Rathbone Brothers Plc
Report and accounts 2016

Building for the future

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. Our services include discretionary investment management, unit trusts, banking and loan services, financial planning, unitised portfolio services and UK trust, legal, estate and tax advice.

As at 31 December 2016, Rathbone Brothers Plc managed £34.2 billion of client funds, of which £30.2 billion were managed by our Investment Management segment.

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

Pages 1 to 51 constitute the strategic report, which was approved by the board and signed on its behalf by:

Philip Howell
Chief Executive

Paul Stockton
Finance Director

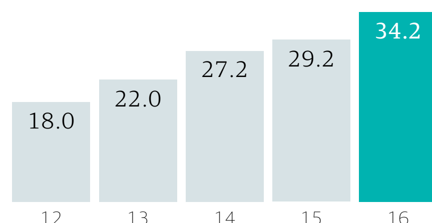
22 February 2017

Highlights of the year

Financial highlights

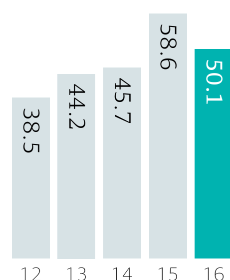
Funds under management (£bn)

£34.2bn



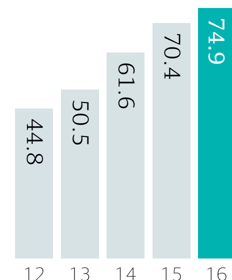
Profit before tax (£m)

£50.1m



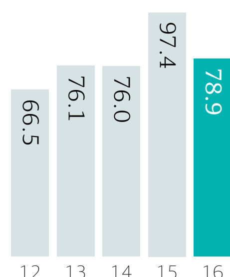
Underlying[1] profit before tax (£m)

£74.9m



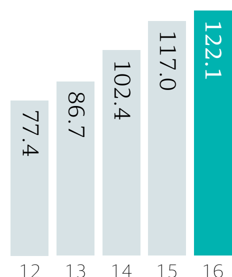
Basic earnings per share (p)

78.9p



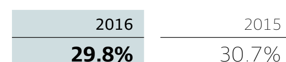
Underlying[1] earnings per share (p)

122.1p



Underlying operating margin[2]

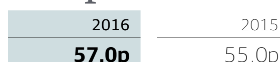
29.8%



2016	2015
29.8%	30.7%

Dividends paid and proposed per share

57.0p



2016	2015
57.0p	55.0p

Operational highlights

- Announced the intention to move our London head office from 1 Curzon Street to 8 Finsbury Circus, which was completed in February 2017
- Advanced development of the Rathbone Private Office through an external asset manager agreement with Credit Suisse to offer a range of specialist private banking products and services to clients
- Raised £36.9 million net of placement costs via a share placing with institutional investors to fund the expected near-term higher capital requirement associated with our planned closure of the defined benefit pension schemes and to provide a measure of additional financial flexibility
- Funds under management in Rathbone Unit Trust Management passed £4.0 billion
- Awarded Institutional Private Client Asset Manager of the Year by *Citywealth* and *Investment Week's* Gold Standard Award for Discretionary Portfolio Management in addition to receiving both the *Citywealth* and *Charity Times* awards for Charity Investment Manager of the Year

1. Profit before tax and earnings per share include the impact of additional costs relating to the acquisition of the Vision businesses in 2015 and the planned London head office move to 8 Finsbury Circus and charges in relation to client relationships and goodwill; underlying results exclude these items. A full reconciliation between the underlying results and the statutory presentation is given on page 28
2. Underlying profit before tax as a percentage of underlying operating income

Rathbones today

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

We employ over 1,100 staff including 287 investment professionals in 16 locations across the UK and Jersey

Total funds under management increased by 17.1% to £34.2 billion during 2016

Group underlying operating income increased by 9.6% to £251.3m during 2016

We are a FTSE 250 company listed on the London Stock Exchange

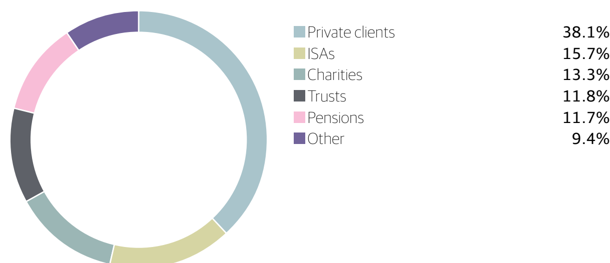
Investment Management

Through Rathbone Investment Management, we provide personal discretionary investment management solutions to private clients with investible assets of £100,000 upwards. We also manage £4.1 billion for charities and Rathbone Greenbank Investments manages £863 million in ethical and socially responsible investment portfolios. We have also recently established the Rathbone Private Office, which will provide a range of independent investment and financing solutions to super high net worth clients. Our offshore discretionary investment services are provided by Rathbone Investment Management International.

Investment Management funds under management have increased by 104.6% to £30.2bn over the past five years

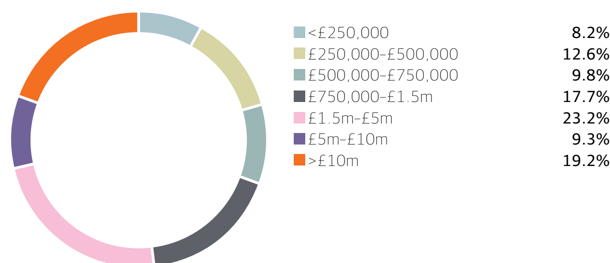
48,000 clients in our Investment Management business

Client account type by value



Private clients	38.1%
ISAs	15.7%
Charities	13.3%
Trusts	11.8%
Pensions	11.7%
Other	9.4%

Size of client relationship by value



<£250,000	8.2%
£250,000–£500,000	12.6%
£500,000–£750,000	9.8%
£750,000–£1.5m	17.7%
£1.5m–£5m	23.2%
£5m–£10m	9.3%
>£10m	19.2%

Complementary services

Rathbone Investment Management also provides:

Banking and loan services

As a licensed deposit taker, we are able to offer our clients loans directly secured against their investment portfolios.

Financial planning

We offer in-house financial planning, which provides 'whole of market' advice to clients.

Unitised Portfolio Service

Using the Rathbone Multi Asset Portfolios funds, we offer clients with fewer investible assets (£25,000 or more) model-based discretionary investment management services.

We also operate the following additional entities:

Rathbone Trust Company

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

Vision Independent Financial Planning

An independent IFA network providing financial advisory solutions to UK private clients.

Unit Trusts

Rathbone Unit Trust Management is a leading UK fund manager providing a range of actively managed specialist and multi asset unit trusts that are designed to meet core investment needs in the retail client market. These funds are distributed mainly through independent financial advisers in the UK.

Multi asset funds provide an 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.

Unit Trusts funds under management have increased by 267.0% to £4.0bn over the past five years

The Rathbones difference

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

What we do

Our vision is to be the UK's leading independently-owned provider of investment and wealth management services to private clients, charities and trustees.

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

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

What makes us different

Scale and expertise

- 287 trained investment professionals
- £34.2 billion funds under management
- A broad range of investment solutions

Brand and reputation

- Established brand
- Local presence and consistent delivery
- Reliable systems and infrastructure
- Accredited performance reporting

Independent ownership

- Listed on the London Stock Exchange with a market capitalisation of approximately £1 billion at 31 December 2016
- High standards of corporate governance

How we do it

Individual relationships with clients

- Our service is delivered directly through investment managers leading to long and trusted relationships
- Clients have the ability to join Rathbones either directly or through their own financial intermediary
- We can access investments across the whole market, with no bias towards in-house funds
- Our online capabilities complement our service

An informed investment process

- We have a bespoke approach to portfolio construction supported by an influential central research team
- Our firm-wide processes allow us to pool intellectual capital and provide strategic asset allocation methodologies
- Our internal quality assurance and performance measurement capabilities provide a control framework

Diverse distribution

- Direct client referrals remain the most important source of organic growth
- Our specialist investment teams provide services to charities and ethical investors
- We have a dedicated sales team for discretionary and unit trust services to UK financial intermediaries
- Our Vision business operates independently, but retains a relationship with Rathbone Investment Management

High-quality operations

- We have dedicated in-house custody and settlement
- Our operations team is highly experienced
- We form reliable outsourced relationships, where cost-effective

Value creation for the long term

For investors

- A track record of consistent net organic growth
- Successful acquisition capability for people and firms that fit our culture
- An underlying operating margin of around 30% over each economic cycle
- Investment in targeted growth initiatives that broaden our distribution
- Stable dividend growth

Underlying operating margin between 28.6% and 30.7% over the past five years

For clients

- Balanced management of portfolios through changing market conditions
- A valued and quality service that builds trust

Funds under management increased 115.8% over the past five years

For employees

- Accountability for investment decisions
- Value-based remuneration
- Investment in training and development
- 14.7% staff shareholding
- Graduate development programme

Staff turnover between 4.0% and 6.0% over the past five years

Overview of 2016

After a nervous start to 2016, the FTSE 100 performed increasingly strongly as the year progressed, largely reflecting the impact of a sharp fall in sterling after the EU referendum vote. This vote, and the Trump victory in the US, are perhaps examples of "events" that Harold Macmillan was alleged to have been fearful of. Nevertheless, the recovery in the second half had a favourable impact on our financial performance, helping our total funds under management to grow by 17.1% to £34.2 billion. For investors though, the full ramifications of these events, and the possibility of further political change to come, have still to play out.

In February 2017, we moved our London office from Curzon Street to Finsbury Circus. This move will not only manage our property expenditure going forward, but will also enable our growing headcount in London to remain under one roof.

Profit before tax for 2016 reflects the full impact of acquisition and head office relocation costs of £13.0 million, so at £50.1 million represents a fall of 14.5% on the £58.6 million earned in 2015. Accordingly, earnings per share of 78.9p fell 19.0%, also reflecting the impact of the placing in the last quarter of the year.

Underlying profit before tax was £74.9 million for the year ended 31 December 2016, up 6.4% from the previous year and representing a profit margin of 29.8% (2015: 30.7%). This translates into underlying earnings per share of 122.1p for 2016, up 4.4% on the 117.0p last year.

The board is recommending a final dividend of 36p per share, which brings the total dividend for the year to 57p per share, an increase of 3.6% over last year.

In October 2016, the board concluded that we could not continue to tolerate the risks of the open-ended pension fund obligations of our legacy defined benefit pension schemes. We therefore decided to initiate a member consultation to close the schemes to future accrual. Since closure generates a short term increase in our regulatory capital requirements, we undertook a share placing raising £36.9 million, net of placement costs. These funds are retained on our balance sheet.

Our strategy

In 2014, the board approved an ambitious medium term strategic plan, which did not change or dilute our core discretionary investment management model, but sought to add strategic growth initiatives. One such initiative was the establishment of the Rathbone Private Office serving clients at the higher end of the wealth spectrum. A second was the enhancement of our distribution capability to position ourselves more favourably with the professional intermediary market, whilst a third, more recent, initiative has been to expand our financial planning service. The aim of all of these initiatives is to meet the demands of both existing and prospective clients for a more comprehensive range of services complementary to pure investment management.

The board remains well aware that delivery of these initiatives imposes demands on our people and impacts upon our profitability and financial resources. These pressures are kept under continuous review to ensure that we do not undermine our profitability or increase risk unnecessarily.

Culture, governance and the board

One of my priorities this year has been to ensure board oversight of the firm's culture and its development. As a first stage, the board worked with the executive committee to establish a balanced assessment of our current culture. This assessment was then debated with the executive committee at our strategy day. The culture of the firm is healthy in most respects, particularly in terms of our professionalism, putting clients first and integrity. It was also recognised that even though the right tone must be set at the top, there is a need to continue to cascade this throughout the organisation through a combination of strong leadership, inspiring role models and effective supervision.

The board has formed initial views on what our target culture should be and the nature of the management information we need to monitor our cultural development. Metrics and other information will be collated and reviewed by the conduct risk committee in the first instance and a report will be presented to the board quarterly. This will provide useful background, but will be supplemented by the direct personal experiences of directors (both executive and non-executive) as they engage with the business. Particularly in times of change, I believe that it is very important that all directors are close enough to the pulse of a business to ensure the best aspects of a culture are promoted.

During the year, in addition to regulatory matters, the board paid particular attention to the progress of our strategic growth initiatives referred to above, the bedding-in of management structures put in place last year, the volatility associated with our defined benefit pension schemes and the financial implications of our London office move. The last of these included the adverse impact of the Brexit vote on the availability of prospective tenants for our existing space in Curzon Street. We have also discussed how we operate as a board and the interaction between executive and non-executive directors as well as considering both management and non-executive succession plans, which remain a work in progress.

In November, we announced that Paul Chavasse was stepping down as an executive director. The responsibilities of Paul's role as head of investment have been split among the executive team. The board would like to thank Paul for his very significant contribution to Rathbones over the 15 years he has been with the firm. As the former chief operating officer and head of investment, Paul has played a very important part in helping to steer the company through a period of growth and success and we wish him well for the future.

