2013	62,824	3,205	14,959	80,988
Internally developed in the year	-	330	-	330
Purchased in the year	13,245	-	1,738	14,983
Disposals	(1,095)	-	(29)	(1,124)
<b>At 1 January 2014</b>	<b>74,974</b>	<b>3,535</b>	<b>16,668</b>	<b>95,177</b>
Internally developed in the year	-	499	-	499
Acquired through business combinations (note 36)	29,097	-	-	29,097
Purchased in the year	22,073	-	2,444	24,517
Disposals	(1,465)	-	(8)	(1,473)
<b>At 31 December 2014</b>	<b>124,679</b>	<b>4,034</b>	<b>19,104</b>	<b>147,817</b>
<b>Amortisation</b>				
At 1 January 2013	17,276	2,538	10,992	30,806
Charge for the year	6,306	331	1,130	7,767
Disposals	(1,095)	-	(29)	(1,124)
<b>At 1 January 2014</b>	<b>22,487</b>	<b>2,869</b>	<b>12,093</b>	<b>37,449</b>
Charge for the year	7,937	351	1,783	10,071
Disposals	(1,465)	-	(8)	(1,473)
<b>At 31 December 2014</b>	<b>28,959</b>	<b>3,220</b>	<b>13,868</b>	<b>46,047</b>
<b>Carrying amount at 31 December 2014</b>	<b>95,720</b>	<b>814</b>	<b>5,236</b>	<b>101,770</b>
Carrying amount at 31 December 2013	52,487	666	4,575	57,728
Carrying amount at 1 January 2013	45,548	667	3,967	50,182

The total amount charged to profit or loss in the year, in relation to goodwill and client relationships, was £8,287,000 (2013: £6,306,000). A further £2,824,000 (2013: £480,000) was expensed as staff costs during the year, representing amounts due for client relationships introduced more than 12 months after the cessation of any non-compete year (note 2.1).

Purchases of client relationships relate to payments made to investment managers and third parties for the introduction of client relationships. Client relationships purchased in the year includes £13,774,000 (2013: £nil) relating to the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business.

Client relationships purchased through business combinations relate to the acquisition of Rooper & Whately and Jupiter Asset Management Limited's private client and charity investment management business during the year (note 36).

Purchased software with a cost of £10,660,000 (2013: £9,694,000) has been fully amortised but is still in use.

## 26 Due to customers

	2014 £'000	2013 £'000
Repayable:		
- on demand	<b>1,198,643</b>	869,019
- 3 months or less excluding on demand	<b>83,783</b>	22,606
- 1 year or less but over 3 months	-	272
	<b>1,282,426</b>	891,897
Amounts include balances with:		
- variable interest rates	<b>1,197,733</b>	868,475
- fixed interest rates	<b>72,046</b>	13,259
- non-interest-bearing	<b>12,647</b>	10,163
	<b>1,282,426</b>	891,897

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.

## 27 Accruals, deferred income, provisions and other liabilities

	2014 £'000	2013 £'000
Creditors	<b>17,858</b>	16,617
Accruals and deferred income	<b>35,772</b>	28,759
Other provisions (note 28)	<b>20,944</b>	9,906
	<b>74,574</b>	55,282

## 28 Other provisions

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred, variable consideration in business combinations £'000	Legal and compensation £'000	Property- related £'000	Total £'000
At 1 January 2013	10,167	-	216	826	11,209
Charged to profit or loss	-	-	367	177	544
Unused amount credited to profit or loss	-	-	(14)	(30)	(44)
Net charge to profit or loss	-	-	353	147	500
Other movements	7,781	-	-	-	7,781
Utilised/paid during the year	(9,498)	-	(86)	-	(9,584)
<b>At 1 January 2014</b>	<b>8,450</b>	<b>-</b>	<b>483</b>	<b>973</b>	<b>9,906</b>
Charged to profit or loss	-	-	524	109	633
Unused amount credited to profit or loss	-	-	(253)	-	(253)
Net charge to profit or loss	-	-	271	109	380
Business combinations	-	32,030	-	-	32,030
Other movements	21,073	-	-	-	21,073
Utilised/paid during the year	(10,344)	(32,000)	(101)	-	(42,445)
<b>At 31 December 2014</b>	<b>19,179</b>	<b>30</b>	<b>653</b>	<b>1,082</b>	<b>20,944</b>
Payable within 1 year	8,352	30	653	11	9,046
Payable after 1 year	10,827	-	-	1,071	11,898
	<b>19,179</b>	<b>30</b>	<b>653</b>	<b>1,082</b>	<b>20,944</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.

Deferred, variable costs to acquire client relationship intangibles at 31 December 2014 include £11,132,000 in relation to the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business on 5 June 2014 (2013: £nil). The final amount payable will be based on the value of funds under management retained by the group at 31 December 2015.

At 31 December 2013, deferred, variable costs to acquire client relationship intangibles included a final amount payable of £3,943,000 in relation to the deferred consideration for the purchase of Taylor Young Investment Management Limited's private client base. The final amount payable was calculated as £4,010,000 based on the value of transferred funds under management at 30 April 2014 and was paid on 31 October 2014.

**Deferred, variable consideration in business combinations**

Deferred contingent consideration of £30,000 (2013: £nil) is payable in February 2015 following the acquisition of Rooper & Whately (note 36).

Business combinations included a provision of £32,000,000, being the minimum consideration payable for the acquisition of Jupiter Asset Management Limited's private client and charity investment business. This provision was utilised following the completion of this acquisition on 26 September 2014 (note 36).

**Legal and compensation**

During the ordinary course of business the group may 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.

## 28 Other provisions

**Property-related**

Property-related provisions consist of £1,082,000 in relation to dilapidation provisions expected to arise on leasehold premises held by the group (2013: £973,000). Dilapidation provisions are calculated using a discounted cash flow model; during the year, the impact of discounting has increased the provisions by £109,000 (2013: £125,000).

**Ageing of provisions**

Provisions payable after one year are expected to be settled within two years of the balance sheet date (2013: two years), except for property-related provisions of £1,071,000 (2013: £973,000), which are expected to be settled within 22 years of the balance sheet date (2013: 23 years), which corresponds to the longest lease for which a dilapidations provision is being held.

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## 29 Long term employee benefits

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 this scheme during the year was £3,299,000 (2013: £2,882,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £14,000 (2013: £7,000).

The group operates two defined benefit pension schemes; 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.

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.

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 £880,000 of related insurance premiums were expensed to profit or loss in the year (2013: £828,000). 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 2013
Laurence Keen Scheme	31 December 2013

## 29 Long term employee benefits

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:

	2014 Laurence Keen Scheme %	2013 Laurence Keen Scheme %	2014 Rathbone 1987 Scheme %	2013 Rathbone 1987 Scheme %
Rate of increase of salaries	4.10	4.50	4.10	4.50
Rate of increase of pensions in payment	3.40	3.60	3.10	3.40
Rate of increase of deferred pensions	3.10	3.50	3.10	3.50
Discount rate	3.80	4.60	3.80	4.60
Inflation*	3.10	3.50	3.10	3.50

\* Inflation assumptions are based on the Retail Prices Index

Over the prior year the financial assumptions have been amended to reflect changes in market conditions. Specifically:

- (i) the discount rate has been reduced by 0.8% to reflect a decrease in the yields available on AA-rated corporate bonds at a term consistent with the average duration of the liabilities;
- (ii) the assumed rate of future inflation has been reduced by 0.4% to reflect a decrease in expectations of long term inflation as implied by changes in the fixed interest and index-linked gilts markets; and
- (iii) the assumed rates of salary growth and future increases to pensions in payment have been reduced for consistency with the change in the assumed rate of future inflation.

The assumed duration of the liabilities for the Laurence Keen Scheme is 19 years (2013: 18 years) and the assumed duration for the Rathbone 1987 Scheme is 23 years (2013: 24 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 (2013: S1NA tables). The assumed life expectations on retirement were:

	2014 Males	2014 Females	2013 Males	2013 Females
Retiring today:				
– aged 60	29.1	31.3	28.9	31.0
– aged 65	24.2	26.3	24.1	26.1
Retiring in 20 years:				
– aged 60	31.5	33.7	31.4	33.1
– aged 65	26.4	28.5	26.4	28.1

Mortality assumptions were updated during the year in line with those used in the latest full actuarial valuations of the schemes. There were no changes to the demographic assumptions over the year with the exception that mortality assumptions were updated to allow for the latest tables and projections published by the actuarial profession.

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows:

	2014 Laurence Keen Scheme £'000	2014 Rathbone 1987 Scheme £'000	2014 Total £'000	2013 Laurence Keen Scheme £'000	2013 Rathbone 1987 Scheme £'000	2013 Total £'000
Present value of defined benefit obligations	(16,770)	(163,859)	(180,629)	(14,603)	(129,765)	(144,368)
Fair value of scheme assets	16,337	150,582	166,919	16,033	129,949	145,982
<b>Net defined benefit (liability)/asset</b>	<b>(433)</b>	<b>(13,277)</b>	<b>(13,710)</b>	1,430	184	1,614



## 29 Long term employee benefits

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2014 Laurence Keen Scheme £'000	2014 Rathbone 1987 Scheme £'000	2014 Total £'000	2013 Laurence Keen Scheme £'000	2013 Rathbone 1987 Scheme £'000	2013 Total £'000
Current service cost	-	3,576	3,576	-	3,240	3,240
Interest income	(74)	(170)	(244)	(30)	(22)	(52)
	(74)	3,406	3,332	(30)	3,218	3,188

Remeasurements of the net defined benefit asset have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £1,359,000 (2013: £1,383,000 rise) for the Laurence Keen Scheme and a rise in value of £16,506,000 (2013: £14,002,000 rise) for the Rathbone 1987 Scheme.

Movements in the present value of defined benefit obligations were as follows:

	2014 Laurence Keen Scheme £'000	2014 Rathbone 1987 Scheme £'000	2014 Total £'000	2013 Laurence Keen Scheme £'000	2013 Rathbone 1987 Scheme £'000	2013 Total £'000
At 1 January	14,603	129,765	144,368	14,077	114,740	128,817
Service cost (employer's part)	-	3,576	3,576	-	3,240	3,240
Interest cost	640	5,945	6,585	626	5,152	5,778
Contributions from members	-	1,281	1,281	-	1,344	1,344
Actuarial experience gains/losses	838	7,058	7,896	-	-	-
Actuarial loss arising from:						
- demographic assumptions	100	614	714	-	-	-
- financial assumptions	1,954	17,938	19,892	228	7,139	7,367
Benefits paid	(1,365)	(2,318)	(3,683)	(328)	(1,850)	(2,178)
<b>At 31 December</b>	<b>16,770</b>	<b>163,859</b>	<b>180,629</b>	<b>14,603</b>	<b>129,765</b>	<b>144,368</b>

Movements in the fair value of scheme assets were as follows:

	2014 Laurence Keen Scheme £'000	2014 Rathbone 1987 Scheme £'000	2014 Total £'000	2013 Laurence Keen Scheme £'000	2013 Rathbone 1987 Scheme £'000	2013 Total £'000
At 1 January	16,033	129,949	145,982	14,492	112,195	126,687
Remeasurement of defined benefit asset:						
- interest income	714	6,115	6,829	656	5,174	5,830
- return on scheme assets (excluding amounts included in interest income)	645	10,391	11,036	727	8,828	9,555
Contributions from the sponsoring companies	310	5,164	5,474	486	4,258	4,744
Contributions from scheme members	-	1,281	1,281	-	1,344	1,344
Benefits paid	(1,365)	(2,318)	(3,683)	(328)	(1,850)	(2,178)
<b>At 31 December</b>	<b>16,337</b>	<b>150,582</b>	<b>166,919</b>	<b>16,033</b>	<b>129,949</b>	<b>145,982</b>

The statements of investment principles set by the trustees require that the assets of the schemes are invested in a balanced portfolio in the following asset classes and proportions:

	Laurence Keen Scheme	Rathbone 1987 Scheme
UK equities	35% - 55%	43% - 57%
Overseas equities	0% - 20%	21% - 35%
Fixed interest stocks	45% - 65%*	14% - 28%
Cash deposits	45% - 65%*	0% - 8%

\* The total allocation of assets in the Laurence Keen Scheme to fixed interest stocks and cash deposits is expressed as a combined percentage of the two asset classes in the statement of investment principles

## 29 Long term employee benefits

In the Rathbone 1987 Scheme, not more than 80% of the assets may be held in equities. A maximum of 5% of UK equities may be invested in companies outside the FTSE 350 and not more than 5% of the total portfolio can be invested in hedge funds. The trustees have initiated a programme of reducing the equity exposure of the portfolio over a 10 year period as the scheme matures by switching a proportion of the scheme's assets into fixed income and index-linked securities on the occurrence of a series of time-based and/or market-based trigger events. At 31 December 2014, £29,723,000 (2013: £28,825,000) of the scheme's assets had been switched under the programme. This approach will be reviewed in 2015.

In the Laurence Keen Scheme, not more than 55% of the assets may be held in equities. A maximum of 15% of UK equities may be invested in companies outside the FTSE 350 and not more than 15% of the assets may be held in alternative assets.

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

	2014 Fair value £'000	2013 Fair value £'000	2014 Current allocation %	2013 Current allocation %
<b>Laurence Keen Scheme</b>				
Equity instruments:				
– United Kingdom	5,501	5,105		
– Eurozone	543	772		
– North America	911	773		
– Other	863	1,097		
	<b>7,818</b>	<b>7,747</b>	<b>48</b>	<b>48</b>
Debt instruments:				
– United Kingdom government bonds	5,360	5,194		
– Overseas government bonds	523	603		
– United Kingdom corporate bonds	2,193	2,170		
	<b>8,076</b>	<b>7,967</b>	<b>50</b>	<b>50</b>
Cash	52	41	-	-
Other	391	278	2	2
<b>At 31 December</b>	<b>16,337</b>	<b>16,033</b>	<b>100</b>	<b>100</b>
<b>Rathbone 1987 Scheme</b>				
Equity instruments:				
– United Kingdom	47,805	47,403		
– Eurozone	11,626	11,229		
– North America	14,133	15,474		
– Other	9,540	7,958		
	<b>83,104</b>	<b>82,064</b>	<b>55</b>	<b>63</b>
Debt instruments:				
– United Kingdom government bonds	30,676	23,887		
– Overseas government bonds	2,003	924		
– United Kingdom corporate bonds	14,838	9,745		
– Overseas corporate bonds	990	2,860		
	<b>48,507</b>	<b>37,416</b>	<b>32</b>	<b>29</b>
Derivatives:				
– Interest rate swap funds	10,015	5,446		
	<b>10,015</b>	<b>5,446</b>	<b>7</b>	<b>4</b>
Cash	6,240	3,604	4	3
Other	2,716	1,419	2	1
<b>At 31 December</b>	<b>150,582</b>	<b>129,949</b>	<b>100</b>	<b>100</b>

At 31 December 2014 the Rathbone 1987 Scheme held 291 shares (2013: 291) with a nominal value of £10,015,000 (2013: £5,446,000) in an inflation-linked interest rate swap fund. The swaps are long-dated and their 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. All government bonds are issued by governments of the United Kingdom, the United States of America, Norway or Singapore, all of which are rated AAA or AA+, based on credit ratings awarded by Fitch or 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.

## 29 Long term employee benefits

The four key assumptions affecting the results of the valuation are the discount rate, future inflation, future salary growth and mortality. 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 is set out below.

	Combined impact on schemes' liabilities	
	(Decrease)/ increase £'000	(Decrease)/ increase %
0.5% increase in:		
– discount rate	(18,514)	(10.2)
– rate of inflation	11,856	6.6
– rate of salary growth	4,548	2.5
1 year increase to longevity at 60	5,906	3.3

The total regular contributions made by the group to the Rathbone 1987 Scheme during the year were £2,369,000 (2013: £2,508,000) based on 14.8% of pensionable salaries (2013: 14.8%). Additional lump sum contributions of £2,795,000 were paid in 2014 (2013: £1,750,000). Following the recent triennial valuations, from 1 January 2015, the group will make regular contributions of 20.3% of pensionable salaries and the group has committed to make additional contributions to the scheme of £3,750,000 in 2015 and £2,750,000 in 2016. Active members of the Rathbone 1987 Scheme are required to make annual contributions to the scheme. Currently, these contributions represent an average of 7.8% of pensionable salaries (2013: 7.7%). With effect from 31 March 2002 the Rathbone 1987 Scheme was closed to new entrants and, consequently, the current pension cost will increase as the members of the scheme approach retirement.

The total contributions made by the group to the Laurence Keen Scheme during the year were £265,000 (2013: £476,000). Additional lump sum contributions of £45,000 were paid in 2014 (2013: £10,000). Regular contributions to the Laurence Keen Scheme will stop with effect from 1 January 2015.

## 30 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
At 1 January 2013	45,954,071		2,298	62,160	64,458
Shares issued:					
– to Share Incentive Plan	131,648	1,296.0 - 1,510.0	7	1,837	1,844
– to Save As You Earn scheme	175,391	696.0 - 1,106.0	9	1,215	1,224
– on exercise of options	26,554	743.5 - 1,172.0	1	272	273
<b>At 1 January 2014</b>	<b>46,287,664</b>		<b>2,315</b>	<b>65,484</b>	<b>67,799</b>
Shares issued:					
– on placing	<b>1,343,000</b>	<b>1,814.0</b>	<b>67</b>	<b>23,511</b>	<b>23,578</b>
– to Share Incentive Plan	<b>180,507</b>	<b>1,634.0 - 1,946.0</b>	<b>9</b>	<b>3,295</b>	<b>3,304</b>
– to Save As You Earn scheme	<b>28,622</b>	<b>934.0 - 1,106.0</b>	<b>1</b>	<b>267</b>	<b>268</b>
– on exercise of options	<b>50,476</b>	<b>743.5 - 1,172.0</b>	<b>3</b>	<b>430</b>	<b>433</b>
<b>At 31 December 2014</b>	<b>47,890,269</b>		<b>2,395</b>	<b>92,987</b>	<b>95,382</b>

The total number of issued and fully paid up ordinary shares at 31 December 2014 was 47,890,269 (2013: 46,287,664) 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 1 April 2014, the company issued 1,343,000 shares by way of a placing for cash consideration at £18.14 per share (representing no discount to the prevailing market price), which raised £23,578,000, net of £784,000 placing costs, offset against share premium arising on the issue.

## 31 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 January 2013	530,847	5,844
Acquired in the year	44,191	609
Released on vesting	(81,190)	(731)
<b>At 1 January 2014</b>	<b>493,848</b>	<b>5,722</b>
Acquired in the year	<b>90,248</b>	<b>1,655</b>
Released on vesting	<b>(172,901)</b>	<b>(1,846)</b>
<b>At 31 December 2014</b>	<b>411,195</b>	<b>5,531</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 32). The number of own shares held as treasury shares by the company at 31 December 2014 was 50,000 (2013: 50,000). In addition, 76,082 shares were held in the Employee Benefit Trust at 31 December 2014 (2013: 93,904) and a further 285,113 (2013: 349,944) shares were held by the trustees of the Share Incentive Plan but were not unconditionally gifted to employees.

## 32 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 2014, the trustees of the SIP held 1,274,938 (2013: 1,336,942) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £26,085,000 (2013: £21,578,000). Of the total number of shares held by the trustees, 281,957 (2013: 344,751) have been conditionally gifted to employees and 3,156 (2013: 5,193) remain unallocated. Dividends on the unallocated shares have been waived by the trustees.

### Long Term Incentive Plan

Details of the general terms of this plan are set out in the remuneration report on page 70. The total shareholder return-based performance criteria have been treated as market-based vesting conditions.

Historically, the group has settled substantially all of the LTIP awards in cash as an alternative to shares. As a consequence of this, the group treats awards under the LTIP as cash-settled rather than equity-settled. At the year end, a liability of £3,259,000 (2013: £2,310,000) has been recognised for the estimated fair value of future awards.

At 31 December 2014, the trustees held 76,082 (2013: 93,904) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £1,557,000 (2013: £1,516,000). Dividends on these shares have been waived by the trustees.

### Executive bonus scheme

Details of the terms of the executive bonus scheme are set out in the remuneration report on page 69. Shares for plan awards will be provided by market purchase or treasury shares.

### 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. Further information on the scheme is given in the remuneration report on page 70.

Options with an aggregate estimated fair value of £749,000, determined using a binomial valuation model including expected dividends, were granted on 1 May 2014 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2014, as at the date of issue, were as follows:

	2014	2013
Share price (pence)	<b>1,953</b>	1,459
Exercise price (pence)	<b>1,556</b>	1,106
Expected volatility	<b>23%</b>	32%
Risk-free rate	<b>1.6%</b>	0.7%
Expected dividend yield	<b>2.5%</b>	3.2%

## 32 Share-based payments Savings-related share option or Save As You Earn (SAYE) plan

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 date on which they may be exercised are given below.

Year of grant	Exercise price pence	Exercise period	2014 Number of share options	2013 Number of share options
2011	934.0	2014 and 2016	19,970	47,971
2012	984.0	2015 and 2017	47,641	48,888
2013	1,106.0	2016 and 2018	176,931	182,894
2014	1,556.0	2017 and 2019	150,158	-
<b>At 31 December</b>			<b>394,700</b>	<b>279,753</b>

## Share option scheme

Under the share option scheme approved by shareholders in 2000, certain employees hold options to subscribe for shares in the company at prices ranging from 852p to 1,172p. Options are conditional on the employee completing three years' service (the vesting period) and are exercisable three years from grant date. The options have a contractual option term of seven years from the date they become exercisable. The group has no legal or constructive obligation to repurchase or settle the options in cash.

The number of share options outstanding for the share option scheme at the end of the year, the periods in which they were granted and the periods in which they may be exercised, dependent on certain earnings per share targets being met, are given below.

Year of grant	Exercise price pence	Exercise period	2014 Number of share options	2013 Number of share options
2004	743.5	2007-2014	-	12,500
2005	852.0	2008-2015	2,500	35,559
2006	1,172.0	2009-2016	560	5,477
<b>At 31 December</b>			<b>3,060</b>	<b>53,536</b>

Movements in the number of share options outstanding for both the SAYE plan and the share option scheme were as follows:

	2014 Number of share options	2014 Weighted average exercise price pence	2013 Number of share options	2013 Weighted average exercise price pence
At 1 January	333,289	1,024.0	357,224	821.0
Granted in the year	151,475	1,556.0	187,250	1,106.0
Forfeited in the year	(7,906)	1,164.0	(9,240)	1,033.0
Exercised in the year	(79,098)	886.0	(201,945)	741.0
<b>At 31 December</b>	<b>397,760</b>	<b>1,251.0</b>	<b>333,289</b>	<b>1,024.0</b>

The weighted average share price at the dates of exercise for share options exercised during the year was £18.89 (2013: £14.05). The options outstanding at 31 December 2014 had a weighted average contractual life of 2.9 years (2013: 2.9 years). Options exercisable at 31 December 2014 had a weighted average exercise price of £12.51 (2013: £10.24).