David Harrel, senior independent director and chairman of our remuneration committee, is standing down at this year's AGM having served nine years. The board has benefited hugely from David's wisdom and sense of humour. I am particularly grateful for his advice when reshaping the board appropriately for the challenges of a changing industry.

We also had a helpful and positive board effectiveness review carried out this year. Details of this can be found in the corporate governance report set out on page 57.

Risks

The report from the chairman of the group risk committee, Kathryn Matthews, is set out on page 80. We continue to enhance our risk management framework. Particular attention is being given to identifying and monitoring emerging risks such as cyber crime, money laundering and data theft. We remain vigilant to risks associated with our defined benefit pension schemes and subletting our existing space in Curzon Street. Beyond this, we believe that other significant risks to our business are operational risks that arise from growth and regulatory risks that may arise from continual changes to rules and standards in our sector. Maintaining our regulatory standards has always been a high priority for our senior management and is highlighted in the personal objectives of the executive directors.

Remuneration

The report from the chairman of the remuneration committee, David Harrel, is set out on page 60. All executive directors have clear objectives, both corporate and personal. At the beginning of 2017, a new remuneration scheme was introduced for investment managers throughout the firm. The scheme contains a larger performance element to encourage initiative-taking and organic growth, balanced by a more direct link to performance against risk and compliance standards.

Employees

The high quality of our employees is a major differentiator for us and they are the most valuable asset of our firm. They are always a pleasure to work with at all levels and I take great pride in the unsolicited, positive feedback I receive from clients about their dealings with the firm.

Shareholders

We are fortunate to have a number of positively engaged institutional shareholders with a significant investment in the company. Both my executive colleagues and I welcome opportunities to talk to shareholders and we will continue to maintain a regular and constructive dialogue with them.

Outlook

In spite of continuing political and economic uncertainties, we will pursue our planned strategic growth initiatives and continue to take advantage of growth opportunities in the sector.

Mark Nicholls
Chairman

22 February 2017

"In an eventful year, we maintained our growth momentum with total funds under management growing to £34.2 billion at 31 December 2016, up 17.1% from £29.2 billion at the end of 2015."

Growth in an unpredictable market

Brexit and the US presidential election were key events in 2016, both producing considerable market trepidation in the run-up and some surprise at the outcomes. In spite of this, the markets shrugged off the longer term economic and trade uncertainties with the FTSE 100 Index rising 14.4% over the year. Back in February, with the FTSE 100 Index having fallen to 5537 on pre-Brexit fears, few would have anticipated it would end the year at 7143.

During that uncertain climate, private investors were inevitably cautious in switching investment manager or in committing new funds; a good indicator of this being the cash element within client portfolios rising to cyclical highs of near 7.0% compared to a more normal 5.0%.

In such an eventful year, we maintained our growth momentum with total funds under management growing to £34.2 billion at 31 December 2016, up 17.1% from £29.2 billion at the end of 2015.

Financial performance

Our 2016 financial performance was strong, benefiting in particular from a favourable second half. Total funds under management in our Investment Management business at 31 December 2016 were £30.2 billion, up 15.7% from £26.1 billion in 2015, whilst our Unit Trusts business also reached a new high of £4.0 billion, up 29.0% in the year.

Fee income of £184.8 million increased 14.5% year-on-year (2015: £161.4 million), reflecting both the rising markets and our continued growth. Fee and advisory income improved to 79.9% of underlying operating income, up from 76.5% a year ago as more clients adopt our fee only tariff. Whilst trading volumes were lacklustre in the first half of the year, commission income recovered in the second half, ending the year at £38.9 million (2015: £43.1 million). Net interest income of £11.6 million increased by 7.4% as deposit balances increased over the course of the year.

Our underlying operating expenses increased to £176.4 million reflecting both the growth in the business and the £6.0 million costs of planned strategic initiatives. Fixed staff costs of £79.8 million increased 8.6% reflecting both inflation and an 8.7% growth in average headcount to 1,066 (2015: 981), partially offset by a £0.7 million reduction in pension costs. Headcount now includes all 27 full time equivalent employees of Vision following the acquisition on 31 December 2015. Variable staff costs of £45.0 million increased 13.4% in line with continued growth and increased profitability and represented 37.5% of underlying profit before tax and variable staff costs (2015: 36.1%).

Underlying profit before tax for the year increased to £74.9 million, up 6.4% from £70.4 million in 2015, having absorbed £6.0 million of strategic expenditure we planned for and announced at the start of 2016. Managing the balance between investment in the future and ongoing profitability is a key management discipline, evidenced this year by an underlying operating margin of 29.8% (2015: 30.7%), well within the parameters we set at the beginning of the year.

Profit before tax decreased 14.5% to £50.1 million (2015: £58.6 million) reflecting the full impact of the acquisition and head office relocation costs detailed in notes 8 and 9 to the financial statements.

Our balance sheet remains strong with a consolidated Common Equity Tier 1 ratio at 31 December 2016 (including audited profits for the year) at 17.7% compared with 15.4% at 31 December 2015. Our consolidated leverage ratio (including audited profits for the year) at 31 December 2016 was 6.6% compared with 7.7% at 31 December 2015.

Pension schemes and share placing

During the first nine months of 2016, we witnessed a fall in the yield on long term corporate bonds to historic lows. These yields are a key metric in determining the discount rate applied in valuing the future pension fund obligations of our two legacy defined benefit schemes covering approximately 200 current employees. As with many other companies, this had a material impact on the value of retirement benefit obligations, causing the pension deficit to reach £58.3 million by 30 September 2016, a substantial increase on the previously manageable level at 31 December 2015 of £4.5 million.

In the face of such unprecedented market conditions, and the prospect of unaffordable rises in future service cost, we concluded we should consult with members to cap pensionable salaries and close the schemes to future accrual. Following a constructive dialogue with trustees and employees, we now expect to implement these measures with effect from 1 July 2017.

In October 2016, we estimated that these measures would generate an increase of up to £20 million in our regulatory capital requirement. We therefore undertook a 4.6% share placing, raising £36.9 million net of placement costs to enable us to pursue the proposed measures. Current estimates continue to support this rationale.

It is important to note that these funds continue to be retained on our balance sheet and could be available for more accretive corporate initiatives should the financial position of the pension schemes normalise for a sustained period. At 31 December 2016, the pension deficit reduced to £39.5 million.

Building for the future

In 2014, we embarked on a comprehensive five year strategic plan. From a starting point at 1 January 2014 of £22.0 billion of funds under management, our projections demonstrated that the strategy, inclusive of acquisitions and moderate market growth, could achieve £40.0 billion by 31 December 2018 and included an ambition to achieve a sustained net organic growth rate of 5.0% per annum derived from:

- improved organisation and management discipline driving organic growth
- development of the core investment process and research capability
- investment in core IT infrastructure and operational efficiency
- new strategic growth initiatives.

In spite of some notable events and periods of considerable market volatility in the three years of this strategic plan, we have only seen moderate market movements. Overall therefore, we have made reasonable progress so far with growth evident from a number of sources.

In the context of a year of continuing political and economic uncertainty, the annualised net organic growth rate for our core Investment Management segment of 2.9% (2015: 3.0%) was satisfactory, albeit short of our strategic objective of 5.0%. We continue to resource investment teams as they seek to grow and reduce administration. We have also refreshed our incentive schemes as part of a package of measures aimed at stimulating organic growth through the remaining two years of the plan period. This effort will be enhanced by the insights now available from our new management information system. We have also continued to invest in developing our in-house financial planning capability to support our existing clients and, importantly, to further strengthen our appeal to prospective clients. We anticipate run rate costs will increase by approximately £2 million as we widen financial planning coverage across the firm and add support costs.

We challenged our charities business to double its funds under management from a starting point of £2.7 billion during the plan period. It was therefore pleasing to see continued momentum as the business reached £4.1 billion (2015: £3.5 billion), in addition to being awarded Charity Investment Manager of the Year for the fourth year running by *Citywealth*. In tandem, our ethical investment business Rathbone Greenbank continues to make good progress, now managing £863 million (2015: £760 million).

Our distribution strategy, focused on promoting our discretionary investment management services to professional intermediaries, principally national and regional IFA networks, also continues to make good progress. We now have 12 strategic relationships with networks and national advisory firms across the UK. Our distribution team is spending considerable time and effort in promoting our differentiated service to these partnerships and we expect to see meaningful flows of around £200 million over 2017 through this channel. To augment our full discretionary service for intermediaries, we will be launching a new Managed Portfolio Service for lower value clients of intermediary partnerships, which will be an execution only service based on our Rathbone Multi Asset Portfolio funds.

Our strategic partnership with Vision forms an integral part of our distribution strategy. After a deliberate period of consolidation in the first half of the year, the business resumed its high growth rate in the second half, ending the year with 99 appointed representatives (2015: 81) and funds under advice up 21.2% to £1.03 billion at 31 December 2016 (2015: £0.85 billion).

During 2016, we made progress in establishing the Rathbone Private Office, intending to provide an advisory service to clients with over £10 million of investable assets. The nucleus team is now in place and the infrastructure fully operational. This includes our strategic partnership with Credit Suisse, which provides us with a full international private banking capability.

Whilst run rate costs are expected to increase by approximately £1 million in 2017, we anticipate proving the concept with our first clients joining us by mid-2017, targeting around £200 million of funds under advice by the end of the year.

Reinforcing the quality of our discretionary investment management service is crucial to the success of all these growth initiatives. During the year, we continued to invest in our in-house research capability by hiring additional analysts who are supported by continuing input from our investment managers and unit trust fund managers. We have also continued to improve our investment risk management framework and frontline technology, including a new research hub facilitating the dissemination of research output to an expanding community of investment managers and sharing of investment ideas. We were grateful to receive recognition of our efforts in being awarded *Investment Week's* Gold Standard Award for Discretionary Portfolio Management for the third year in a row.

In contrast to the trend of net redemptions experienced across the industry, our Unit Trusts business continues to demonstrate strong growth with total net inflows of £554 million (2015: £371 million). The business continues to exhibit strong operating leverage, with profit margin increasing to 34.8% in the year (2015: 32.7%). Fund performance remains strong and the business continues to play an integral role in our overall investment strategy.

Alongside these strategic initiatives, we continue to be alert to bolt-on acquisition opportunities and selective team hires. Inorganic growth from new joiners has been higher than we originally anticipated in our strategic plan with acquired funds in 2016 of £437 million (2015: £675 million). We were particularly pleased to end the year with our newest offices showing excellent growth, with Newcastle growing 26.6% to £361 million and Glasgow 59.1% to £296 million, well ahead of plan.

Developing our infrastructure

In August 2016, we made the senior appointment of a chief information officer charged with ensuring that planned investment in our technology architecture and skills base is synchronised with business growth and meets our digital strategy aspirations. This medium term programme will focus on further improving our client experience, including installation of a new client relationship management system during 2017, and striving for greater operational efficiency in our support functions. We expect IT-related capital expenditure to increase by around £1 million in 2017 as a result, as well as an increase in operating expenditure of approximately £2 million in 2017 through an upgrade of our IT skills and infrastructure.

We have recently relocated our London head office to 8 Finsbury Circus, a brand new yet elegant building in the City with excellent travel links. This provides us with 75,000 sq ft, securing sufficient space to accommodate our long term growth trajectory compared to our previous 44,000 sq ft in 1 Curzon Street. Subletting of 11,000 sq ft in Finsbury Circus has progressed as planned, leaving us a sensible level of remaining room for expansion. We very much look forward to welcoming our clients and professional partners to our new London home.

Outlook

Despite the prospect of some volatile market conditions in 2017, we intend to maintain the momentum in our strategic growth initiatives.

We continue to work to a target operating margin of approximately 30%. However, this may be impacted in 2017 by the £5 million of additional expenditure outlined above, which will be reviewed if we encounter a prolonged market downturn during the year.

We continue to look for accretive acquisition opportunities that fit with our culture and investment philosophy and look forward with cautious optimism.