The group recognised total expenses of £5,477,000 in relation to share-based payment transactions in 2014 (2013: £4,833,000).

### 33 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 18 to 22. 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 29.

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 pensions advisory 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 Ratings Limited ('Fitch') or Moody's Corporation ('Moody's'). Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the banking committee also utilises market intelligence information to assist its ongoing monitoring.

The group's financial assets are categorised as follows:

#### Cash and balances with central banks (note 17)

The group has exposure to central banks through its deposits held with the Bank of England.

#### 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 businesses 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.

**33 Financial risk management (i) Credit risk****Loans and advances to banks (note 18) and debt and other securities (note 20)**

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, in 2014, 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.

The group's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long term rating of A by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis 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 19)**

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 pensions advisory businesses ('trust and pension 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**

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, although some loans may be partially secured by property. Extensions to the initial loan period may be granted subject to credit criteria.

The banking committee reviews all loans on a monthly basis and approves all loan extensions. Where possible, repayment plans are established with clients before loans become overdue or uncovered.

At 31 December 2014, the total lending exposure limit for the investment management loan book was £150,000,000 (2013: £120,000,000), of which £97,201,000 had been advanced (2013: £89,188,000) and a further £14,634,000 had been committed (2013: £15,941,000).

**(c) Trust and pension debtors**

Trust and pension debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and pension debtors are reviewed on a monthly basis by the management committees of the group's trust and pension advisory companies. Impairment provisions are made for any debts which are considered to be doubtful for collection.

**(d) Other debtors**

Other loans and advances to customers relate to management fees receivable. In 2013, they included a loan made to the acquirers of the group's Jersey trust operations in 2008 (note 19). Such debts do not usually arise within the course of the group's day to day operations and therefore they were not subject to formalised standard lending criteria.

**Derivative financial instruments (note 24)**

At 31 December 2014, the only derivative financial instruments held by the group were the option contracts in relation to the shares in the group's associates. These options expose the group to credit risk from the potential for non-delivery of the £2,000,000 payable by the associate companies' founders to repurchase the group's current stake in the associates.

**Impairment and provisioning policies**

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually, or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis. The assessment considers, where applicable, the value of any collateral held, any changes to the external credit rating and the anticipated receipts for each individual exposure.

Impairment provisions for credit risk, which relate solely to trust and pension debtors, are set out in note 19.



## 33 Financial risk management (i) Credit risk

## Maximum exposure to credit risk

	2014 £'000	2013 £'000
<b>Credit risk relating to on-balance sheet exposures:</b>		
Cash and balances with central banks	727,175	211,000
Settlement balances	15,890	19,611
Loans and advances to banks	144,399	106,327
Loans and advances to customers:		
– overdrafts	3,331	2,424
– investment management loan book	97,392	89,211
– trust and pension debtors	981	1,168
– other debtors	8	5,000
Debt securities:		
– unlisted debt securities and money market funds	444,974	623,490
Derivative financial instruments	1,030	1,030
Other financial assets	45,614	37,334
<b>Credit risk relating to off-balance sheet exposures:</b>		
Loan commitments	14,634	15,941
Financial guarantees	578	578
	<b>1,496,006</b>	<b>1,113,114</b>

The above table represents the group's gross credit risk exposure at 31 December 2014 and 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

16.5% of the total maximum exposure is derived from loans and advances to banks and customers (2013: 18.3%) and 29.7% represents investments in debt securities (2013: 56.0%).

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 1.22).

## Cash and balances with central banks

All cash and balances with central banks were neither past due nor impaired. The credit quality of these balances 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.

	2014 £'000	2013 £'000
AA+ to AA-	727,175	211,000
<b>Carrying value</b>	<b>727,175</b>	<b>211,000</b>

## Settlement balances

Settlement balances are summarised as follows:

	2014 £'000	2013 £'000
Neither past due nor impaired	14,549	17,928
Past due but not impaired < 90 days	1,341	1,642
Past due but not impaired > 90 days	-	41
<b>Carrying value</b>	<b>15,890</b>	<b>19,611</b>

## 33 Financial risk management (i) Credit risk

## Loans and advances

Loans and advances are summarised as follows:

	2014 Loans and advances to banks £'000	2014 Loans and advances to customers £'000	2013 Loans and advances to banks £'000	2013 Loans and advances to customers £'000
Neither past due nor impaired	144,399	101,199	106,327	92,105
Past due but not impaired	-	440	-	602
Impaired (see (c) below)	-	73	-	3,949
<b>Gross carrying value</b>	<b>144,399</b>	<b>101,712</b>	106,327	96,656
Less: allowance for impairment (note 19)	-	(72)	-	(1,113)
<b>Net carrying value</b>	<b>144,399</b>	<b>101,640</b>	106,327	95,543

No loans and advances have been renegotiated (2013: none).

## (a) Neither past due nor impaired

The credit quality of loans and advances to banks that were neither past due nor impaired at 31 December 2014 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:

	2014 £'000	2013 £'000
AA+ to AA-	63,638	33,798
A+ to A	80,761	71,690
Other*	-	839
	<b>144,399</b>	106,327

\* Cash held within the Employee Benefit Trust

The credit quality of loans and advances to customers that were neither past due nor impaired at 31 December 2014, which are all externally unrated, is analysed below between those loans that are subject to standard lending criteria, which are described on page 126, and, where applicable, those loans for which there are no standard lending criteria. All loans initially made subject to standard lending criteria remained within those criteria at 31 December 2014 (2013: all loans). An exposure is reported as past due when the contractual due date for settlement has passed and the balance has not been repaid, except in the case of trust and pension debtors, where a normal settlement period of up to 30 days is expected.

	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
<b>At 31 December 2014</b>					
Standard lending criteria	3,331	97,392	468	8	101,199
At 31 December 2013					
Standard lending criteria	2,424	89,211	468	2	92,105

## 33 Financial risk management (i) Credit risk

## (b) Past due but not impaired

Loans and advances that are past due are assessed for impairment and provided against where objective evidence of impairment exists. Trust and pension debtors may be outstanding for some time before collection, but this is not necessarily an indication that the debt will not ultimately be collected. At 31 December 2014 and 2013, no overdrafts, loans and other debtors were past due but not impaired. The gross amounts of trust and pension debtors that were past due but not impaired were:

At 31 December	2014 £'000	2013 £'000
<90 days overdue	149	159
90-180 days overdue	129	176
180-270 days overdue	71	151
270-365 days overdue	29	72
>365 days overdue	62	44
	<b>440</b>	<b>602</b>

## (c) Impaired

Allowance has been made for individually impaired loans and advances to customers, as set out below.

	Overdrafts £'000	Investment management loan book £'000	Trust and pension debtors £'000	Other debtors £'000	Total loans and advances to customers £'000
<b>Movement in impairment provision during the year</b>					
At 1 January 2014	-	-	97	1,016	1,113
Amounts written off	-	-	(1)	(451)	(452)
Credit to profit or loss	-	-	(24)	(565)	(589)
<b>At 31 December 2014</b>	-	-	<b>72</b>	-	<b>72</b>
<b>Gross carrying value of impaired loans and advances to customers</b>					
<b>At 31 December 2014</b>	-	-	<b>73</b>	-	<b>73</b>
At 31 December 2013	-	-	98	3,851	3,949

There were no other impaired credit exposures at 31 December 2014 (2013: £nil).

## Debt securities

The table below presents an analysis of debt securities by rating agency designation, as at 31 December 2014, based on Fitch or Moody's long term rating designation.

	2014 Government securities £'000	2014 Money market funds £'000	2014 Certificates of deposit £'000	2014 Total £'000	2013 Government securities £'000	2013 Money market funds £'000	2013 Certificates of deposit £'000	2013 Total £'000
AAA	-	15,000	-	15,000	-	47,652	-	47,652
AA+ to AA-	29,967	-	110,007	139,974	-	-	117,021	117,021
A+ to A	-	-	290,000	290,000	-	-	458,817	458,817
	<b>29,967</b>	<b>15,000</b>	<b>400,007</b>	<b>444,974</b>	-	47,652	575,838	623,490

## 33 Financial risk management (i) Credit risk

## Concentration of credit risk

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

## (a) Geographical sectors

The following table analyses the 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
<b>At 31 December 2014</b>				
Cash and balances with central banks	<b>727,175</b>	-	-	<b>727,175</b>
Settlement balances	<b>15,434</b>	<b>6</b>	<b>450</b>	<b>15,890</b>
Loans and advances to banks	<b>144,399</b>	-	-	<b>144,399</b>
Loans and advances to customers:				
- overdrafts	<b>3,142</b>	<b>25</b>	<b>164</b>	<b>3,331</b>
- investment management loan book	<b>92,430</b>	<b>1,179</b>	<b>3,783</b>	<b>97,392</b>
- trust and pension debtors	<b>909</b>	-	-	<b>909</b>
- other debtors	<b>8</b>	-	-	<b>8</b>
Debt securities:				
- unlisted debt securities and money market funds	<b>224,974</b>	<b>160,000</b>	<b>60,000</b>	<b>444,974</b>
Derivative financial instruments	<b>1,030</b>	-	-	<b>1,030</b>
Other financial assets	<b>44,281</b>	<b>522</b>	<b>781</b>	<b>45,584</b>
	<b>1,253,782</b>	<b>161,732</b>	<b>65,178</b>	<b>1,480,692</b>
<b>At 31 December 2013</b>				
Cash and balances with central banks	211,000	-	-	211,000
Settlement balances	18,821	140	650	19,611
Loans and advances to banks	106,327	-	-	106,327
Loans and advances to customers:				
- overdrafts	2,150	23	251	2,424
- investment management loan book	85,887	609	2,715	89,211
- trust and pension debtors	1,071	-	-	1,071
- other debtors	2	-	2,835	2,837
Debt securities:				
- unlisted debt securities and money market funds	229,172	279,318	115,000	623,490
Derivative financial instruments	1,030	-	-	1,030
Other financial assets	35,690	743	880	37,313
	691,150	280,833	122,331	1,094,314

At 31 December 2014, materially all eurozone exposures were to counterparties based in the Netherlands, France and Germany (2013: Netherlands, France and Germany) and all Rest of the World exposures were to counterparties based in Switzerland (2013: Sweden and Switzerland). At 31 December 2014, the group had exposure to sovereign debt through its holding of UK treasury bills (2013: no exposure).