Philip Howell
Chief Executive

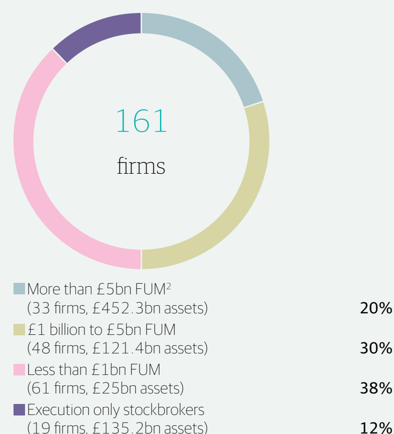
22 February 2017

Our market and opportunity

Market opportunities

- A fragmented industry with increasing barriers to entry
- A growing UK population and expatriate community familiar with the UK industry
- An increasing need for individuals to save, particularly in a low-return environment
- Lower state support for individual pension provisions and greater pension freedoms
- Lifecycle complexities that fuel demand for a flexible investment service and the provision of selected tax and trust advice

A fragmented industry with only 20% of firms having over £5bn of funds under management[1]

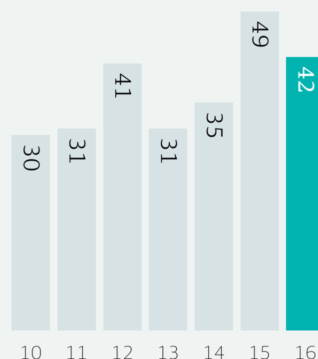


More than £5bn FUM[2] (33 firms, £452.3bn assets)	20%
£1 billion to £5bn FUM (48 firms, £121.4bn assets)	30%
Less than £1bn FUM (61 firms, £25bn assets)	38%
Execution only stockbrokers (19 firms, £135.2bn assets)	12%

Threats

- An ever changing financial services regulatory environment
- An increasing demand for expensive technology to drive operational efficiency
- Competition from alternative asset classes such as retail property
- Continuing fee margin pressures driven by ongoing competition and wholesale pricing

The number of consultation papers with the FCA has increased significantly since 2010[3]



Development plans

- Upgrade service levels to build on existing relationships and improve the digital experience
- Support the growth of investment teams by managing capacity and ensuring they contain the right mix of skills
- Build fruitful relationships with professional intermediaries and optimise our alliance with Vision
- Support growth in charities and specialist services and promote our ethical service, Rathbone Greenbank Investments
- Establish the Rathbone Private Office aimed at clients with £10 million-£100 million of investable assets
- Maintain momentum in Unit Trusts whilst incubating new products selectively
- Continue to hire high-quality investment managers and make bolt-on acquisitions that fit our culture

1. Compeer UK Wealth Management Industry Report 2016. Includes wealth managers, investment managers, private banks and execution only stockbrokers
2. Funds under management
3. Source: Financial Conduct Authority (FCA)

Strategic report
Our strategy

Strategy and key performance indicators

We have three key strategic objectives. The summary below outlines these objectives and links them to the key business risks that arise as we pursue them.

The following three pages show the ways in which we go about achieving our objectives, together with some key measures that demonstrate how we have performed.

	Strategic objectives	Principal risks to strategy	
1	**Quality service** Provide high-quality, personalised investment and wealth management services for private clients, charities and trustees. See page 14	Performance and advice Processing Regulatory Reputational	p22 p24 p22 p22
2	**Earnings growth** Provide a growing stream of dividend income for shareholders over each economic cycle. See page 15	Performance and advice Processing Regulatory	p22 p24 p22
3	**Employee value** Provide an interesting and stimulating career environment for staff, including a commitment that all employees share in the equity and profits of the business. See page 16	Regulatory Reputational	p22 p22

Quality service

Provide high-quality, personalised investment and wealth management services for private clients, charities and trustees.

2016 highlights

- Awarded Institutional Private Client Asset Manager of the Year by *Citywealth* in May for the third successive year and *Investment Week's* Gold Standard Award for Discretionary Portfolio Management in November
- Received both the *Citywealth* and *Charity Times* awards for Charity Investment Manager of the Year in May and September
- Improved quality of client communications during key 2016 market events, including a three-part client event series in conjunction with *The Spectator* with a total audience in excess of 3,000 guests
- Enhanced our research function by hiring additional resources, created a research hub that improves communications with investment managers and improved our asset allocation management tool
- Strengthened our engagement with financial advisers, professional intermediaries, international segments and Vision
- Expanded our unit trust offering with the launch of four international Luxembourg feeder funds
- Developed Rathbone Private Office from concept to operational readiness with systems and people in place

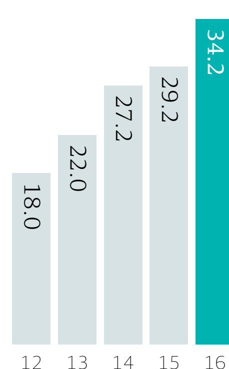
Our 2017 objectives

- Strive to continue to deliver recognised high standards in client service
- Improve client take-on processes to streamline documentation and associated work flows
- Upgrade our approach to assessing and understanding client risk appetite and capacity for loss
- Ensure that investment research output quality remains high and relevant to support investment teams
- Launch the Rathbone Managed Portfolio Service, a new lower value execution only unitised service aimed at clients of intermediaries
- Maintain the momentum behind our Unit Trusts business and continue to grow our Luxembourg feeder funds
- Expand and deepen the penetration of our DFM services to the UK financial adviser market and selected international partners
- Selectively recruit more in-house financial planners to support regional investment teams
- Attract new clients to the Rathbone Private Office
- Strengthen IT resources and systems to ensure our organisation and architecture is well positioned to deliver client service improvements

2016 progress

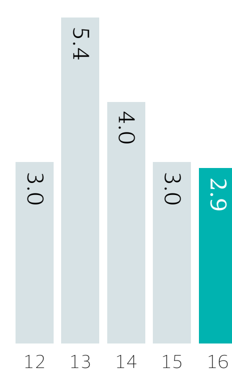
Total funds under management (£bn)

£34.2bn



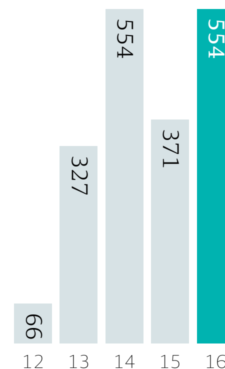
Investment Management net organic growth rates (%)

2.9%



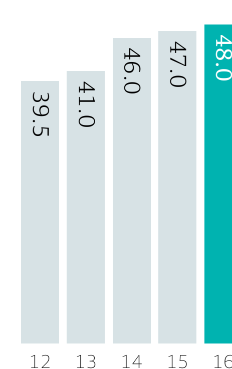
Unit Trusts net inflows (£m)

£554m



Number of Investment Management clients ('000)

48,000



Earnings growth

Provide a growing stream of dividend income for shareholders over each economic cycle.

2016 highlights

- Invested £6 million in growth initiatives such as distribution, the private office, financial planning and research
- Increased underlying earnings per share by 4.4% to 122.1p from 117.0p in 2015 and dividend per share for the full year to 57p from 55p in 2015
- Funds under management increased 17.1% to £34.2 billion reflecting a net organic growth rate of 2.9% in our Investment Management segment and £554 million of net inflows into our Unit Trusts segment
- Strengthened the leadership team by adding experience in departments such as investment management, research, human resources and IT
- Completed a 4.6% share placing, raising £36.9 million in a two times covered issue that supported a consultation on the closure of defined benefit pension schemes and secured greater financial flexibility

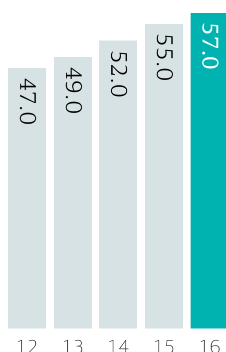
Our 2017 objectives

- Carefully manage returns from recent investments to support improved net organic growth rates
- Utilise newly upgraded management information systems to provide greater support to investment teams in improving profitability and service and manage constraints to growth
- Improve organic growth rates, in particular from professional intermediaries and continue to expand the Vision adviser network
- Actively search for suitable bolt-on acquisition opportunities that fit our culture and selectively recruit experienced investment mangers to join us
- Selectively strengthen IT resources and infrastructure to support ongoing business change and respond to regulatory change such as MiFID II
- Ensure that any capital impact from the defined benefit pension consultation and legacy London property risks are managed optimally
- Continue to seek procurement savings from supplier relationships to secure value for money

2016 progress

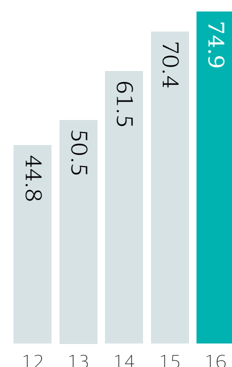
Dividend per share (p)

57.0p



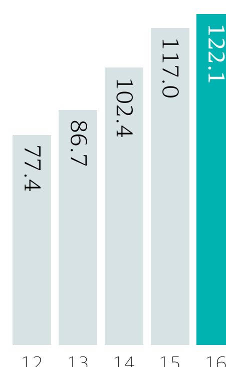
Underlying profit before tax (£m)

£74.9m



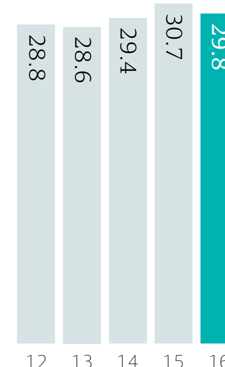
Underlying earnings per share (p)

122.1p



Underlying operating margin (%)

29.8%



Employee value

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

2016 highlights

- Average full time equivalent headcount for 2016 grew to 1,066 from 981 in 2015 and continues to reflect a consistent balance between client-facing and administrative support roles
- Average investment per employee in training and professional development increased 12.6% over last year and focused on sales training, corporate professional development modules, further development of the graduate programme and a strategic spend in relation to an investment management conference held at the beginning of the year
- Employees' participation in SIP and SAYE schemes continued to rise. SIP participants increased to 1,010 from 973 a year earlier and the number of outstanding SAYE share options rose to 507, 714 from 484,364 during the same period
- A review of investment manager remuneration schemes was completed in December. New arrangements simplify team cost allocation, reward larger and growing teams and continue to meet regulatory requirements
- Began consultation with members of the defined benefit pension schemes to close them to future accrual

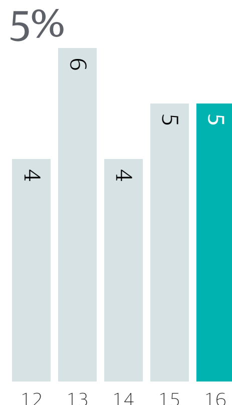
Our 2017 objectives

- Maintain a consistent balance between client-facing employees and supporting administrative roles
- Continue the board focus on measuring and monitoring the culture of the business
- Communicate and implement performance-based enhancements to investment manager remuneration schemes to support growth
- Build on leadership and management development tools, maintain investment in graduate and apprentice programmes and continue to develop future talent with robust succession planning
- Seek to capitalise on process improvement initiatives to increase productivity and free up more time for value-adding client interaction
- Complete the move to our new London head office in February 2017 with minimum business interruption
- Complete the consultation process in respect of our defined benefit pension schemes and implement the resulting changes

2016 progress

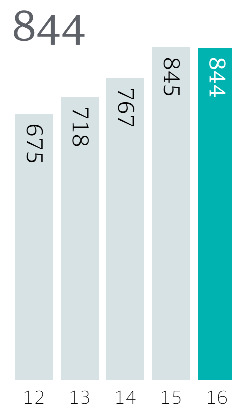
Staff turnover (%)

5%



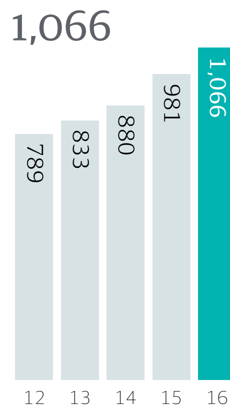
Number of participants with SIP partnership shares

844



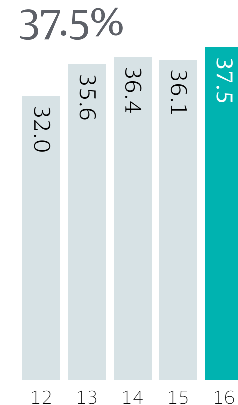
Average full time equivalent employees

1,066



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

37.5%



Keeping our clients *informed*

We recognise the importance of demonstrating the intellectual power of the firm and continue to expand our communications to help showcase our capabilities.

Every year, we publish various thought papers, both online through the 'Knowledge and insight' section of our website and in print. These are always well-received by clients and intermediaries and are used as a tool to generate healthy debate on a variety of current market topics.

In addition to keeping clients and advisers informed through a variety of regular updates, we also host numerous events throughout the year. A particular highlight this year was our partnership with *The Spectator* to host a three-part series focusing on whether Britain should leave the European Union, the future of party politics and the 2016 US presidential election. The total audience for these events was in excess of 3,000 guests and showcased our ability to be at the forefront of key market events.

Risk management

During 2016, we have continued to enhance the group's risk management framework through evolving our risk governance, risk processes and risk infrastructure. We have reviewed and continued to strengthen our operating model, infrastructure and resources for risk management to further support our three lines of defence model. We will continue to mature and evolve our framework during 2017 to ensure it reflects emerging challenges and our approach continues to focus on managing risk in a consistent and appropriate manner across the group to protect our stakeholders.

Risk culture

We believe that embedding an appropriate risk culture enhances the effectiveness of risk management across the group. The board is responsible for setting the right tone and encouraging characteristics and behaviours which support a strong risk culture. As a result, the consideration of risk is accepted as being part of everyone's day-to-day responsibilities and activities. Risk management is linked to performance and development, along with the group's remuneration and reward schemes. The aim of this is to create an open and transparent working environment, encouraging employees to engage positively in risk management and support the effective achievement of our strategic objectives.

Three lines of defence

We adopt a three lines of defence model to support our risk management framework. Under the framework, responsibility and accountability for risk management are broken down as follows:

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

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

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

Risk appetite

We define risk appetite as both the amount and type of risk the group is prepared to accept or retain in pursuit of our strategy. Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. Within our risk appetite framework there are some overarching parameters, alongside specific primary and secondary measures for each risk category. At least annually, the board, group executive committee and group risk committee will formally review and approve the risk appetite statement for the group and assess whether the firm has operated in accordance with the stated risk appetite measures during the year. Overall, and notwithstanding the expectations for business growth and a strategic change programme for 2017, the board remains committed to having a relatively low overall appetite for risk and to ensuring our internal controls mitigate risk to within appropriate levels. The board continues to recognise that the business is susceptible to fluctuations in investment markets and will bear losses from financial and operational risks from time-to-time, either as reductions in income or increases in operating costs.

Identification and profiling of principal risks

Our risks are classified using a hierarchical approach. The highest level (Level 1) identifies risks as financial, conduct or operational. The next level (Level 2) contains 16 risk categories which are listed below. Detailed risks (Level 3) are then identified as a subset of Level 2 risks and are captured and maintained within a group risk register, which is the principal tool for monitoring risks. The classification is regularly reviewed and ensures a structured approach to identifying all known material risks to the business and those emerging risks which may impact future performance.

We review and monitor our risk exposures closely, considering the potential impact and any management actions required to mitigate the impact of emerging issues and future events. To ensure we identify and manage our principal risks, regular reviews take place with risk owners, senior management and business units across the group. The risk function conducts these reviews and risk workshops during the year. A watch list is maintained to record any current issues, threats, business development and regulatory or legislative change, which will or could have the potential to impact the firm's current or future risk profile and therefore may require active risk management, through process changes or systems development. The group's risk profile, risk register and watch list are regularly reviewed by the executive, senior management, board and governance committees.

We assess 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 and overall risk rating of high, medium, low or very low is then derived for the five year period by taking into account an assessment of the internal control environment or insurance mitigation.

Risk assessment process

As part of the risk management framework, the board and senior management are actively involved in a continuous risk assessment process. A regular review and risk assessment is conducted for the board's five year strategic plan, supported by the annual Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) work, which assesses the principal risks facing the group.

Activities undertaken in relation to ICAAP, ILAA and reverse stress testing support the risk assessment process. Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

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

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

Profile and mitigation of principal risks

There are 44 Level 3 risks which form the basis of the group's risk register, each of which is classified under one of the 16 Level 2 risk categories.

Our 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 some changes to the 16 Level 2 risk categories; however, the underlying risk profile and ratings for the majority of Level 2 risks have remained consistent during 2016. The following table summarises the most important changes to the risk ratings.

Ref	Risk	Description of change	Risk change in 2016
D	Pension	The schemes' valuation and funding deficit increased materially due to corporate bond yield volatility in the period. Actions were taken in October 2016 towards mitigating this exposure.	▲
G	Regulatory	Volume of regulation remains high together with continued focus on conduct, remuneration and taxation across the financial services industry.	▲
K	Data integrity and security	Continued increase in the threat of cyber attack within the financial services sector.	▲

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group have been identified and include the impact of strategic change in the year. The board remains vigilant to the risks associated with the pension schemes deficit and the subletting of vacant office space in London. Otherwise, the board continues to believe that the other key risks to the business are operational risks that arise from growth and regulatory risks that may arise from continual changes to rules and standards in our sector.

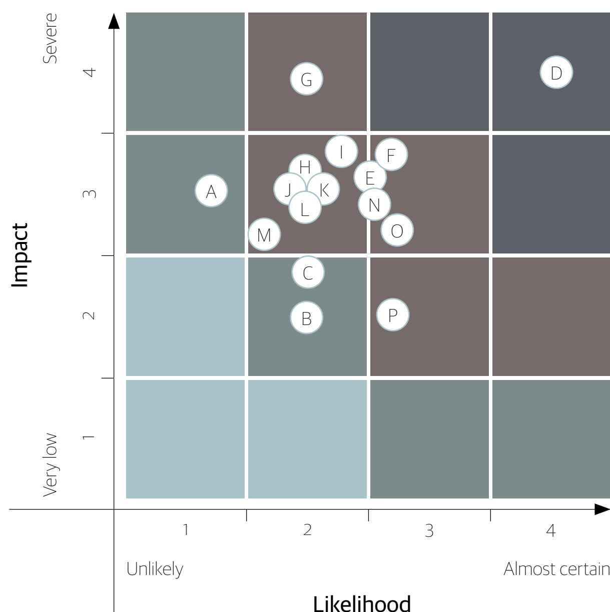
Our overall risk profile and control environment are described below. The board receives assurance from first line senior management that the systems of internal control are operating effectively and from the activities of the second line and third line that there are no material control issues which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

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

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

Emerging risks and threats

Emerging risks, including regulatory change, have the potential to impact the group and its strategy. These risk factors are monitored through our watch list. During the year, the executive committee continued to recognise a number of emerging risks and threats to the financial services sector as a whole and our business. In addition to the group's view that we can reasonably expect volatile market conditions throughout 2017, emerging risks include, for example, cyber threats, regulatory change and scenarios potentially arising from geopolitical developments, including Brexit.



Financial risks	
A	Credit
B	Liquidity
C	Market
D	Pension
Conduct risks	
E	Business model
F	Performance and advice
G	Regulatory
H	Reputational
Operational risks	
I	Business change
J	Business continuity
K	Data integrity and security
L	Fraud
M	Legal
N	Outsourcing
O	People
P	Processing

Financial risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
A	Credit The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	Low	Low	This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients	— Banking committee oversight — Counterparty limits and credit reviews — Treasury policy and procedures — Active monitoring of exposures — Client loan policy and procedures — Annual Internal Capital Adequacy Assessment Process
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	Low	Low	This risk can arise through day-to-day operations in so far as a significant proportion of client funds could be withdrawn in a short time period and marketable assets may not be realised in time and at the value required	— Banking committee oversight — Daily treasury procedures, reconciliations and reporting to senior management — Cash flow forecasting — Contingency funding plan — Annual Individual Liquidity Adequacy Assessment (including stress testing)
C	Market The risk that regulatory own funds will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices	Low	Low	This risk can arise through two primary areas: the exposure to mismatch between repricing of the firm's own financial assets and liabilities and, to a lesser extent, transactional foreign exchange risk	— Banking committee oversight — Documented policies and procedures — Daily monitoring of interest rates, exchange rates, maturity mismatch and extent of marketable assets — Robust application of policy and investment limits
D	Pension The risk that funding our defined benefit pension schemes increases, or its valuation affects dividends, reserves and capital	High	High	This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit including increased life expectancy, falling interest rates and falling equity prices	— Board, senior management and trustee oversight — Monthly valuation estimates — Triennial independent actuarial valuations — Investment policy — Senior management review and defined management actions — Annual Internal Capital Adequacy Assessment Process — Actions taken in October 2016 towards mitigating this exposure (see page 9)

Further detailed discussion of the group's exposures to financial risks is included in note 31 to the financial statements.

Conduct risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
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	Med	Med	This risk can arise from both strategic decisions which fail to consider the current operating environment or can be influenced by external factors such as material changes in regulation or legislation within the financial services sector	– Board and executive oversight – A documented strategy – Annual business targets, subject to regular review and challenge – Regular reviews of pricing structure – Continued investment in the investment process, service standards and marketing – Trade body participation – Regular competitor benchmarking and analysis
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	Med	Med	This risk can arise through a failure to appropriately understand the wealth management needs of our clients and a failure to apply suitable advice or investment strategies, along with having inadequate tools and systems in place to support our client-facing financial professionals	– Investment governance and structured committee oversight – Management oversight and segregated quality assurance and performance teams – Performance measurement and attribution analysis – Weekly investment management meetings – Investment manager reviews through supervisor sampling – Compliance monitoring
G	**Regulatory** The risk of failure by the group or a subsidiary to fulfil regulatory requirements and comply with the introduction of new, or changes to the existing, regulation	High	Low	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	– Board and executive oversight – Active involvement with industry bodies – Compliance monitoring programme to examine the control of key regulatory risks – Separate anti-money laundering role with specific responsibility – Oversight of industry and regulatory developments – Documented policy and procedures – Staff training and development
H	**Reputational** The risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations	Med	Low	This risk can arise due to a variety of reasons, primarily within Rathbones. This could be from the conduct of the company or its employees and from the service or products provided to clients	– Staff training and development – Board and executive oversight – Strong corporate values and approach to governance – Positive culture regarding risk and regulation, supported by appropriate remuneration practices – Appropriate emphasis on the control environment through the three lines of defence – Proactive and positive communications with key stakeholders – Crisis response plan – Monitoring of company performance relative to competitors

Operational risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
I	**Business change** The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes, the impact of which may lead to unmitigated financial exposures	Med	Low	This risk can arise if the business is too aggressive and unstructured with its change programme to manage project risks, resource capacity and capabilities to deliver business benefits. The firm also recognises the risks associated with its office move in London, which will lead to the subletting of some premises	— Executive and board oversight of material change programmes — Group programme board — Dedicated project office function, use of internal and, where required, external subject matter experts — Documented business plans and IT strategy — Two-stage assessment, challenge and approval of project plans — Documented project and change procedures — Active marketing of vacant space
J	**Business continuity** The risk that an internal or external event results in either failure of, or detriment to, core business processes or services	Med	Low	This risk can arise from the business failing to effectively control and administer its core operating systems, manage current and future resource requirements and maintain appropriate security of its infrastructure	— Group business continuity committee oversight — Documented crisis/incident management and disaster recovery plans — Regular disaster recovery testing — Continuous monitoring of IT systems availability — Off-site data centre
K	**Data integrity and security** The risk of a lack of integrity of, inappropriate access to or disclosure of client or company-sensitive information	Med	Low	This risk can arise from the firm failing to maintain and keep secure at all times sensitive and confidential data through its operating infrastructure, including the activities of employees and cyber threats	— Data security committee oversight — Data protection policy and procedures — System access controls and encryption — Penetration testing and multi-layer network security — Training and employee awareness programmes — Physical security at all locations
L	**Fraud** The risk of fraudulent action, either internal or external, being taken against the group or a subsidiary	Med	Low	This risk can arise from failures to implement appropriate management controls to detect or mitigate impropriety either within or external to the business and services provided	— Executive oversight — Documented policies and procedures — Segregation of duties between front and back office — System authority and payment limits — System access controls — Training and employee awareness programmes
M	**Legal** The risk of legal action being taken against the group or a subsidiary or failure to comply with legislative requirements resulting in financial loss and reputational damage	Med	Low	This risk can arise from inappropriate behaviour of individuals or from the inadequate drafting of the firm's contractual documentation	— Executive oversight — Retained specialist legal advisers — Routine control of risks which might lead to litigation if adverse outcomes are experienced by clients or other third parties — Documented policies and procedures — Training and employee awareness programmes

Operational risks continued

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
N	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	Med	Low	This risk can arise due to significant unknown operational changes at key outsourced relationships or a material change to their business model which affects their ability to provide the required services for Rathbones	— Executive oversight — Supplier due diligence and regular financial reviews — Active relationship management, including regular service review meetings — Service level agreements and monitoring of key performance indicators — Compliance monitoring
O	People The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives or behaviour leading to complaints, regulatory action or litigation	Med	Med	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation	— Executive oversight — Succession and contingency planning — Transparent, consistent and competitive remuneration schemes — Contractual clauses with restrictive covenants — Continual investment in staff training and development — Employee engagement survey — Appropriate balanced performance measurement system
P	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	Low	Med	This risk can arise from the failure of management to implement and control operational processes and systems to support the volumes of transactions processed on a daily basis	— Authorisation limits and management oversight — Dealing limits and supporting system controls — Active investment in automated processes — Counter review/four-eyes processes — Segregation of duties — Document procedures — Annual controls assessment (ISAE3402 report)

Assessment of the company's prospects

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

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

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

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

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

Viability statement

In accordance with the UK Corporate Governance Code, the board has assessed the prospects and viability of the group over a three year period taking into account the risk assessments (which are based upon a five year period as detailed above). The directors have taken into account the firm's current position and the potential impact of the principal risks and uncertainties set out above. As part of the viability statement, the directors confirm that they have carried out a robust assessment of the principal risks facing the group including those that would threaten its business model, future performance, solvency or liquidity.

The directors have determined that a three year period to 31 December 2019 constitutes an appropriate period over which to provide its viability statement. The board does consider five year projections as part of its annual regulatory reporting cycle and its opinion of the likelihood of risks materialising. However, the uncertainties associated with predicting the future impact of investment markets on the business make a three year period better aligned with its detailed capital planning activity.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they all fall due over the period to 31 December 2019.

Strategic report
Our performance

Paul Stockton
Finance Director

Financial performance remained strong in 2016, benefiting from continuing growth and more favourable market conditions, particularly in the second half of the year. Total funds under management increased 17.1% to £34.2 billion (2015: £29.2 billion).

Profit before tax of £50.1 million was down 14.5% on 2015, reflecting the costs relating to the relocation of the London head office and the acquisition of Vision Independent Financial Planning in 2015. On an underlying basis, profit before tax increased by 6.4%. A full reconciliation between underlying profit and profit attributable to shareholders is provided in table 2.