## 33 Financial risk management (i) Credit risk

## (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:

	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
<b>At 31 December 2014</b>				
Cash and balances with central banks	727,175	-	-	727,175
Settlement balances	-	15,890	-	15,890
Loans and advances to banks	-	144,399	-	144,399
Loans and advances to customers:				
- overdrafts	-	-	3,331	3,331
- investment management loan book	-	-	97,392	97,392
- trust and pension debtors	-	-	909	909
- other debtors	-	-	8	8
Debt securities:				
- unlisted debt securities and money market funds	29,967	415,007	-	444,974
Derivative financial instruments	-	-	1,030	1,030
Other financial assets	277	2,680	42,627	45,584
	<b>757,419</b>	<b>577,976</b>	<b>145,297</b>	<b>1,480,692</b>
<b>At 31 December 2013</b>				
Cash and balances with central banks	211,000	-	-	211,000
Settlement balances	-	19,611	-	19,611
Loans and advances to banks	-	106,327	-	106,327
Loans and advances to customers:				
- overdrafts	-	-	2,424	2,424
- investment management loan book	-	-	89,211	89,211
- trust and pension debtors	-	-	1,071	1,071
- other debtors	-	-	2,837	2,837
Debt securities:				
- unlisted debt securities and money market funds	-	623,490	-	623,490
Derivative financial instruments	-	-	1,030	1,030
Other financial assets	88	2,633	34,592	37,313
	211,088	752,061	131,165	1,094,314

## (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 that 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.

The group does not rely on external funding to finance its activities.

## 33 Financial risk management (ii) Liquidity risk

## 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 2014</b>							
Cash and balances with central banks	727,003	269	175	-	-	-	727,447
Settlement balances	-	15,890	-	-	-	-	15,890
Loans and advances to banks	93,638	40,237	10,547	282	-	-	144,704
Loans and advances to customers	3,530	27,604	70,160	1,962	-	-	103,256
Debt securities and money market funds	15,004	125,550	307,500	-	-	-	448,054
Other financial assets	155	42,857	347	254	6	-	43,619
<b>Cash flows arising from financial assets</b>	<b>839,330</b>	<b>252,407</b>	<b>388,729</b>	<b>2,498</b>	<b>6</b>	<b>-</b>	<b>1,482,970</b>
Settlement balances	-	22,584	-	-	-	-	22,584
Due to customers	1,198,643	83,803	-	-	-	-	1,282,446
Other financial liabilities	384	30,885	7,007	27,402	2,086	-	67,764
<b>Cash flows arising from financial liabilities</b>	<b>1,199,027</b>	<b>137,272</b>	<b>7,007</b>	<b>27,402</b>	<b>2,086</b>	<b>-</b>	<b>1,372,794</b>
<b>Net liquidity gap</b>	<b>(359,697)</b>	<b>115,135</b>	<b>381,722</b>	<b>(24,904)</b>	<b>(2,080)</b>	<b>-</b>	<b>110,176</b>
<b>Cumulative net liquidity gap</b>	<b>(359,697)</b>	<b>(244,562)</b>	<b>137,160</b>	<b>112,256</b>	<b>110,176</b>	<b>110,176</b>	
<b>At 31 December 2013</b>							
Cash and balances with central banks	211,005	88	-	-	-	-	211,093
Settlement balances	-	19,611	-	-	-	-	19,611
Loans and advances to banks	61,173	25,231	20,476	-	-	-	106,880
Loans and advances to customers	2,451	28,381	62,963	434	-	5,255	99,484
Debt securities and money market funds	47,668	230,146	349,025	-	-	-	626,839
Other financial assets	122	34,408	320	219	6	-	35,075
<b>Cash flows arising from financial assets</b>	<b>322,419</b>	<b>337,865</b>	<b>432,784</b>	<b>653</b>	<b>6</b>	<b>5,255</b>	<b>1,098,982</b>
Settlement balances	-	27,626	-	-	-	-	27,626
Due to customers	869,019	22,615	272	-	-	-	891,906
Other financial liabilities	504	20,947	5,786	18,326	2,008	-	47,571
<b>Cash flows arising from financial liabilities</b>	<b>869,523</b>	<b>71,188</b>	<b>6,058</b>	<b>18,326</b>	<b>2,008</b>	<b>-</b>	<b>967,103</b>
<b>Net liquidity gap</b>	<b>(547,104)</b>	<b>266,677</b>	<b>426,726</b>	<b>(17,673)</b>	<b>(2,002)</b>	<b>5,255</b>	<b>131,879</b>
<b>Cumulative net liquidity gap</b>	<b>(547,104)</b>	<b>(280,427)</b>	<b>146,299</b>	<b>128,626</b>	<b>126,624</b>	<b>131,879</b>	

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 £514,000 of equity investments (2013: £6,333,000) which are subject to liquidity risk but are not included in the table above. These assets are held as available for sale securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

## Derivative cash flows

The group's exposure to derivative financial instruments is limited to option contracts over the equity instruments of its associates. These contracts do not create an obligation for the group to deliver cash or a financial asset and therefore they are not included in the liquidity tables (note 24).

## 33 Financial risk management (ii) Liquidity risk

## Off-balance sheet items

Cash flows arising from the group's off-balance sheet financial liabilities (note 35) 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
<b>At 31 December 2014</b>					
Loan commitments	14,634	-	-	-	14,634
Financial guarantees	-	-	578	-	578
Operating lease commitments	1,428	4,354	22,283	19,951	48,016
Capital commitments	122	-	-	-	122
<b>Total off-balance sheet items</b>	<b>16,184</b>	<b>4,354</b>	<b>22,861</b>	<b>19,951</b>	<b>63,350</b>
<b>At 31 December 2013</b>					
Loan commitments	15,941	-	-	-	15,941
Financial guarantees	-	-	578	-	578
Operating lease commitments	1,428	4,411	22,336	25,568	53,743
Capital commitments	159	-	-	-	159
<b>Total off-balance sheet items</b>	<b>17,528</b>	<b>4,411</b>	<b>22,914</b>	<b>25,568</b>	<b>70,421</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
<b>At 31 December 2014</b>						
Cash flows arising from financial liabilities	1,199,027	137,272	7,007	27,402	2,086	1,372,794
Total off-balance sheet items	-	16,184	4,354	22,861	19,951	63,350
<b>Total liquidity requirement</b>	<b>1,199,027</b>	<b>153,456</b>	<b>11,361</b>	<b>50,263</b>	<b>22,037</b>	<b>1,436,144</b>
<b>At 31 December 2013</b>						
Cash flows arising from financial liabilities	869,523	71,188	6,058	18,326	2,008	967,103
Total off-balance sheet items	-	17,528	4,411	22,914	25,568	70,421
<b>Total liquidity requirement</b>	<b>869,523</b>	<b>88,716</b>	<b>10,469</b>	<b>41,240</b>	<b>27,576</b>	<b>1,037,524</b>

## (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 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.

## 33 Financial risk management (iii) Market risk

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.

	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	Non-interest-bearing £'000	Total £'000
<b>At 31 December 2014</b>						
<b>Assets</b>						
Cash and balances with central banks	727,000	-	-	-	178	727,178
Settlement balances	-	-	-	-	15,890	15,890
Loans and advances to banks	134,280	10,000	-	-	119	144,399
Loans and advances to customers	100,712	-	-	-	928	101,640
Investment securities:						
- equity securities	-	-	-	-	514	514
- unlisted debt securities and money market funds	139,967	140,007	165,000	-	-	444,974
Derivative financial instruments	-	-	-	-	1,030	1,030
Other financial assets	-	-	-	-	45,584	45,584
<b>Total financial assets</b>	<b>1,101,959</b>	<b>150,007</b>	<b>165,000</b>	<b>-</b>	<b>64,243</b>	<b>1,481,209</b>
<b>Liabilities</b>						
Settlement balances	-	-	-	-	22,584	22,584
Due to customers	1,269,779	-	-	-	12,647	1,282,426
Other financial liabilities	-	-	-	-	56,340	56,340
<b>Total financial liabilities</b>	<b>1,269,779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,571</b>	<b>1,361,350</b>
<b>Interest rate repricing gap</b>	<b>(167,820)</b>	<b>150,007</b>	<b>165,000</b>	<b>-</b>	<b>(27,328)</b>	<b>119,859</b>
<b>At 31 December 2013</b>						
	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	Non-interest-bearing £'000	Total £'000
<b>Assets</b>						
Cash and balances with central banks	211,000	-	-	-	5	211,005
Settlement balances	-	-	-	-	19,611	19,611
Loans and advances to banks	86,087	20,000	-	-	240	106,327
Loans and advances to customers	94,428	-	-	-	1,115	95,543
Investment securities:						
- equity securities	-	-	-	-	6,333	6,333
- unlisted debt securities and money market funds	276,660	155,000	191,830	-	-	623,490
Derivative financial instruments	-	-	-	-	1,030	1,030
Other financial assets	-	-	-	-	37,313	37,313
<b>Total financial assets</b>	<b>668,175</b>	<b>175,000</b>	<b>191,830</b>	<b>-</b>	<b>65,647</b>	<b>1,100,652</b>
<b>Liabilities</b>						
Settlement balances	-	-	-	-	27,626	27,626
Due to customers	881,463	271	-	-	10,163	891,897
Other financial liabilities	-	-	-	-	38,893	38,893
<b>Total financial liabilities</b>	<b>881,463</b>	<b>271</b>	<b>-</b>	<b>-</b>	<b>76,682</b>	<b>958,416</b>
<b>Interest rate repricing gap</b>	<b>(213,288)</b>	<b>174,729</b>	<b>191,830</b>	<b>-</b>	<b>(11,035)</b>	<b>142,236</b>

The banking committee has set an overall pre-tax interest rate exposure limit of £6,000,000 (2013: £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 2014, an immediate 2% increase in interest rates (across the yield curve) would increase annual interest income by £2,909,000 (2013: £3,398,000). The group held no forward rate agreements at 31 December 2014 (2013: none).



## 33 Financial risk management (iii) Market risk

## 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 2014. Included in the table are the group's financial assets and liabilities, at carrying amounts, categorised by currency.

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
<b>At 31 December 2014</b>					
<b>Assets</b>					
Cash and balances with central banks	727,178	-	-	-	727,178
Settlement balances	15,017	797	46	30	15,890
Loans and advances to banks	79,835	49,753	11,561	3,250	144,399
Loans and advances to customers	100,489	990	161	-	101,640
Investment securities:					
- equity securities	514	-	-	-	514
- unlisted debt securities and money market funds	444,974	-	-	-	444,974
Derivative financial instruments	1,030	-	-	-	1,030
Other financial assets	45,403	181	-	-	45,584
<b>Total financial assets</b>	<b>1,414,440</b>	<b>51,721</b>	<b>11,768</b>	<b>3,280</b>	<b>1,481,209</b>
<b>Liabilities</b>					
Settlement balances	19,954	2,497	27	106	22,584
Due to customers	1,219,645	48,131	11,588	3,062	1,282,426
Other financial liabilities	56,241	15	-	84	56,340
<b>Total financial liabilities</b>	<b>1,295,840</b>	<b>50,643</b>	<b>11,615</b>	<b>3,252</b>	<b>1,361,350</b>
<b>Net on-balance sheet position</b>	<b>118,600</b>	<b>1,078</b>	<b>153</b>	<b>28</b>	<b>119,859</b>
<b>Loan commitments</b>	<b>14,634</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,634</b>
<b>At 31 December 2013</b>					
<b>Assets</b>					
Cash and balances with central banks	211,005	-	-	-	211,005
Settlement balances	18,342	1,075	7	187	19,611
Loans and advances to banks	74,247	21,492	4,580	6,008	106,327
Loans and advances to customers	94,042	936	565	-	95,543
Investment securities:					
- equity securities	5,647	-	686	-	6,333
- unlisted debt securities and money market funds	623,490	-	-	-	623,490
Derivative financial instruments	1,030	-	-	-	1,030
Other financial assets	37,141	172	-	-	37,313
<b>Total financial assets</b>	<b>1,064,944</b>	<b>23,675</b>	<b>5,838</b>	<b>6,195</b>	<b>1,100,652</b>
<b>Liabilities</b>					
Settlement balances	26,428	971	-	227	27,626
Due to customers	858,948	22,110	4,985	5,854	891,897
Other financial liabilities	38,870	23	-	-	38,893
<b>Total financial liabilities</b>	<b>924,246</b>	<b>23,104</b>	<b>4,985</b>	<b>6,081</b>	<b>958,416</b>
<b>Net on-balance sheet position</b>	<b>140,698</b>	<b>571</b>	<b>853</b>	<b>114</b>	<b>142,236</b>
<b>Loan commitments</b>	<b>15,941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,941</b>

A 10% weakening of the US dollar against sterling, occurring on 31 December 2014, would have reduced equity and profit after tax by £85,000 (2013: reduced by £44,000). A 10% weakening of the euro against sterling, occurring on 31 December 2014, would have reduced equity and profit after tax by £12,000 (2013: reduced by £65,000). 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.