Our underlying operating margin remained steady around the 30% mark, despite additional planned expenditure. Underlying earnings per share grew 4.4% to 122.1p and dividend per share grew 3.6% to 57p for the full year.

Table 1. Group's overall performance

	2016 £m (unless stated)	2015 £m (unless stated)
Underlying operating income	**251.3**	229.2
Underlying operating expenses	**(176.4)**	(158.8)
Underlying profit before tax[1]	**74.9**	70.4
Underlying operating margin[2]	**29.8%**	30.7%
Profit before tax	**50.1**	58.6
Effective tax rate	**23.8%**	20.8%
Taxation	**(11.9)**	(12.2)
Profit after tax	**38.2**	46.4
Underlying earnings per share	**122.1p**	117.0p
Earnings per share	**78.9p**	97.4p
Dividend per share[3]	**57p**	55p

1. A reconciliation between underlying profit before tax and profit before tax is shown in table 2
2. Underlying profit before tax as a % of underlying operating income
3. The total interim and final dividend proposed for the financial year

Group underlying operating income

Underlying operating income grew 9.6% in 2016, as higher investment markets and continued organic and acquired growth led to higher levels of fee income in all business areas.

Fee income continues to represent a greater proportion of our total income as more fee only tariffs are applied to client accounts. Commission in the first half was abnormally low as market uncertainty ahead of the referendum on EU membership led to a reduction in trading activity generally.

A detailed analysis of each component of income is set out in the segmental review on pages 31 to 36.

A full reconciliation between underlying operating income and reported operating income is provided on page 114.

Group underlying operating expenses

Growth in underlying operating expenses of 11.1% reflects continuing investment in strategic initiatives as well as underlying growth in the business.

Total fixed staff costs increased by 8.6% to £79.8 million in 2016, reflecting growth in average full time equivalent headcount of 8.7% to 1,066 (2015: 981) and salary inflation. Salary growth was partially offset, however, by a £0.7 million reduction in pension costs, principally reflecting the impact of employees who chose to transfer out of the defined benefit schemes.

Total variable staff costs increased by 13.4% to £45.0 million, principally driven by growth in profits and funds under management. Variable staff costs in 2016 represented 17.9% of underlying operating income (2015: 17.3%) and 37.5% of underlying profit before variable staff costs and tax (2015: 36.1%).

Underlying operating expenses also included £4.0 million (2015: £3.3 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).

Outlook for expenditure

Staff costs in 2017 will reflect the full year impact of hiring activity in 2016 in addition to salary inflation of around 3%. Following the completion of a review of remuneration schemes for investment management staff in 2016, we are implementing changes in 2017 which will provide additional performance-based incentives for investment managers.

In 2017, we also expect to continue to grow the Rathbone Private Office, strengthen our financial planning and research capabilities and upgrade our IT skills and infrastructure. The above investments are expected to add around £5 million to underlying operating expenses in 2017; absent a prolonged market downturn, which would cause us to review such expenditure.

In addition, run rate costs for our London office are expected to rise by approximately £1 million in 2017, although in 2018 the annual cost will be broadly the same as we would have been paying for our former premises. Other anticipated costs associated with the relocation of the London head office are described in the sections below.

Capital expenditure

As planned, capital expenditure increased by £9.2 million to £15.1 million in 2016. Capital expenditure of £9.9 million arose from the fit out of the new London head office at 8 Finsbury Circus. Further capital expenditure of £4.3 million is expected to be incurred in 2017 to complete the fit out of the new London premises.

Group underlying profit before tax/ operating margin

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

Underlying profit before tax grew by 6.4% to £74.9 million in 2016. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 29.8% for the year; in line with our target of 30% over the cycle (2015: 30.7%). Profit before tax decreased by 14.5% to £50.1 million for the year, down from £58.6 million in 2015.

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

	2016 £m	2015 £m
Underlying profit before tax	**74.9**	70.4
Charges in relation to client relationships and goodwill	**(11.8)**	(11.0)
Head office relocation costs	**(7.0)**	(0.4)
Acquisition-related costs	**(6.0)**	(0.4)
Profit before tax	**50.1**	58.6

Charges in relation to client relationships and goodwill (note 21)

As explained in notes 1.14 and 2.1, client relationship intangible assets are created when we acquire a business or a team of investment managers. The charges associated with these assets represent a significant non-cash item and they have, therefore, been excluded from underlying profit, which represents largely cash-based earnings more directly relating to the reporting period. Charges for amortisation of client relationship intangibles in the year ended 31 December 2016 were £11.8 million (2015: £11.0 million), reflecting historic acquisitions.

Head office relocation costs (note 9)

On 13 May 2016, we entered into a series of five 17 year leases on office space at 8 Finsbury Circus and moved our London head office to the new premises during February 2017. Charges incurred in relation to the double running of both London premises and the relocation amounted to £7.0 million in 2016 (2015: £0.4 million). This amount largely represents the accounting charge for rent on the new premises during the fit out period and additional depreciation charges writing off the value of fixtures and fittings in the 1 Curzon Street office, which are now at the end of their useful life. This charge is £2.5 million below the £9.5 million announced in February 2016 following a favourable assessment of business rates and a later than expected handover of the new premises.

As described in note 37, a non-cash charge of £10.0 million was recognised on 13 February 2017, when the Curzon Street premises were vacated. Prior to the vacation of these premises, 2017 accounting charges for double running costs and accelerated depreciation totalled £1.5 million.

Acquisition-related costs (note 8)

Costs of £6.0 million were incurred in relation to the acquisitions of Vision Independent Financial Planning ('Vision') and Castle Investment Solutions ('Castle'), which were completed on 31 December 2015. These include the cost of payments to vendors of the business who remain in employment with the group, as required by accounting standards. The corresponding charge of £0.4 million in 2015 includes the impact of fair value adjustments for our 19.9% holding in the companies prior to the acquisition, the write off of the related options and associated professional fees.

Other deferred payments to vendors who remain in employment of £5.5 million are being charged to profit or loss on a straight line basis over the deferral period, ending in 2019.

Taxation

The corporation tax charge for 2016 was £11.9 million (2015: £12.2 million) and represents an effective tax rate of 23.8% (2015: 20.8%). A full reconciliation of the income tax expense is provided in note 11 to the financial statements.

The Finance Bill 2015 introduced a banking surcharge, which adds 8% to the effective tax rate for banks exceeding certain thresholds relating to the scale of banking operations. However, the measures incorporated in the final version of the 2015 Finance Bill mean that as long as the accepting of deposits remains ancillary to our asset management activities, we will be exempt from the tax surcharge. We have confirmed with HMRC that we remain below the relevant thresholds for 2016.

The Finance Bill 2016, which included provisions for the UK corporation tax rate to be reduced to 17% in April 2020, from 19% in April 2017, gained royal assent on 15 September 2016. Deferred tax balances have therefore been calculated based on these reduced rates where timing differences are forecast to unwind in future years.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2016 were 78.9p compared to 97.4p in 2015. This reflects the full impact of planned non-underlying charges and the placing of 2.2 million shares during 2016. On an underlying basis, earnings per share increased by 4.4% to 122.1p in 2016 (see note 13 to the financial statements).

Dividends

Our dividend policy is set out in the directors' report on page 90.

In light of the results for the year, the board has proposed a final dividend for 2016 of 36p. This results in a full year dividend of 57p, an increase of 2p on 2015 (3.6%). The proposed dividend is covered 1.4 times by basic earnings and 2.1 times by underlying earnings.

Keeping in touch *with future generations*

The need to save earlier in life has never been more pressing. Youth today face student loans, increasing house prices, less generous company pensions and a rising retirement age as life expectancy increases.

Although our client base is predominantly over 55 years old, we have seen a steady increase of clients under the age of 18, particularly with the popularity of Junior ISAs increasing. We recognise the importance of engaging with the next generation of clients early on to help them prepare for the financial decisions they will have to make for the longer term.

Through the Rathbones Financial Awareness programme, investment managers have been delivering free presentations to 16-25 year olds within our offices and at schools around the UK for over six years. The programme aims to equip those attending with the necessary information to take ownership of their finances at a young age and includes sections on student finance, mortgages, investment markets, inflation and more. During 2016, we ran 30 presentations to a total of over 2,000 students.

Alongside the programmes, we have developed the 'Your money, your future' booklet, which can be used in conjunction with the programme or as a standalone document. The booklet outlines the basics of personal finance and includes sections on budgeting, credit and debt, risk and how it influences investment decisions, stocks and shares and the importance of planning for the future.

For more information, please visit rathbones.com/financialawareness

Segmental review

The group is managed through two key operating segments, Investment Management and Unit Trusts. The activities of the group are described in detail on pages 2 to 5. The Investment Management segment comprises those activities described under the headings 'Investment Management' and 'complementary services' on page 5.

Investment Management

The financial performance of Investment Management is largely driven by revenue margins earned from 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 client loans.

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

Table 3. Investment Management – key performance indicators

	2016	2015
Funds under management at 31 December[1]	**£30.2bn**	£26.1bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**2.9%**	3.0%
Underlying rate of total net growth in Investment Management funds under management[1]	**4.5%**	5.7%
Average net operating basis point return[2]	**74.2 bps**	76.2 bps
Number of Investment Management clients	**48,000**	47,000
Number of investment managers	**273**	260

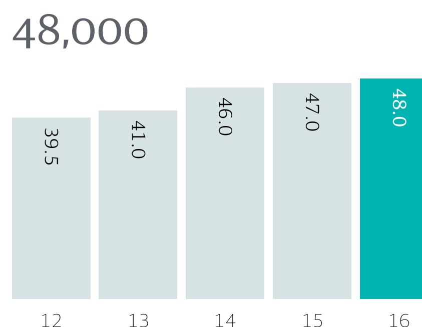
1. See table 4
2. See table 7

During 2016, Investment Management has continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 47,000 in 2015 to approximately 48,000 during the year. During 2016, the total number of investment managers increased to 273 at 31 December 2016 from 260 at the end of 2015.

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

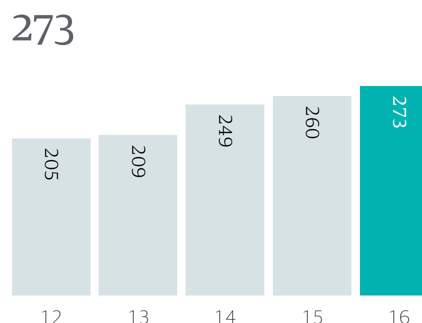
Number of Investment Management clients ('000)

48,000



Number of investment managers

273



Investment Management continued

Funds under management

Investment Management funds under management increased by 15.7% to £30.2 billion at 31 December 2016 from £26.1 billion at the start of the year. This increase is analysed in table 4.

Table 4. Investment Management – funds under management

	2016 £bn	2015 £bn
As at 1 January	**26.1**	24.7
Inflows	**2.7**	3.0
– organic[1]	**2.3**	2.3
– acquired[2]	**0.4**	0.7
Outflows[1]	**(1.5)**	(1.6)
Market adjustment[3]	**2.9**	–
As at 31 December	**30.2**	26.1
Net organic new business[4]	**0.8**	0.7
Underlying rate of net organic growth[5]	**2.9%**	3.0%
Underlying rate of total net growth[6]	**4.5%**	5.7%

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

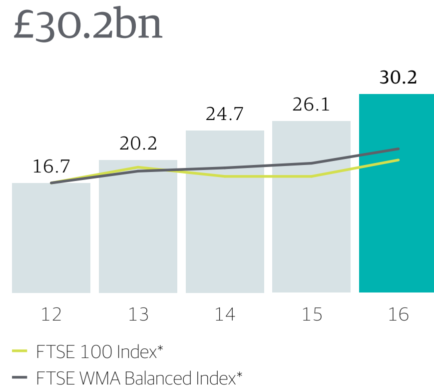
In the context of a year of continuing political and economic uncertainty, our annualised net organic growth rate for our core Investment Management segment of 2.9% (2015: 3.0%) was a sound performance, albeit short of our strategic objective of 5.0%.

Charity funds under management continued to grow strongly and reached £4.1 billion at 31 December 2016, up 17.1% from £3.5 billion at the start of the year. The most recent *Charity Finance* survey ranked the group within the top five largest charity investment managers in the UK by funds under management as at 30 June 2016.

Chart 2. Investment Management – funds under management five year growth

Funds under management (£bn)

£30.2bn



— FTSE 100 Index*

— FTSE WMA Balanced Index*

* Index figures show how funds under management would have changed between 2012 and 2016 if they had tracked each index

We retained our focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers and provider panel relationships increased by £1.2 billion during 2016, ending the year at £6.7 billion.

In total, net organic and acquired growth added £1.2 billion to Investment Management funds under management in 2016 (2015: £1.4 billion), representing an underlying rate of total net growth of 4.5% (2015: 5.7%).

At 31 December 2016, Vision advised on client assets of £1.03 billion, up 21.2% from 2015.

Average investment returns across all Investment Management clients were positive, albeit some 2% lower than the FTSE WMA Balanced Index. This was due in large part to the impact of Brexit on gilt rates where the WMA weighting is typically higher than ours. Currency effects in the second half of the year also impacted our generally underweight holding in overseas equities, particularly in the US. Overall performance against other competitor indices, such as the Private Client Indices published by ARC, was robust.