## 33 Financial risk management (iii) Market risk

## 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 20).

At 31 December 2014, the fair value of equity securities recognised on the balance sheet was £514,000 (2013: £6,333,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £31,000 (2013: £617,000); 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 fair values of the group's financial assets and liabilities are not materially different from their carrying values, with the exception of held to maturity investment debt securities (note 20). Debt securities comprise bank and building society certificates of deposit, which have fixed coupons and, in 2014, treasury bills. The fair value of debt securities at 31 December 2014 was £431,496,000 (2013: £577,602,000). Fair value for held to maturity assets is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy (see below).

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 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
– equity securities	514	–	–	514
– money market funds	–	15,000	–	15,000
Derivative financial instruments	–	–	1,030	1,030
	<b>514</b>	<b>15,000</b>	<b>1,030</b>	<b>16,544</b>
At 31 December 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
– equity securities	5,642	–	691	6,333
– money market funds	–	47,652	–	47,652
Derivative financial instruments	–	–	1,030	1,030
	5,642	47,652	1,721	55,015

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 (2013: 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.

## 33 Financial risk management Fair values

## Level 3 financial instruments

## Derivative financial instruments

The fair value of the option contracts is calculated using a probability weighted expected return model, based on potential valuation outcomes under a range of business growth forecast scenarios. The key assumptions underlying the forecast growth in profitability of the associates in the model are the growth of funds under management, revenue margins and the discount rate used to calculate the present value of the cash flows. The key assumptions are flexed in each scenario to generate a potential valuation for the options. The probability of each scenario occurring is estimated, based on the group's judgement in light of the economic conditions prevailing at the time. The fair value of the options is calculated as the weighted average of the valuations derived under each scenario, taking account of the associated probabilities of occurrence.

Changing one or more of the key assumptions to reasonably possible alternatives would have the following effects on the fair value of the contracts. These effects have been calculated by running the valuation model using the alternative estimates of the key assumptions. Any inter-relationship between the assumptions is not considered to have a significant impact within the range of reasonably possible alternative assumptions.

	Impact on fair value of:	
	Increase in the assumption £'000	Decrease in the assumption £'000
10% change in the fees and commissions charged to Vision clients	266	(214)
5 percentage point change in commissions payable	(347)	605
10% change in the rate of growth in funds under management	270	(218)
5 percentage point shift in probability of occurrence between two highest growth scenarios	456	(456)
1 percentage point change to the discount rate	(180)	228

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2014 Available for sale equity securities £'000	2014 Derivative financial instruments £'000	2014 Total £'000	2013 Available for sale equity securities £'000	2013 Derivative financial instruments £'000	2013 Total £'000
At 1 January	691	1,030	1,721	614	784	1,398
Total unrealised gains and losses recognised in:						
– profit or loss	-	-	-	-	246	246
– other comprehensive income	245	-	245	77	-	77
Disposals	(936)	-	(936)	-	-	-
<b>At 31 December</b>	<b>-</b>	<b>1,030</b>	<b>1,030</b>	<b>691</b>	<b>1,030</b>	<b>1,721</b>

Gains relating to the derivative financial instruments are included within 'other operating income' and gains relating to the available for sale equity securities are included within 'revaluation of available for sale investment securities' in other 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.

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## 34 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as total equity. As at 31 December 2014 this totalled £270,732,000 (2013: £251,000,000). From time to time, the group runs small overnight overdraft balances as part of working capital. The group has no other external borrowings at 31 December 2014 (2013: £nil).

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 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.

Rathbone 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 2014 the group's regulatory capital resources, including retained earnings for 2014, were £112,244,000 (2013: £142,309,000). The increase in reserves during 2014 was offset by a large increase in intangible assets following the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business and the acquisition of Jupiter Asset Management Limited's private client and charity investment management business (note 25).

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 2013 and 2014.

## 35 Contingent liabilities and commitments

- (a) Capital expenditure authorised and contracted for at 31 December 2014 but not provided in the financial statements amounted to £122,000 (2013: £159,000).
- (b) The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	2014 £'000	2013 £'000
Guarantees	578	578
Undrawn commitments to lend of 1 year or less	14,634	15,941
	<b>15,212</b>	16,519

The fair value of the guarantees is £nil (2013: £nil).

- (c) The group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The company's agreement to lease space at 1 Curzon Street, London, under which total payments over the lease term at 31 December 2014 were £28,034,000, provides for an upward only reset to market rents in 2018.

	2014 £'000	2013 £'000
<b>Payments under non-cancellable operating leases</b>		
No later than 1 year	5,782	5,839
Later than 1 year and no later than 5 years	22,283	22,336
Later than 5 years	19,951	25,568
	<b>48,016</b>	53,743

- (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.

Levies of £1,491,000 have been included within administrative expenses in 2014 (2013: £786,000). It is only possible for the group to estimate its share of these losses until invoices are received. In addition to the FSCS levies accrued in the year further levy charges may be incurred in future years, although the ultimate cost remains uncertain.

## 36 Business combinations

### Jupiter Asset Management Limited's private client and charity investment management business

On 1 April 2014, the group announced that it had agreed to purchase Jupiter Asset Management Limited's private client and charity investment management business. The acquisition completed on 26 September 2014 and cash consideration totalling £39.6 million was paid; no deferred consideration is payable. At 31 December 2014, the acquisition had added £2.0 billion to the group's funds under management.

The acquired business' net assets at the acquisition date were as follows:

31 December 2014	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Intangible assets	-	28,794	28,794
Goodwill	-	10,766	10,766
<b>Total net assets acquired</b>	-	<b>39,560</b>	<b>39,560</b>
Satisfied by:			
Cash consideration			39,560
<b>Total consideration</b>			<b>39,560</b>

Included within the consolidated statement of comprehensive income for the year ended 31 December 2014 is operating income of £2,578,000 and a profit before tax of £1,782,000 relating to the acquired business.

Goodwill of £10,766,000 arises as a result of expected synergies once the business is fully integrated into the group and future growth of the group's business as a result of this acquisition. Any impairment of goodwill in future periods is expected to be deductible for tax purposes.

Acquisition-related costs totalling £670,000 for legal and professional advice have been recognised in transaction costs (note 12) in the year in relation to this transaction (2013: £nil).

### Rooper & Whately

On 1 May 2014, the group acquired the trade and assets of Rooper & Whately, a partnership that provides legal services, to add depth to the range of its advisory services. Total cash consideration of £569,000 was paid in two tranches in May 2014. Deferred, contingent consideration of £30,000 is also payable in February 2015.

The acquired business' net assets at the acquisition date were as follows:

31 December 2014	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Loans and advances to customers	41	-	41
Prepayments, accrued income and other assets	223	-	223
Intangible assets	-	303	303
Goodwill	-	227	227
Accruals, deferred income and other liabilities	(195)	-	(195)
<b>Total net assets acquired</b>	<b>69</b>	<b>530</b>	<b>599</b>
Satisfied by:			
Cash consideration			569
Deferred contingent consideration			30
<b>Total consideration</b>			<b>599</b>

## 36 Business combinations Rooper &amp; Whately

Included within the consolidated statement of comprehensive income for the year ended 31 December 2014 is operating income of £407,000 and a loss before tax of £42,000 relating to the acquired business.

The fair value of acquired loans and advances to customers and prepayments, accrued income and other assets is equal to the contractual amounts receivable, all of which are expected to be collected.

Goodwill of £227,000 arises as a result of expected synergies once the business is fully integrated into the group and future growth of the group's business as a result of this acquisition. Any impairment of goodwill in future periods is expected to be deductible for tax purposes.

Acquisition-related costs totalling £20,000 for legal and professional advice have been recognised in transaction costs (note 12) in the year in relation to this transaction (2013: £nil).

If the group had made both acquisitions on 1 January 2014, the group operating income and profit before tax would have been £217,254,000 and £51,016,000 respectively.

## 37 Related party transactions

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management responsible for planning, directing and controlling the activities of the group, is set out below.

Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on page 68.

	2014 £'000	2013 £'000
Short term employee benefits	8,089	6,063
Post-employment benefits	132	640
Other long term benefits	948	546
Share-based payments	1,582	2,867
	<b>10,751</b>	<b>10,116</b>

Dividends totalling £93,000 were paid in the year (2013: £84,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2014, the group had no outstanding interest-free season ticket loans (2013: none) issued to key management personnel.

At 31 December 2014, key management personnel and their close family members had gross outstanding deposits of £838,000 (2013: £436,000) and gross outstanding banking loans of £3,859,000 (2013: £6,488,000), all of which (2013: 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.

The group's transactions with the pension funds are described in note 29. At 31 December 2014, £55,000 was payable to the Laurence Keen Scheme (2013: £nil) and £55,000 was due from the Rathbone 1987 Scheme (2013: £nil).

The group managed 21 unit trusts and OEICs during 2014 (2013: 22 unit trusts and OEICs). Total management charges of £23,061,000 (2013: £19,169,000) were earned during the year, calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group. Management fees owed to the group as at 31 December 2014 totalled £2,076,000 (2013: £1,785,000).

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.