Financial performance

Table 5. Investment Management – financial performance

	2016 £m	2015 £m
Net investment management fee income[1]	**163.3**	143.8
Net commission income	**38.9**	43.1
Net interest income[2]	**11.6**	10.8
Fees from advisory services[3] and other income	**12.5**	11.3
Underlying operating income	**226.3**	209.0
Underlying operating expenses[4]	**(160.1)**	(145.2)
Underlying profit before tax	**66.2**	63.8
Underlying operating margin[5]	**29.3%**	30.5%

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; excludes interest on own reserves and interest payable on Tier 2 loan notes issued
3. Fees from advisory services includes income from trust, tax and financial planning services
4. See table 8
5. Underlying profit before tax as a percentage of underlying operating income

Investment Management income is derived from:

- a tiered scale of investment management or advisory fees, which are applied on our charging dates based on the value of clients' funds under management
- commissions, which are levied on transactions undertaken on behalf of clients who are not on a fee only tariff
- an interest margin earned on the cash held in clients' portfolios and on loans to clients.

Net investment management fee income increased by 13.6% to £163.3 million in 2016, benefiting from a full year of fees from clients on the new fee only tariff and growth in funds under management. Fees are applied to the value of funds on quarterly charging dates. Average funds under management on these billing dates in 2016 were £28.2 billion, up 9.7% from 2015 (see table 6).

Table 6. Investment Management – average funds under management

	2016 £bn	2015 £bn
Valuation dates for billing:		
– 5 April	**26.1**	26.1
– 30 June	**27.3**	25.6
– 30 September	**29.3**	24.8
– 31 December	**30.2**	26.1
Average	**28.2**	25.7
Average FTSE 100 level[1]	**6659**	6415

1. Based on the corresponding valuation dates for billing

In 2016, net commission income of £38.9 million was down 9.7% on £43.1 million in 2015. This was primarily due to market sentiment, particularly in the first half of the year as uncertainty ahead of the referendum on membership of the EU reduced investment activity more generally. The fee tariff changes in 2015 also reduced commission income as new clients pay a clean fee only.

Net interest income of £11.6 million in 2016 was 7.4% above the £10.8 million in 2015 as the balance of cash in client portfolios increased over the course of the year. Cash held at the Bank of England grew from £583.2 million at 31 December 2015 to £1.08 billion at the end of 2016. The Investment Management loan book contributed £3.0 million to net interest income in 2016 (2015: £2.9 million). Included in net interest income is £1.3 million (2015: £0.5 million) of interest payable on the Tier 2 notes issued in August 2015.

The average net operating basis point return on funds under management has fallen by 2 bps to 74.2 bps in 2016, reflecting both lower commission levels in the first half and lower interest margins.

Table 7. Investment Management – revenue margin

	2016 bps	2015 bps
Basis point return[1] from:		
– fee income	**57.9**	56.0
– commission	**13.8**	16.8
– interest	**2.5**	3.4
Basis point return on funds under management	**74.2**	76.2

1. Underlying operating income (see table 5), excluding interest on own reserves, interest payable on Tier 2 notes issued, fees from advisory services and other income, divided by the average funds under management on the quarterly billing dates (see table 6)

Investment Management continued

Underlying operating expenses in Investment Management for 2016 were £160.1 million, compared to £145.2 million in 2015, an increase of 10.3%. This is highlighted in table 8.

Table 8. Investment Management – underlying operating expenses

	2016 £m	2015 £m
Staff costs[1]		
– fixed	**57.6**	51.3
– variable	**32.4**	29.4
Total staff costs	**90.0**	80.7
Other operating expenses	**70.1**	64.5
Underlying operating expenses	**160.1**	145.2
Underlying cost/income ratio[2]	**70.7%**	69.5%

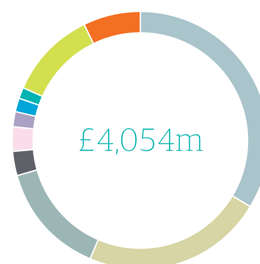
1. Represents the costs of investment managers and teams directly involved in client-facing activities
2. Underlying operating expenses as a % of underlying operating income (see table 5)

Fixed staff costs of £57.6 million increased by 12.3% year-on-year, principally reflecting a 10.6% increase in average headcount; partially offset by a reduction in the accounting charge for pension costs as a number of high earners transferred out of the scheme following the changes to personal taxation of pensions in 2015. Variable staff costs are also higher, reflecting higher underlying profitability and growth in funds under management.

Other operating expenses of £70.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £5.6 million (8.7%) reflects increased investment in the business, recruitment and higher variable awards in line with business performance.

Unit Trusts

Chart 3. Unit Trusts funds



	2016 £m	2015 £m
Rathbone Income Fund	**1,366**	1,188
Rathbone Global Opportunities Fund	**924**	674
Rathbone Ethical Bond Fund	**579**	359
Rathbone Global Alpha Fund	**120**	112
Rathbone Active Income Fund for Charities	**116**	105
Rathbone Recovery Fund	**78**	73
Rathbone Blue Chip Income and Growth Fund	**71**	71
Rathbone Strategic Bond Fund	**62**	56
Rathbone Multi Asset Portfolios	**447**	189
Other funds	**291**	246
	4,054	3,073

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.

Table 9. Unit Trusts – key performance indicators

	2016	2015
Funds under management at 31 December[1]	**£4.0bn**	£3.1bn
Underlying rate of net growth in Unit Trusts funds under management[1]	**18.0%**	14.7%
Underlying profit before tax[2]	**£8.7m**	£6.6m

1. See table 10
2. See table 12

Funds under management

Net retail sales in the asset management industry of £4.7 billion were down £12.1 billion (72%) on 2015, as reported by the Investment Association (IA). The IA cited the impact of extraordinary geopolitical challenges on investor confidence during the year as the principal reason for the fall; although sales growth recovered towards the end of 2016. The post-referendum rally also helped industry funds under management to end the year at £1,045 billion, up 12.6% on the end of 2015.

In contrast to the general industry picture, positive momentum in sales of our funds continued through 2016, particularly in the second half of the year. Gross sales in 2016 totalled over £1.3 billion (2015: £0.9 billion), although sales slowed slightly into the year end and this has continued into early 2017. Redemptions also remained elevated in 2016 at £0.7 billion (2015: £0.5 billion), reflecting the increased levels of disinvestment seen across the industry.

Net inflows of £0.6 billion (2015: £0.4 billion) continued to be spread across the range of funds, with the Income, Global Opportunities and Ethical Bond funds seeing particularly strong net flows in the year. As a result, Unit Trusts funds under management closed the year up 29.0% at £4.0 billion (see table 10).

In May 2016, we launched a range of Luxembourg-based feeder funds for our Multi Asset, Income and Ethical Bond funds. These funds also contributed strongly to growth, particularly in the Strategic Growth and Total Return multi asset portfolios and the Ethical Bond fund. At 31 December 2016, we had £219 million under management in the feeder funds.

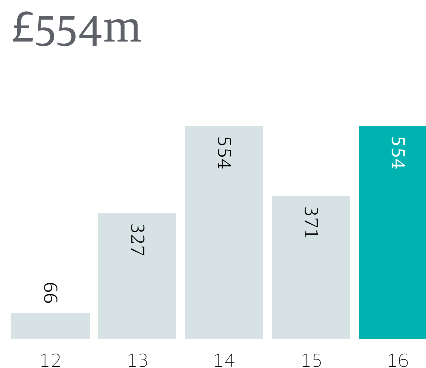
Table 10. Unit Trusts – funds under management

	2016 £bn	2015 £bn
As at 1 January	**3.1**	2.5
Net inflows	**0.6**	0.4
– inflows[1]	**1.3**	0.9
– outflows[1]	**(0.7)**	(0.5)
Market adjustments[2]	**0.3**	0.2
As at 31 December	**4.0**	3.1
Underlying rate of net growth[3]	**18.0%**	14.7%

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 4. Unit Trusts – annual net flows (£m)

£554m



The short term performance of the funds during 2016 was impacted by volatile markets. All funds were relatively defensively positioned during the year, taking a more pessimistic view of market prospects post-Brexit and the US elections, which reflects the funds' longer term investment horizon. Consequently, the funds underperformed their peer group during the reflation rally following the US election, which saw banks and cyclical stocks drive the market higher, both areas in which our funds are underweight due to concerns about the global outlook for 2017. Despite this, the range of funds maintained their strong long term performance track record, which is critical to sales momentum.

Table 11. Unit Trusts – fund performance

2016/(2015) Quartile ranking[1] over:	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	3 (1)	2 (2)	2 (2)
Rathbone Ethical Bond Fund	4 (1)	2 (1)	1 (1)
Rathbone Global Opportunities Fund	4 (1)	2 (1)	1 (1)
Rathbone Income Fund	3 (1)	1 (1)	2 (1)
Rathbone Recovery Fund	3 (1)	3 (1)	2 (2)
Rathbone Strategic Bond Fund[2]	2 (2)	2 (2)	3 (n/a)

1. Ranking of institutional share classes at 31 December 2016 and 2015 against other funds in the same IA sector
2. The Rathbone Strategic Bond Fund was launched on 3 October 2011

Unit Trusts continued

Investors continued to switch from retail to institutional units across all of our funds during the year. Institutional units carry a lower annual management charge (typically half that of retail units), but do not allow for any form of trail commission. By 31 December 2016 some 85% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2015: 76%).

During 2016, the total number of investment professionals in Unit Trusts increased to 14 at 31 December 2016 from 13 at the end of 2015.

Financial performance

Unit Trusts' income is primarily derived from:

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

Table 12. Unit Trusts – financial performance

	2016 £m	2015 £m
Net annual management charges	**21.5**	17.6
Net dealing profits	**3.1**	2.2
Interest and other income	**0.4**	0.4
Underlying operating income	**25.0**	20.2
Underlying operating expenses[1]	**(16.3)**	(13.6)
Underlying profit before tax	**8.7**	6.6
Underlying operating margin[2]	**34.8%**	32.7%

1. See table 13
2. Underlying profit before tax divided by underlying operating income

Net annual management charges increased 22.2% to £21.5 million in 2016, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell marginally to 62 bps (2015: 63 bps).

Net dealing profits of £3.1 million increased by 40.9% on £2.2 million in 2015 due to a higher level of both gross sales and redemptions throughout the year. Underlying operating income as a percentage of average funds under management remained steady at 72 bps in 2016.

Table 13. Unit Trusts – underlying operating expenses

	2016 £m	2015 £m
Staff costs:		
– fixed	**3.0**	3.0
– variable	**5.3**	3.8
Total staff costs	**8.3**	6.8
Other operating expenses	**8.0**	6.8
Underlying operating expenses	**16.3**	13.6
Underlying cost/income ratio[1]	**65.2%**	67.3%

1. Underlying operating expenses as a % of underlying operating income (see table 12)

Fixed staff costs of £3.0 million for the year ended 31 December 2016 were unchanged from the £3.0 million recorded in 2015.

Variable staff costs of £5.3 million were 39.5% higher than £3.8 million in 2015 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 17.6% to £8.0 million, reflecting an increase in third party administration costs in line with growth in the business and higher inter-segment charges as noted above.

Financial position

Table 14. Group's financial position

	2016 £m (unless stated)	2015* £m (unless stated)
Capital resources:		
— Common Equity Tier 1 ratio[1]	**17.7%**	15.4%
— Total Own Funds ratio[2]	**19.5%**	17.2%
— Total equity	**324.8**	300.2
— Tier 2 subordinated loan notes	**19.6**	19.5
— Risk-weighted assets	**892.7**	840.8
— Return on assets[3]	**1.8%**	2.6%
— Leverage ratio[4]	**6.6%**	7.7%
Other resources:		
— Total assets	**2,404.0**	1,833.9
— Treasury assets[5]	**1,995.2**	1,453.2
— Investment management loan book[6]	**106.3**	111.8
— Intangible assets from acquired growth[7]	**160.7**	164.5
— Tangible assets and software[8]	**23.1**	17.0
Liabilities:		
— Due to customers[9]	**1,888.9**	1,402.9
— Net defined benefit liability	**39.5**	4.5

* Restated for measurement period adjustment in respect of business combinations (note 1.4)

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 15) as a proportion of total risk exposure amount
3. Profit after tax divided by average total assets
4. Common Equity Tier 1 capital as a % of total assets, excluding intangible assets, plus certain off balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. See note 16 to the financial statements
7. Net book value of acquired client relationships and goodwill (note 21)
8. Net book value of property, plant and equipment and computer software (notes 19 and 21)
9. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank (note 23)

Regulatory own funds

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

At 31 December 2016, the group's regulatory capital resources (including verified profits for the year) were £174.2 million (2015: £144.3 million).