## 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:

	2014 £'000	2013 £'000
Cash and balances at central banks (note 17)	<b>727,178</b>	211,005
Loans and advances to banks (note 18)	<b>93,638</b>	61,171
Available for sale investment securities (note 20)	<b>15,000</b>	47,652
<b>At 31 December</b>	<b>835,816</b>	319,828

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

Cash flows arising from issuing ordinary shares comprise:

	2014 £'000	2013 £'000
Share capital issued (note 30)	<b>80</b>	17
Share premium on shares issued (note 30)	<b>27,503</b>	3,324
Shares issued in relation to share-based schemes for which no cash consideration was received	<b>(1,655)</b>	(609)
	<b>25,928</b>	2,732

## 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.



# Company financial statements

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# Company statement of changes in equity

for the year ended 31 December 2014

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2013		2,298	62,160	2,948	(5,844)	35,345	96,907
Profit for the year						25,938	25,938
Net remeasurement of defined benefit asset	51					2,188	2,188
Revaluation of available for sale investment securities:							
– net gain from changes in fair value	20			2,072			2,072
– net profit on disposal transferred to profit or loss during the year				(5)			(5)
Deferred tax relating to components of other comprehensive income	48			(298)		(788)	(1,086)
Other comprehensive income net of tax		-	-	1,769	-	1,400	3,169
Dividends paid	43					(22,096)	(22,096)
Issue of share capital	52	17	3,324				3,341
Share-based payments:							
– value of employee services						2,918	2,918
– cost of own shares acquired	52				(609)		(609)
– cost of own shares vesting	52				731	(731)	-
– tax on share-based payments	48					33	33
<b>At 1 January 2014</b>		<b>2,315</b>	<b>65,484</b>	<b>4,717</b>	<b>(5,722)</b>	<b>42,807</b>	<b>109,601</b>
Profit for the year						<b>38,826</b>	<b>38,826</b>
Net remeasurement of defined benefit liability	51					(17,466)	(17,466)
Revaluation of available for sale investment securities:							
– net gain from changes in fair value	20			959			959
– net profit on disposal transferred to profit or loss during the year				(6,820)			(6,820)
Deferred tax relating to components of other comprehensive income	48			1,172		3,493	4,665
Other comprehensive income net of tax		-	-	(4,689)	-	(13,973)	(18,662)
Dividends paid	43					(23,793)	(23,793)
Issue of share capital	52	80	27,503				27,583
Share-based payments:							
– value of employee services						374	374
– cost of own shares acquired	52				(1,655)		(1,655)
– cost of own shares vesting	52				1,846	(1,846)	-
– tax on share-based payments	48					248	248
<b>At 31 December 2014</b>		<b>2,395</b>	<b>92,987</b>	<b>28</b>	<b>(5,531)</b>	<b>42,643</b>	<b>132,522</b>

The accompanying notes form an integral part of the company financial statements.

# Company balance sheet

as at 31 December 2014

	Note	2014 £'000	2013 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	44	<b>120,483</b>	77,608
Investment in associates	45	<b>1,216</b>	1,216
Other investments	46	<b>10,514</b>	41,333
Trade and other receivables	47	-	3,865
Deferred tax	48	<b>4,818</b>	313
Employee benefits	51	-	1,614
		<b>137,031</b>	125,949
<b>Current assets</b>			
Trade and other receivables	47	<b>58,145</b>	24,567
Current tax asset		<b>1,196</b>	46
Cash and cash equivalents		<b>5,732</b>	5,233
		<b>65,073</b>	29,846
<b>Total assets</b>		<b>202,104</b>	155,795
<b>Current liabilities</b>			
Trade and other payables	49	<b>(46,878)</b>	(40,840)
Provisions for liabilities and charges	50	<b>(8,994)</b>	(5,354)
		<b>(55,872)</b>	(46,194)
<b>Net current assets</b>		<b>9,201</b>	(16,348)
<b>Non-current liabilities</b>			
Employee benefits	51	<b>(13,710)</b>	-
<b>Total liabilities</b>		<b>(69,582)</b>	(46,194)
<b>Net assets</b>		<b>132,522</b>	109,601
<b>Equity</b>			
Share capital	52	<b>2,395</b>	2,315
Share premium	52	<b>92,987</b>	65,484
Available for sale reserve		<b>28</b>	4,717
Own shares	52	<b>(5,531)</b>	(5,722)
Retained earnings		<b>42,643</b>	42,807
<b>Equity shareholders' funds</b>		<b>132,522</b>	109,601

The financial statements were approved by the board of directors and authorised for issue on 18 February 2015 and were signed on its behalf by:

P L Howell  
Chief Executive

R P 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 2014

	Note	2014 £'000	2013 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		<b>37,618</b>	25,042
Net profit on disposal of available for sale investment securities		<b>(6,820)</b>	(5)
Interest and dividends received		<b>(44,165)</b>	(27,977)
Net (recoveries)/impairment charges on impaired loan notes	47	<b>(565)</b>	256
Net charge for provisions	50	<b>102</b>	158
Defined benefit pension scheme charges	51	<b>3,332</b>	3,188
Defined benefit pension scheme contributions paid	51	<b>(5,474)</b>	(4,744)
Share-based payment charges	52	<b>5,477</b>	4,833
		<b>(10,495)</b>	751
Changes in operating assets and liabilities:			
– net decrease/(increase) in trade debtors		<b>3,400</b>	(270)
– net (increase)/decrease in prepayments, accrued income and other assets		<b>(33,150)</b>	45,674
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		<b>4,471</b>	(1,423)
<b>Cash (used in)/generated from operations</b>		<b>(35,774)</b>	44,732
Tax received		<b>470</b>	914
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(35,304)</b>	45,646
<b>Cash flows from investing activities</b>			
Interest received		<b>171</b>	808
Inter-company dividends received		<b>43,899</b>	27,000
Other dividends received		<b>104</b>	157
Liquidation of subsidiary, net of cash transferred	44	<b>250</b>	-
Investment in subsidiaries	44	<b>(43,125)</b>	(30,000)
Capitalisation of subordinated loans to group undertakings	44	<b>-</b>	15,000
Purchase of other investments		<b>(10,037)</b>	(35,100)
Proceeds from sale of investments		<b>41,863</b>	37
<b>Net cash generated from/(used in) investing activities</b>		<b>33,125</b>	(22,098)
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	52	<b>25,928</b>	2,732
Dividends paid	43	<b>(23,793)</b>	(22,096)
<b>Net cash generated from/(used in) financing activities</b>		<b>2,135</b>	(19,364)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(44)</b>	4,184
Cash and cash equivalents at the beginning of the year		<b>5,070</b>	886
<b>Cash and cash equivalents at the end of the year</b>	57	<b>5,026</b>	5,070

The accompanying notes form an integral part of the company financial statements.

# Notes to the company financial statements

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## 40 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 IAS27 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

Developments in reporting standards and interpretations are set out in note 1.1 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 and associates

Investments in subsidiaries and associates 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 financial statements.

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## 41 Critical accounting judgements and key sources of estimation and uncertainty

The critical accounting judgement and key source of estimation and uncertainty arise from the company's defined benefit pension schemes. This is described in note 2 to the financial statements.

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## 42 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 2014 of £38,826,000 (2013: £25,938,000).

Auditor's remuneration for audit and other services to the company are set out in note 10 to the financial statements.

## 42 Profit for the year

The average number of employees, on a full time equivalent basis, during the year was as follows:

	2014	2013
Investment Management:		
– investment management services	531	493
– advisory services	73	70
Unit Trusts	32	30
Shared services	232	227
	<b>868</b>	<b>820</b>

## 43 Dividends

Details of the company's dividends paid and proposed for approval at the AGM are set out in note 15 to the financial statements.

## 44 Investment in subsidiaries

	Equities £'000	Subordinated loans to group undertakings £'000	Total £'000
At 1 January 2013	45,858	16,750	62,608
Additions	15,000	-	15,000
Capitalisation of subordinated loan	15,000	(15,000)	-
<b>At 1 January 2014</b>	<b>75,858</b>	<b>1,750</b>	<b>77,608</b>
Additions	43,125	-	43,125
Disposals	(250)	-	(250)
<b>At 31 December 2014</b>	<b>118,733</b>	<b>1,750</b>	<b>120,483</b>

On 25 September 2014, 575,000 ordinary shares of £1 each in Rathbone Investment Management were issued to the company at a price of £75 per share for cash consideration.

On 4 December 2014, the company redeemed the 250,000 redeemable cell shares held in Harlequin Insurance PCC Limited.

## Equities

At 31 December 2014, the principal subsidiary undertakings, whose results principally affected the figures shown in these consolidated financial statements, were as follows:

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management Limited	England & Wales	Investment management and banking services
Rathbone Investment Management International Limited*	Jersey	Investment management
Rathbone Trust Company Limited	England & Wales	Trust and tax services
Rathbone Unit Trust Management Limited*	England & Wales	Unit trust management
Rathbone Pension & Advisory Services Limited	England & Wales	Pension advisory services

\* Held by subsidiary undertaking

The company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiaries. A full list of the company's subsidiaries will be included in the company's annual return to Companies House.

## 44 Investment in subsidiaries

**Subordinated loans to group undertakings**

The amounts subject to subordinated loan agreements are shown below.

Counterparty	Repayment date	2014 £'000	2013 £'000
Rathbone Pension & Advisory Services Limited	Not less than 2 years written notice or subject to regulatory approval	250	250
Rathbone Investment Management International Limited	Not less than 2 years written notice but subject to approval by the Jersey Financial Services Commission	1,500	1,500
		<b>1,750</b>	1,750

The fair value of the subordinated loans is not materially different from their carrying amount.

All subordinated loans accrue interest at the Bank of England base rate plus 2.5% to a maximum of 5.0%.

The company has not had any defaults of principal, interest or other breaches with respect to its subordinated loans during the year.

Rathbone Pension & Advisory Services Limited (RPAS) has made an application to the FCA to repay the subordinated loan in the first half of 2015, on satisfactory transfer of the continuing RPAS business to a fellow group company.

## 45 Investment in associates and related derivatives

The company owns 19.9% of the ordinary share capital of Vision Independent Financial Planning Limited and Castle Investment Solutions Limited.

The movements in the company's investment in associates are as follows:

	2014 £'000	2013 £'000
<b>At 1 January and 31 December</b>	<b>1,216</b>	1,216

As part of the transaction to acquire these holdings, the company also entered into certain option contracts over the equity instruments of these companies, as described in note 24. The options are carried at fair value of £1,030,000 at 31 December 2014 (2013: £1,030,000) (note 47).

## 46 Other investments

**Available for sale securities**

	2014 £'000	2013 £'000
Equity securities - at fair value:		
- listed	514	5,642
- unlisted	-	691
Money market funds - at fair value:		
- unlisted	10,000	35,000
	<b>10,514</b>	41,333

## 47 Trade and other receivables

	2014 £'000	2013 £'000
Loan notes	-	2,835
Derivative financial instruments (note 45)	1,030	1,030
Prepayments and other receivables	3,715	3,533
Amounts owed by group undertakings	53,400	21,034
	<b>58,145</b>	28,432
Current	58,145	24,567
Non-current	-	3,865
	<b>58,145</b>	28,432

Loan notes ('Notes') with a nominal value of £5,000,000 that were issued by the acquirer of the group's Jersey Trust operations in 2008 and were carried at amortised cost less provision for impairment, were settled on 28 February 2014 for £3,400,000 in cash. As a result, impairment losses of £565,000 have been reversed in the year and the corresponding gain has been included in other operating income within profit or loss for the year.

**Allowance for losses on loan notes**

	2014 £'000	2013 £'000
At 1 January	1,016	760
Amounts written off	(451)	-
(Credit)/charge to profit or loss	(565)	256
<b>At 31 December</b>	-	1,016



## 48 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20.0% (2013: 20.0%).

The UK Government has proposed that the UK corporation tax rate be reduced to 20.0% over the next year. At 31 December 2014 this reduction had been substantively enacted in full. Consequently, deferred tax assets and liabilities are calculated at 20.0%.

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
<b>As at 1 January 2014</b>	<b>(325)</b>	<b>1,731</b>	<b>85</b>	<b>(1,178)</b>	<b>313</b>
Recognised in profit or loss in respect of:					
- current year	(460)	65	(50)	-	(445)
- prior year	-	-	4	-	4
- change in rate	32	(2)	3	-	33
<b>Total</b>	<b>(428)</b>	<b>63</b>	<b>(43)</b>	<b>-</b>	<b>(408)</b>
Recognised in other comprehensive income in respect of:					
- current year	3,754	-	-	1,260	5,014
- change in rate	(261)	-	-	(88)	(349)
<b>Total</b>	<b>3,493</b>	<b>-</b>	<b>-</b>	<b>1,172</b>	<b>4,665</b>
Recognised in equity in respect of:					
- current year	-	260	(13)	-	247
- change in rate	-	-	1	-	1
<b>Total</b>	<b>-</b>	<b>260</b>	<b>(12)</b>	<b>-</b>	<b>248</b>
<b>As at 31 December 2014</b>	<b>2,740</b>	<b>2,054</b>	<b>30</b>	<b>(6)</b>	<b>4,818</b>
	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	2,740	2,054	30	-	4,824
Deferred tax liabilities	-	-	-	(6)	(6)
<b>As at 31 December 2014</b>	<b>2,740</b>	<b>2,054</b>	<b>30</b>	<b>(6)</b>	<b>4,818</b>

## 48 Deferred tax

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
As at 1 January 2013	489	1,520	-	(880)	1,129
Recognised in profit or loss in respect of:					
- current year	(362)	384	40	-	62
- prior year	-	2	44	-	46
- change in rate	336	(196)	(11)	-	129
<b>Total</b>	<b>(26)</b>	<b>190</b>	<b>73</b>	<b>-</b>	<b>237</b>
Recognised in other comprehensive income in respect of:					
- current year	(509)	-	-	(480)	(989)
- change in rate	(279)	-	-	182	(97)
<b>Total</b>	<b>(788)</b>	<b>-</b>	<b>-</b>	<b>(298)</b>	<b>(1,086)</b>
Recognised in equity in respect of:					
- current year	-	80	11	-	91
- prior year	-	2	3	-	5
- change in rate	-	(61)	(2)	-	(63)
<b>Total</b>	<b>-</b>	<b>21</b>	<b>12</b>	<b>-</b>	<b>33</b>
As at 31 December 2013	(325)	1,731	85	(1,178)	313
	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	-	1,731	85	-	1,816
Deferred tax liabilities	(325)	-	-	(1,178)	(1,503)
As at 31 December 2013	(325)	1,731	85	(1,178)	313

## 49 Trade and other payables

	2014 £'000	2013 £'000
Accruals, deferred income and other creditors	<b>41,662</b>	35,437
Amounts owed to group undertakings	-	1,113
Other taxes and social security costs	<b>5,216</b>	4,290
	<b>46,878</b>	40,840

The fair value of trade and other payables is not materially different from their carrying amount.

## 50 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Property- related £'000	Total £'000
As at 1 January 2013	8,238	774	9,012
Net charge to profit or loss	-	158	158
Other movements	3,884	-	3,884
Utilised/paid during the year	(7,700)	-	(7,700)
<b>As at 31 December 2013</b>	<b>4,422</b>	<b>932</b>	<b>5,354</b>
Net charge to profit or loss	-	102	102
Other movements	8,230	-	8,230
Utilised/paid during the year	(4,692)	-	(4,692)
<b>As at 31 December 2014</b>	<b>7,960</b>	<b>1,034</b>	<b>8,994</b>
Payable within 1 year	2,914	11	2,925
Payable after 1 year	5,046	1,023	6,069
	<b>7,960</b>	<b>1,034</b>	<b>8,994</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.

Property-related provisions consist of £1,034,000 in relation to dilapidation provisions expected to arise on leasehold premises held by the company (2013: £932,000). Dilapidation provisions are calculated using a discounted cash flow model; during the year, the impact of discounting has increased the provisions by £102,000 (2013: £124,000).

Provisions payable after one year are expected to be settled within two years of the balance sheet date (2013: two years), except for the property-related provisions of £1,023,000 (2013: £932,000). These are expected to be settled within 22 years of the balance sheet date (2013: 23 years), which corresponds to the longest lease for which a dilapidations provision is being held.

## 51 Employee benefits

Details of the defined benefit pension schemes operated by the company are provided in note 29 to the financial statements.

## 52 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 30 and 31 to the consolidated financial statements. Details of options on the company's shares and share-based payments are set out in note 32 to the consolidated financial statements.

## 53 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 51.

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, loans provided to subsidiaries and derivative financial instruments.

Derivative financial instruments relate to option contracts over shares in the company's associates (note 45). These options expose the company to credit risk from the potential for non-delivery by the associate companies' founders, who are private individuals.

The collection and ageing of trade and other receivables are reviewed on a periodic basis by management. Impairment provisions are made for any debts which are considered to be doubtful for collection.

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 Ratings Limited ('Fitch') or Moody's Corporation ('Moody's').

#### Cash and cash equivalents (balances at banks)

The company has exposure to financial institutions through its bank deposits (reported within cash equivalents).

#### Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date, based on objective evidence of impairment.

All credit exposures are reviewed individually, at least annually or more regularly when individual circumstances require. Impairment allowances on credit exposures are determined by an evaluation of the incurred loss at the balance sheet date on a case by case basis.

## 53 Financial instruments (i) Credit risk

No impairment losses arose during the year. In 2013, impairment provisions for credit risk related solely to loan notes (note 47).

## Maximum exposure to credit risk

	2014 £'000	2013 £'000
Other investments:		
– money market funds	10,000	35,000
Trade and other receivables:		
– loan notes	–	5,000
– amounts owed by group undertakings	55,150	22,784
– derivative financial instruments	1,030	1,030
– other financial assets	1,001	856
Balances at banks	5,732	5,231
	<b>72,913</b>	69,901

The above table represents the gross credit risk exposure of the company at 31 December 2014 and 2013, without taking account of any collateral held or other credit enhancements attached.

Loan notes and derivative financial instruments are not subject to standard lending criteria. All other trade and other receivables are within normal terms and conditions of lending at the balance sheet date (2013: all within normal terms and conditions of lending).

Amounts owed by group undertakings do not have specific repayment dates and are paid down periodically as trading requires.

## Trade and other receivables

Trade and other receivables are summarised as follows:

	2014 £'000	2013 £'000
Neither past due nor impaired	57,181	24,650
Impaired	–	3,851
<b>Gross carrying value</b>	<b>57,181</b>	28,501
Less: allowance for impairment (note 47)	–	(1,016)
<b>Net carrying value</b>	<b>57,181</b>	27,485

## 53 Financial instruments (i) Credit risk

## Balances at banks

All balances at banks were neither past due nor impaired. The credit quality of these balances 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.

	2014 £'000	2013 £'000
A+ to A	5,732	4,392
Other*	-	839
	<b>5,732</b>	<b>5,231</b>

\* Cash held within the Employee Benefit Trust

## Debt securities

The table below presents an analysis of debt securities by rating agency designation, as at 31 December 2014, based on Fitch or Moody's long term rating designation.

	2014 Money market funds £'000	2014 Total £'000	2013 Money market funds £'000	2013 Total £'000
AAA	10,000	10,000	35,000	35,000

## 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.

	United Kingdom £'000	Rest of the World £'000	Total £'000
<b>At 31 December 2014</b>			
Other investments:			
- money market funds	10,000	-	10,000
Trade and other receivables:			
- amounts owed by group undertakings	55,111	39	55,150
- derivative financial instruments	1,030	-	1,030
- other financial assets	611	358	969
Balances at banks	5,732	-	5,732
	<b>72,484</b>	<b>397</b>	<b>72,881</b>
<b>At 31 December 2013</b>			
Other investments:			
- money market funds	35,000	-	35,000
Trade and other receivables:			
- loan notes	-	2,835	2,835
- amounts owed by group undertakings	22,681	103	22,784
- derivative financial instruments	1,030	-	1,030
- other financial assets	487	349	836
Balances at banks	5,231	-	5,231
	<b>64,429</b>	<b>3,287</b>	<b>67,716</b>

At 31 December 2014, all Rest of the World exposures were to counterparties based in Jersey and the United States of America (2013: Jersey and the United States of America). At 31 December 2014, the company had no exposure to sovereign debt (2013: none).

## 53 Financial instruments (i) Credit risk

## (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:

	Financial institutions £'000	Clients and other corporates £'000	Total £'000
<b>At 31 December 2014</b>			
Other investments:			
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	31,283	23,867	55,150
– derivative financial instruments	–	1,030	1,030
– other financial assets	2	967	969
Balances at banks	5,732	–	5,732
	<b>47,017</b>	<b>25,864</b>	<b>72,881</b>
<b>At 31 December 2013</b>			
Other investments:			
– money market funds	35,000	–	35,000
Trade and other receivables:			
– loan notes	–	2,835	2,835
– amounts owed by group undertakings	5,593	17,191	22,784
– derivative financial instruments	–	1,030	1,030
– other financial assets	11	825	836
Balances at banks	5,231	–	5,231
	<b>45,835</b>	<b>21,881</b>	<b>67,716</b>

## (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 (2013: £nil) and does not rely on external funding for its activities.

## 53 Financial instruments (ii) Liquidity risk

## 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.

	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 2014</b>							
<b>Cash flows arising from financial assets</b>							
Other investments:							
– money market funds	10,002	-	-	-	-	-	10,002
Trade and other receivables:							
– amounts owed by group undertakings	53,398	13	40	1,803	-	-	55,254
– other financial assets	5	397	341	251	6	-	1,000
Balances at banks	5,026	-	424	282	-	-	5,732
<b>Cash flows arising from financial assets</b>	<b>68,431</b>	<b>410</b>	<b>805</b>	<b>2,336</b>	<b>6</b>	<b>-</b>	<b>71,988</b>
<b>Cash flows arising from financial liabilities</b>							
Trade and other payables:							
– other financial liabilities	202	21,792	4,212	22,853	2,070	-	51,129
<b>Cash flows arising from financial liabilities</b>	<b>202</b>	<b>21,792</b>	<b>4,212</b>	<b>22,853</b>	<b>2,070</b>	<b>-</b>	<b>51,129</b>
<b>Net liquidity gap</b>	<b>68,229</b>	<b>(21,382)</b>	<b>(3,407)</b>	<b>(20,517)</b>	<b>(2,064)</b>	<b>-</b>	<b>20,859</b>
<b>Cumulative net liquidity gap</b>	<b>68,229</b>	<b>46,847</b>	<b>43,440</b>	<b>22,923</b>	<b>20,859</b>	<b>20,859</b>	
<b>At 31 December 2013</b>							
<b>Cash flows arising from financial assets</b>							
Other investments:							
– money market funds	35,011	-	-	-	-	-	35,011
Trade and other receivables:							
– loan notes	-	-	-	-	-	5,255	5,255
– amounts owed by group undertakings	21,034	13	40	1,803	-	-	22,890
– other financial assets	-	299	320	219	6	-	844
Balances at banks	5,075	-	156	-	-	-	5,231
<b>Cash flows arising from financial assets</b>	<b>61,120</b>	<b>312</b>	<b>516</b>	<b>2,022</b>	<b>6</b>	<b>5,255</b>	<b>69,231</b>
<b>Cash flows arising from financial liabilities</b>							
Trade and other payables:							
– amounts owed to group undertakings	1,113	-	-	-	-	-	1,113
– other financial liabilities	156	17,070	1,833	17,955	1,994	-	39,008
<b>Cash flows arising from financial liabilities</b>	<b>1,269</b>	<b>17,070</b>	<b>1,833</b>	<b>17,955</b>	<b>1,994</b>	<b>-</b>	<b>40,121</b>
<b>Net liquidity gap</b>	<b>59,851</b>	<b>(16,758)</b>	<b>(1,317)</b>	<b>(15,933)</b>	<b>(1,988)</b>	<b>5,255</b>	<b>29,110</b>
<b>Cumulative net liquidity gap</b>	<b>59,851</b>	<b>43,093</b>	<b>41,776</b>	<b>25,843</b>	<b>23,855</b>	<b>29,110</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.

The company holds £514,000 of equity investments (2013: £6,333,000) which are subject to liquidity risk but are not included in the table above. These assets are held as available for sale securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.



## 53 Financial instruments (ii) Liquidity risk

## Derivative cash flows

The company's exposure to derivative financial instruments is limited to option contracts over the equity instruments of its associates. These contracts do not create an obligation for the company to deliver cash or a financial asset and therefore they are not included in the liquidity tables.

## Off-balance sheet items

Cash flows arising from the company's off-balance sheet financial liabilities arise solely from operating leases (note 55) 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
<b>Operating lease commitments</b>					
<b>At 31 December 2014</b>	<b>1,382</b>	<b>4,216</b>	<b>21,581</b>	<b>19,141</b>	<b>46,320</b>
At 31 December 2013	1,400	4,272	21,644	24,606	51,922

## 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
<b>At 31 December 2014</b>						
Cash flows arising from financial liabilities	202	21,792	4,212	22,853	2,070	51,129
Total off-balance sheet items	-	1,382	4,216	21,581	19,141	46,320
<b>Total liquidity requirement</b>	<b>202</b>	<b>23,174</b>	<b>8,428</b>	<b>44,434</b>	<b>21,211</b>	<b>97,449</b>
<b>At 31 December 2013</b>						
Cash flows arising from financial liabilities	1,269	17,070	1,833	17,955	1,994	40,121
Total off-balance sheet items	-	1,400	4,272	21,644	24,606	51,922
<b>Total liquidity requirement</b>	<b>1,269</b>	<b>18,470</b>	<b>6,105</b>	<b>39,599</b>	<b>26,600</b>	<b>92,043</b>

## (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.

## 53 Financial instruments (iii) Market risk

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.

	Not more than 3 months £'000	Non-interest bearing £'000	Total £'000
<b>At 31 December 2014</b>			
<b>Assets</b>			
Other investments:			
– equity securities	-	514	514
– money market funds	10,000	-	10,000
Trade and other receivables:			
– amounts owed by group undertakings	1,750	53,400	55,150
– derivative financial instruments	-	1,030	1,030
– other financial assets	-	969	969
Balances at banks	5,727	5	5,732
<b>Total financial assets</b>	<b>17,477</b>	<b>55,918</b>	<b>73,395</b>
<b>Liabilities</b>			
Trade and other payables:			
– other financial liabilities	-	39,705	39,705
<b>Total financial liabilities</b>	<b>-</b>	<b>39,705</b>	<b>39,705</b>
<b>Interest rate repricing gap</b>	<b>17,477</b>	<b>16,213</b>	<b>33,690</b>
<b>At 31 December 2013</b>			
<b>Assets</b>			
Other investments:			
– equity securities	-	6,333	6,333
– money market funds	35,000	-	35,000
Trade and other receivables:			
– loan notes	2,835	-	2,835
– amounts owed by group undertakings	1,750	21,034	22,784
– derivative financial instruments	-	1,030	1,030
– other financial assets	-	836	836
Balances at banks	5,069	162	5,231
<b>Total financial assets</b>	<b>44,654</b>	<b>29,395</b>	<b>74,049</b>
<b>Liabilities</b>			
Trade and other payables:			
– amounts owed to group undertakings	-	1,113	1,113
– other financial liabilities	-	30,547	30,547
<b>Total financial liabilities</b>	<b>-</b>	<b>31,660</b>	<b>31,660</b>
<b>Interest rate repricing gap</b>	<b>44,654</b>	<b>(2,265)</b>	<b>42,389</b>

A 1% parallel increase/decrease in the sterling yield curve would result in an increase/decrease in profit after tax and equity of £36,000 (2013: £467,000).

## 53 Financial instruments (iii) Market risk

## 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 2014. Included in the table are the company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2014	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
<b>Assets</b>				
Other investments:				
– equity securities	514	-	-	514
– money market funds	10,000	-	-	10,000
Trade and other receivables:				
– amounts owed by group undertakings	55,150	-	-	55,150
– derivative financial instruments	1,030	-	-	1,030
– other financial assets	788	181	-	969
Balances at banks	5,732	-	-	5,732
<b>Total financial assets</b>	<b>73,214</b>	<b>181</b>	<b>-</b>	<b>73,395</b>
<b>Liabilities</b>				
Trade and other payables:				
– other financial liabilities	39,694	11	-	39,705
<b>Total financial liabilities</b>	<b>39,694</b>	<b>11</b>	<b>-</b>	<b>39,705</b>
<b>Net on-balance sheet position</b>	<b>33,520</b>	<b>170</b>	<b>-</b>	<b>33,690</b>
At 31 December 2013	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
<b>Assets</b>				
Other investments:				
– equity securities	5,647	-	686	6,333
– money market funds	35,000	-	-	35,000
Trade and other receivables:				
– loan notes	2,835	-	-	2,835
– amounts owed by group undertakings	22,784	-	-	22,784
– derivative financial instruments	1,030	-	-	1,030
– other financial assets	664	172	-	836
Balances at banks	5,231	-	-	5,231
<b>Total financial assets</b>	<b>73,191</b>	<b>172</b>	<b>686</b>	<b>74,049</b>
<b>Liabilities</b>				
Trade and other payables:				
– amounts owed to group undertakings	1,113	-	-	1,113
– other financial liabilities	30,547	-	-	30,547
<b>Total financial liabilities</b>	<b>31,660</b>	<b>-</b>	<b>-</b>	<b>31,660</b>
<b>Net on-balance sheet position</b>	<b>41,531</b>	<b>172</b>	<b>686</b>	<b>42,389</b>

A 10% weakening of the US dollar or euro against sterling, occurring on 31 December 2014, would have reduced equity and profit after tax by £13,000 or £nil respectively (2013: £13,000 or £53,000 respectively). A 10% strengthening of the US dollar or euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

## Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The company is exposed to price risk through its holdings of equity investment securities, which are reported at their fair value (note 46).

At 31 December 2014, the fair value of equity securities recognised on the balance sheet was £514,000 (2013: £6,333,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax impact on net assets of £31,000 (2013: £617,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

## 53 Financial instruments

## Fair values

The fair values of the company's financial assets and liabilities are not materially different from their carrying values, with the exception of equity investments in subsidiaries, which are carried at historical cost (note 44).

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 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
- equity securities	514	-	-	514
- money market funds	-	10,000	-	10,000
Derivative financial instruments	-	-	1,030	1,030
<b>Total financial assets</b>	<b>514</b>	<b>10,000</b>	<b>1,030</b>	<b>11,544</b>
At 31 December 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Available for sale securities:				
- equity securities	5,642	-	691	6,333
- money market funds	-	35,000	-	35,000
Derivative financial instruments	-	-	1,030	1,030
	5,642	35,000	1,721	42,363

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 (2013: 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 33 to the financial statements.

## Level 3 financial instruments

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2014 Available for sale equity securities £'000	2014 Derivative financial instruments £'000	2014 Total £'000	2013 Available for sale equity securities £'000	2013 Derivative financial instruments £'000	2013 Total £'000
At 1 January	691	1,030	1,721	614	784	1,398
Total unrealised gains and losses recognised in:						
- profit or loss	-	-	-	-	246	246
- other comprehensive income	245	-	245	77	-	77
Disposals	(936)	-	(936)	-	-	-
<b>At 31 December</b>	<b>-</b>	<b>1,030</b>	<b>1,030</b>	<b>691</b>	<b>1,030</b>	<b>1,721</b>

## 54 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 equity shareholders' funds. 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. The company's total capital at 31 December 2014, together with movements during the year then ended, is set out in the company statement of changes in equity.

There were no changes in the company's approach to capital management during the year.

## 55 Contingent liabilities and commitments

The company leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The company's agreement to lease space at 1 Curzon Street, London, under which total payments over the lease term at 31 December 2014 were £28,034,000, provides for an upward only reset to market rents in 2018.

	2014 £'000	2013 £'000
<b>Payments under non-cancellable operating leases</b>		
No later than 1 year	<b>5,598</b>	5,672
Later than 1 year and no later than 5 years	<b>21,581</b>	21,644
Later than 5 years	<b>19,141</b>	24,606
	<b>46,320</b>	51,922

## 56 Related party transactions

### (i) 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.

	2014 £'000	2013 £'000
Short term employee benefits	1,642	1,262
Post-employment benefits	17	97
Other long term benefits	15	15
Share-based payments	372	1,364
	<b>2,046</b>	2,738

Dividends totalling £93,000 were paid in the year (2013: £84,000) 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.

### (ii) Other related party transactions

During the year, the company entered into the following transactions with its subsidiaries:

	2014 Receivable £'000	2014 Payable £'000	2013 Receivable £'000	2013 Payable £'000
Interest	53	-	486	-
Charges for management services	111,157	103	95,374	250
Dividends received	43,899	-	27,000	-
	<b>155,109</b>	<b>103</b>	122,860	250

The company's balances with fellow group companies at 31 December 2014 are set out in notes 44, 47 and 49.

The company's transactions with the pension funds are described in note 51. At 31 December 2014, no amounts were due from the pension schemes (2013: £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.

## 57 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:

	2014 £'000	2013 £'000
Cash at bank	5,026	5,070

## 58 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.



## Five year record

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Underlying operating income	<b>200,803</b>	176,409	155,581	144,452	127,184
Underlying profit before tax	<b>61,504</b>	50,510	44,829	46,219	38,503
Profit before tax	<b>45,658</b>	44,204	38,504	39,152	30,083
Profit after tax	<b>35,637</b>	34,751	28,983	28,706	21,552
Equity dividends paid and proposed	<b>24,863</b>	22,645	21,220	20,001	19,067
Basic earnings per share	<b>75.9p</b>	76.1p	66.5p	66.7p	49.8p
Diluted earnings per share	<b>75.3p</b>	75.6p	65.9p	65.9p	49.4p
Dividends per ordinary share	<b>52.0p</b>	49.0p	47.0p	46.0p	44.0p
Equity shareholders' funds	<b>270,732</b>	251,000	229,493	190,653	185,374
Total funds under management	<b>£27.2bn</b>	£22.0bn	£18.0bn	£15.9bn	£15.6bn



# Corporate information

	Investment Management	Unit Trusts
Principal trading names	Rathbone Investment Management Rathbone Investment Management International Rathbone Greenbank Investments Rathbone Pension & Advisory Services Rathbone Trust Company	Rathbone Unit Trust Management
Direct employees	616	32
Offices	14	1
Websites	www.rathbones.com www.rathboneimi.com www.rathbonegreenbank.com	www.rathbones.com www.rutm.com

## Company secretary and registered office

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richard.loader@rathbones.com

## Registrars and transfer office

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Designed and produced by  
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**Rathbones**  
Look forward