Table 15. Regulatory capital resources

	2016 £m	2015* £m
Share capital and share premium	**142.5**	100.1
Reserves	**188.5**	206.3
Less:		
— Own shares	**(6.2)**	(6.2)
— Intangible assets[1]	**(166.4)**	(170.5)
Total Common Equity Tier 1 capital resources	**158.4**	129.7
Tier 2 capital resources	**15.8**	14.6
Total own funds	**174.2**	144.3

* Restated for measurement period adjustment in respect of business combinations (note 1.4)

1. Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources

Common Equity Tier 1 capital (CET1) resources increased by £28.7 million during 2016, largely due to the issue of 2.2 million shares on 20 October 2016, which raised net proceeds of £36.9 million. Verified profits for the 2016 financial year, net of dividend, were more than offset by post-tax actuarial losses of £31.4 million arising from the remeasurement of defined benefit pension schemes, reflecting historically low long term corporate bond yields.

Our consolidated CET1 ratio is higher than the banking industry norm. This reflects the low risk nature of our banking activity. The CET1 ratio has grown to 17.7% from 15.4% at the previous year end mainly due to the impact of the share placing, partially offset by the growth in the pension deficit.

Regulatory own funds continued

The leverage ratio was 6.6% at 31 December 2016, down from 7.7% at 31 December 2015. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures.

The business is primarily funded by equity, supported by £20 million of 10 year Tier 2 subordinated loan notes. The notes introduce some gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six-month LIBOR thereafter (note 26).

The consolidated balance sheet remains healthy with total equity of £324.8 million at 31 December 2016, up 8.2% from £300.2 million at the end of 2015, primarily reflecting the impact of the share issue, offset by a deterioration in the reported position of our defined benefit pension schemes.

Own funds requirement

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

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

Pillar 1 – minimum requirement for capital

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

At 31 December 2016, the group's risk weighted assets were £892,650,000 (2015 (restated – note 1.4): £840,800,000).

Pillar 2 – supervisory review process

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

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

Pension obligation risk

The potential for additional unplanned costs that the group would incur in the event of a significant deterioration in the funding position of the group's defined benefit pension schemes. The full impact on Pillar 2 capital of the member consultation process currently underway and the triennial review of the funding position of the scheme will be assessed in 2017. When plans to begin a member consultation to close the scheme were announced in October 2016, it was expected that this could add around £20 million to our capital requirement at that time.

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of a stress and is being phased in from 1 January 2016 to 1 January 2019. As at 31 December 2016, the buffer rate was 0.625% of risk-weighted assets. On 1 January 2017, it increased to 1.25% of risk-weighted assets.

Countercyclical capital buffer (CCyB)

The CCyB is time-varying and is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the FPC for individual countries where the group has credit risk exposures.

The buffer rate is currently set at zero for the UK. However, non-zero rates for Norway, Sweden and Hong Kong, where the group has small relevant credit risk exposures, result in an overall rate of 0.04% of risk-weighted assets for the group as at 31 December 2016. The FPC has announced that it expects to maintain a rate of 0% for the UK until at least June 2017.

PRA buffer

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

The group's own funds requirements were as follows.

Table 16. Group's own funds requirements

	2016 £m	2015* £m
Credit risk requirement	**36.9**	36.5
Market risk requirement	**0.4**	0.3
Operational risk requirement	**34.2**	30.4
Pillar 1 own funds requirement	**71.5**	67.2
Pillar 2A own funds requirement	**27.9**	26.8
Total Pillar 1 and 2A own funds requirements	**99.4**	94.0

* Restated for measurement period adjustment in respect of business combinations (note 1.4)

As at 31 December 2016, the surplus of own funds over total Pillar 1 and 2A own funds requirements was £74.8 million, up from £50.3 million at the end of 2015.

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

– future volatility in pension scheme valuations which affect both the level of CET1 own funds and the value of the Pillar 2A buffer for pension risk
– the staged introduction of incremental CRD IV buffers over the next three years
– regulatory developments
– the demands of future acquisitions which generate intangible assets and, therefore, directly reduce CET1 resources.

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

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

Total assets

Total assets at 31 December 2016 were £2,404.0 million (2015: £1,833.9 million), of which £1,888.9 million (2015: £1,402.9 million) represents the cash element of client portfolios that is held as a banking deposit.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £1,888.9 million (2015: £1,402.9 million) represented 6.3% of total investment management funds at 31 December 2016 compared to 5.5% at the end of 2015. Cash held in client money accounts was £4.5 million (2015: £4.5 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk as described in note 31 to the financial statements. It invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be single 'A'-rated or higher by Fitch and are regularly reviewed by the banking committee. During the year, we increased the share of treasury assets held with the Bank of England to £1,075.7 million from £583.2 million at 31 December 2015, reflecting the marked increase in the level of cash held in client portfolios over the period.

Loans to clients

Loans are provided as a service to Investment Management clients who have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in our nominee name, requiring two times cover, and are usually advanced for up to one year (see note 16 to the financial statements). In addition, charges may be taken on property held by the client to meet security cover requirements.

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

Loans advanced totalled £106.3 million at the end of 2016 (2015: £111.8 million).

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2016, the total carrying value of intangible assets arising from acquired growth was £160.7 million (2015: £164.5 million). During the year, client relationship intangible assets of £7.9 million were capitalised (2015: £15.8 million, including £4.5 million relating to the acquisition of Vision and Castle). No goodwill was acquired during 2016 (2015: £5.9 million).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2016, including the impact of any lost relationships, was £11.7 million (2015: £10.7 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 £0.1 million was recognised in relation to this element of goodwill (2015: £0.3 million). Further detail is provided in note 21 to the financial statements.

Capital expenditure

During 2016, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £15.1 million (2015: £5.9 million). As noted above, capital expenditure in 2016 included £9.9 million for the fit out of the new London head office and further costs will be incurred into 2017.

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. In 2017, we plan to install a new client relationship management system.

Excluding the London office fit out costs, new investment accounted for approximately 67% of capital expenditure in 2016, 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.

Defined benefit pension schemes

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

The accounting valuation is largely driven by the discount rate used to value the schemes' liabilities, which is derived from the yield on highly rated sterling corporate bonds. Following the referendum on EU independence in June, sterling bond yields fell rapidly, which resulted in a material increase in the accounting deficit on the pension schemes and, at 30 September 2016, the combined deficit stood at £58.3 million, up from £4.5 million at 31 December 2015.

As a result of the increased volatility in the schemes following the referendum, we commenced a consultation with members of the defined benefit pension schemes with a view to closing the schemes. The consultation period ended on 31 January 2017 and the decision was taken to close the schemes to future accrual and break the link to final salary with effect from 1 July 2017.

Since 30 September 2016, corporate bond yields have increased and the combined deficit in the schemes at 31 December 2016 had fallen to £39.5 million. Full details of the assumptions underlying the accounting valuation and associated sensitivities are included in note 27 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 were last carried out as at 31 December 2013. As a result, there have been no changes to the level of regular contributions made to the schemes. Funding valuations as at 31 December 2016 will be carried out during 2017.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

	2016 £m	2015 £m
Cash and cash equivalents at the end of the year	**1,263.1**	703.6
Net cash inflows from operating activities	**567.3**	176.5
Net change in cash and cash equivalents	**559.5**	(132.2)

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

As a bank, we are subject to the PRA's 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 £1,075.7 million at 31 December 2016 (2015: £583.2 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 36 to the financial statements). Consequently, cash flows, as reported in the financial statements, include the impact of capital flows in treasury assets.

Net cash flows from operating activities include the effect of a £486.0 million increase in banking client deposits (2015: £120.8 million increase) and a £16.8 million decrease in the component of treasury assets placed in term deposits for more than three months (2015: £5.6 million increase).

In addition, cash flows included a net inflow of £7.0 million from the maturity of longer dated certificates of deposit (2015: £278.3 million net outflow from purchase of longer dated certificates of deposit), which is shown within investing activities in the consolidated statement of cash flows.

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

- inflow of £40.2 million from the issue of ordinary shares, including the placing of 2.2 million shares on 20 October 2016 generating £36.9 million net of placement costs and the remainder from the issue of shares to satisfy awards under share-based incentive plans for employees
- outflows relating to the payment of dividends of £26.5 million (2015: £25.8 million)
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £14.0 million (2015: £20.3 million)
- net outflow of £2.5 million for deferred consideration payments made following the acquisition of Vision Independent Financial Planning and Castle Investment Solutions
- £12.2 million of capital expenditure on property, plant and equipment (2015: £2.5 million).

Social and environmental committee chairman's annual statement

Rathbones' corporate responsibility strategy aims to ensure that social, environmental and ethical considerations are taken into account throughout the business. The social and environmental committee (SEC), which I chair, 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 three times a year and reports directly to the group executive committee.

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 focuses not only on potential risks, but also on opportunities for the company to play its part as a good employer and as a contributor to the 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.

Responsible investing

The concept of stewardship and responsible investment means focusing on the client and ensuring an active approach to the ownership of securities. Implementing effective stewardship is integral to our investment process as a means of protecting and enhancing value for clients, often through encouraging high standards of corporate governance. During 2016, we reviewed and updated our policies in this area and are pleased to report on our progress below.

Our employees

Our business success is dependent upon delivering a highly professional and personal service to our clients and we believe this can only be achieved by having engaged and motivated employees with a diverse range of backgrounds, skills and experiences. Our employee strategy, policies and investment plans are all designed to achieve these goals. Members of staff have access to management and leadership courses, CPD programmes to achieve continuous learning and agreed career development programmes to enable progression within the firm.

Charities and communities

The Rathbone Foundation has continued to support small local charities where its donations can make a real difference. During the year, each office across the firm created a foundation in order to be able to donate and support local charities. The overall charitable objective of the firm is to support small, locally-based charities that help to improve the lives of young people. Further information on our various initiatives can be found below.

Our support of young people has continued in 2016 through our partnerships with English Lacrosse and Lacrosse Scotland and initiatives such as our financial awareness programme. We were also proud to continue our sponsorship of the University of Liverpool's innovative ARION engineering team who broke the men's and women's British land speed record for a human-powered vehicle in 2016.

Environmental reporting

During the 2015/16 reporting period, our overall carbon footprint decreased by 9% from last year and 3% over the last three years despite continuous growth in the business. Our carbon footprint and carbon intensity measures have fallen during this time mainly due to efficient use of electricity across our offices and a reduction in emissions from business travel. Total electricity consumption reduced by 14% since last year, primarily due to improvements in data quality and a reduction in the UK electricity conversion factor. Business travel emission reduced by 6% following a significant reduction in flights emissions. You can find further details of our carbon footprint further in the report.

Finally, 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 and Chairman of the SEC

22 February 2017

Our strategy

Rathbones' corporate responsibility strategy can be summarised as follows.

Investing for clients

- 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.

Developing our employees

- Motivate and reward appropriately, encouraging their development.

Working with communities

- Engage in the communities in which we operate.

Being aware of our environment

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

Investing for clients

Responsible investment

Rathbones specialises in discretionary private client investment management. We manage assets for clients based on their goals. Central processes provide guidance on equity analysis and strategic asset allocation advice, which are shared by the group, but it is central to our business model that investment managers retain their independence to buy and sell securities for clients. Therefore, a top-down responsible investment policy is not considered workable or appropriate for us at this time.

Nonetheless, we are long term investors and ESG factors form a key part of our equity analysis. The issue of governance as a risk factor is covered by the work of our stewardship committee (formerly the group corporate governance committee) recognising that governance issues can be material in the companies in which we invest on behalf of our clients. As well as conducting our own in-house analysis, we subscribe to specialist providers of ESG research as part of our research budget. Social, environmental and ethical considerations are also taken into account for specific mandates throughout the group, particularly those managed by our specialist ethical investment unit, Rathbone Greenbank Investments, and a number managed by our charities team.

Through Rathbone Greenbank Investments and Rathbone Unit Trust Management's 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.

As at 31 December 2016, Rathbone Greenbank Investments had £0.86 billion of funds under management, equivalent to 3.0% of Rathbone Investment Management funds assets under management and the Rathbone Ethical Bond Fund had £579 million of funds under management.

Affiliations

Rathbone Brothers Plc has been both a signatory and respondent to the CDP (Carbon Disclosure Project) since 2006. We are also a signatory to the CDP sister programmes on Water Disclosure and Forests. Rathbone Greenbank Investments became a CDP Investor Member in 2015. The group has been a signatory to the UN-backed Principles for Responsible Investment (PRI) since September 2009 and we continue to play an active role in the PRI Collaboration Platform (formerly the Clearinghouse) a global platform for collaborative engagement initiatives, which aims to encourage sustainable long term value. Out of over 1,600 members of this leading initiative, Rathbones was named as one of the top 20 most active and influential members of the Clearinghouse in 2015 and 2016, a significant achievement given our size relative to other PRI members. In addition, Rathbone Greenbank Investments is a long-standing member of influential responsible investor groups such as the UK Sustainable Investment and Finance Association (UKSIF) and the Ecumenical Council for Corporate Responsibility. Rathbone Greenbank Investments is also a leading member of the Institutional Investors Group on Climate Change (IIGCC).

Investing for clients continued

Voting

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

Rathbone Investment Management exercises the voting rights attached to approximately 90% of the listed UK equity it holds on behalf of its clients. Voting is also undertaken on any company if requested by an underlying shareholder.

Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code and was classified as a Tier 2 signatory by the FRC in 2016. In addition to expanding the scope of proxy voting in 2015 and now employing ISS to vote actively on all of its holdings, Rathbone Unit Trust Management has recently clarified its policy on stewardship and company engagement in line with the demand of regulators.

Votes are entered in line with UK corporate governance best practice, overseen by the stewardship director and fund investment managers. During 2016, the committee oversaw active proxy voting on 5,326 resolutions at 446 company meetings. Voting on these resolutions includes consideration of such issues as executive remuneration, auditor independence, appointment of directors and non-financial reporting.

We are committed to transparency in this area and regularly report on our activities via our website. A more detailed assessment of our votes against management can be found in our review of stewardship and proxy voting.

Engagement

Engagement with companies on ESG matters is largely undertaken by Rathbone Greenbank Investments' ethical research team and the stewardship director on behalf of the stewardship committee. Engagement may occur as a result of fundamental analysis of companies' ESG reporting or through collaborative efforts initiated by interest groups such as CDP, UKSIF or the PRI Collaboration Platform. It covers a wide range of themes spanning the whole of the environmental, social and governance spectrum.

Our clients played an important role in supporting shareholder resolutions at the AGMs of two major European oil and gas companies in the past year, seeking the additional reporting of climate change information. The resolutions themselves received board support and were adopted with large majorities at the respective AGMs.

CDP disclosure and performance score

The CDP has recently revised and updated its methodology. Whereas in previous years we reported an excellent disclosure score and a lower ranking for operational management, the new methodology combines both aspects. We received a 'C' ranking on the CDP methodology for 2016, in line with our sector peers.

Employees

Our approach

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

Employee statistics

% of female employees:	49.2%
% of employees working part-time:	10.7%
% resignation rate:	4.6%

Learning

We continue to support the development of all our employees and have maintained our average annual investment per person at a significant level of £634 and an average of two days. These figures are a conservative estimate because there is much more employee development that has no direct cost and is conducted at the desk.

Our aim when delivering high-quality programmes is to ensure that employees have the best opportunity to put their learning into practice. We do this by engaging with line managers and other stakeholders in the business to ensure that the opportunity and support is in place for employees to use new skills. We regularly implement new initiatives across the group to ensure that all employees have access to development for their current and possible future roles.

Leadership and management development

We have developed a comprehensive suite of management and leadership courses. This is designed to enable the business to identify high-potential employees and progress them through key stages of learning from being highly effective team members to ultimately growing into senior leadership roles. The leadership programme continued successfully throughout the year and the programme again involved senior managers focusing on how to lead their teams to achieve corporate goals. The programme culminates in a presentation about leadership changes and the value of the learning. This format will continue to cascade through the firm during 2017 to build leadership and management skills across the group.

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

Continuing professional development (CPD)

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

Talent development

Rathbones is keen to develop a pipeline of high-calibre talent to ensure appropriate skills and succession planning for the future. Our second apprenticeship programme is well underway with six participants and, in light of the success of this programme, a further group will be recruited in 2017. Our continued commitment to developing younger talent means that the existing graduate development programme will be completed in early 2017 and a new programme started. The new programme will see the trainees participate in a variety of placements around the firm to gain a broad range of experience.

Career development and performance management

We have further developed our career frameworks to help employees see their future pathway for progression within the organisation. There is further work to do in this area and there is a commitment to help employees and managers with the skills required for career management.

The performance management process is reviewed on an ongoing basis and during 2016, we tailored our approach further to prompt more meaningful performance discussions, in particular to include self review and a focus on career aspirations. In 2017, the emphasis will be on more regular and informal reviews with better quality and timely feedback.

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 has two female non-executive directors out of five and has thus achieved our commitment to meet Lord Davies' target of 25% female board representation. We are working towards achieving the adjusted target of 33% of female board representation for FTSE 350 companies by 2020 and are developing a policy and targets aligned to the recommendations published in the Hampton Alexander review in November 2016.

Historically, women are less well represented in the investment management industry and addressing this imbalance is a key priority. We are working hard to bring in more women in graduate trainee positions (our graduate and apprenticeship programmes currently comprise broadly equal numbers of men and women) and by encouraging more applications from women to our work experience and financial career programmes.

Employees continued

We continue to target the progression and development of existing female employees with opportunities for leadership and management programmes. During 2016, we engaged with some of our recently returned maternity leavers to discuss their experiences, their views of our maternity provisions and their recommendations. We aim to take these views into account when reviewing our maternity policies.

Performance and reward

We offer a comprehensive remuneration package, which is regularly reviewed to ensure that our employees are fairly rewarded. 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, rising to 10% with additional employee contributions. In 2016, we started a consultation with members of the company defined benefit pension schemes. This consultation has resulted in a decision to close the schemes and we will provide members with access to pension benefits comparable to those provided to all our other employees.

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

Employees are encouraged to identify with and benefit from the financial performance of the group through our share-matching incentive plan (SIP), free shares and Save As You Earn (SAYE) schemes.

We have a continued focus on employee wellbeing. Employees have access to an Employee Assistance Programme offering confidential advice and support to employees and their families.

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

Employee relations

Engagement with our employees is crucial to the continuing success of the group. We communicate regularly and openly with our employees on matters affecting them and on the issues that have an impact on the performance of the group, actively seeking their feedback on these matters. In September 2015, we carried out an employee engagement survey, which resulted in an overall engagement score of 88%. We have shared the results with our employees and in 2016 we held focus groups with employees from all areas of the business. We are building upon the results of these focus groups to further enhance our employee proposition.

We recognise 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.

Communities

Donations and fundraising

During the year, the group made total charitable donations of £353,000, representing 0.7% of group pre-tax profits (2015: £353,000, representing 0.6% of group pre-tax profits). It also included the matching of employee donations made through the tax efficient Give As You Earn (GAYE) payroll giving scheme. In 2016, our employees made payments totalling £196,000 (2015: £182,000) 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 2016 donated £164,000 (2015: £152,000) to causes chosen by employees through this method.

During 2016, the Rathbone Brothers foundations across the country considered many requests for assistance and met a number of charities. Significant donations were made to the following organisations:

- **Beatson Cancer Charity** is a charity that provides the best cancer treatment in Europe. Our members of staff have volunteered at the centre as well as holding charitable events.
- **The Teapot Trust** provides professional art psychotherapy and support for children with life-limiting chronic illnesses, particularly those suffering complex rheumatological conditions such as juvenile arthritis and lupus.
- **ClearVision** is a lending library that adds Braille to children's books, before loaning them to visually impaired children. The charity's library is well established and serves over 1,000 families, schools, vision support services and public libraries, making over 10,000 loans in the last year alone.
- **Andover Child Contact Centre** enables children of separated families to spend time with their parent or parents in a neutral, supervised and child-friendly environment.
- **The Anthony Walker Foundation** aims to prevent youth involvement in hate crimes, promote racial harmony, encourage the celebration of diversity and personal integrity and realise the potential of all young people through education, sport and the arts.

Investing in brighter futures

The Rathbones Financial Awareness Programme involves investment managers delivering presentations to 16-25 year olds within our offices and at schools around the UK. The programme aims to equip those attending with the necessary information to take ownership of their finances at a young age. In 2016, the programme was delivered to over 2,000 young people. A booklet was created to provide financial education for those who may not be able to attend one of our courses.

We were also lead sponsors of various other youth development programmes such as the Chalke Valley History Festival for Schools, the dot-art art competition, the Bang Goes the Borders science festival and the University of Liverpool students' attempt to break the human-powered land speed record in Nevada. Rathbones further acknowledges the importance of sport in the lives of young people to teach key life skills and, alongside our continued partnerships with English Lacrosse and Lacrosse Scotland, we look forward to welcoming the best in the world at the FIL Rathbones Women's Lacrosse World Cup in summer 2017.

Further information on all of our initiatives for young people can be found at rathbones.com/about-us/sponsorships-and-partnerships.

Local communities

We are committed to supporting the communities in which we are 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.

Environmental impact

Our reporting period covers the 12 months to 30 September 2016 (2015/16) and our baseline year is 2012/13.

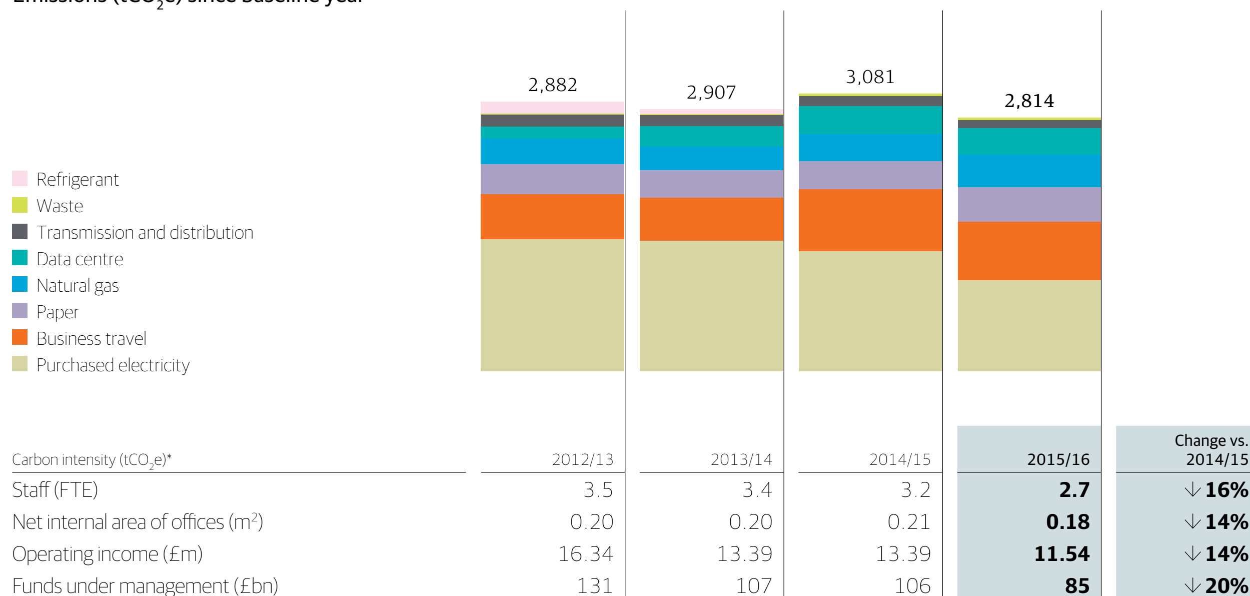
Carbon footprint

As a responsible investor, Rathbones leads by example in our approach to environmental matters. We strive to understand the environmental impacts of our business activities and, where possible, act to reduce them. This is the ninth annual report on our carbon footprint and we are pleased to report a 9% reduction in our total emissions to 2,814 tCO_2e, down from 3,081 tCO_2e in 2014/15.

This reduction has been primarily driven by a 15% reduction in buildings emissions and a 6% reduction in business travel emissions, which together account for 85% of our total footprint. The business has also grown this year with increases in headcount, office space, operating income and funds under management. This growth, combined with the reduction in total emissions, has significantly reduced the carbon intensity of our business.

A summary of our carbon footprint and intensity is detailed below:

Emissions (tCO_2e) since baseline year



Carbon intensity (tCO_2e)*	2012/13	2013/14	2014/15	2015/16	Change vs. 2014/15
Staff (FTE)	3.5	3.4	3.2	**2.7**	**↓ 16%**
Net internal area of offices (m^2)	0.20	0.20	0.21	**0.18**	**↓ 14%**
Operating income (£m)	16.34	13.39	13.39	**11.54**	**↓ 14%**
Funds under management (£bn)	131	107	106	**85**	**↓ 20%**

* Carbon intensity is total (all Scopes) tCO_2e per: FTE; m^2; £m of operating income; £bn of funds under management

Objectives

Our 2015/16 objectives

1. To ensure that energy efficiency measures are adopted where possible during the fit out of the new London headquarters.

   Achieved. The fit out of the new London headquarters commenced in September 2016 and the process completed on 13 February 2017.

2. To ensure that furniture, fittings and equipment at the Curzon Street office are recycled or reused wherever possible.

   In progress. As part of the move to the new London office we will closely monitor this to ensure maximum reuse and recycling.

3. To minimise travel that is not booked through our agents or which is not in accordance with the group travel policy introduced in 2015.

   Achieved. We continue to monitor group travel to ensure it is booked through our agents and is in accordance with our policy. We are pleased to report a 6% reduction in business travel emissions this year.

4. To encourage our landlords to source energy from renewable sources.

   Partially achieved. For sites where we have a direct contract with the supplier, our tariffs are less emissions intensive than the national average and in December 2016 we switched to a 100% renewable tariff at our Winchester site. We will continue to encourage our landlords to switch to renewable sources.

Looking ahead to 2016/17

Next year will be the 10th year in which we report on our carbon footprint and we will be taking an in-depth look at our business to understand how we can align our environmental and sustainability objectives with the broader commercial objectives of our business. Over the course of the next year, we will continue to monitor and, wherever possible, reduce our environmental impacts. We will also develop a strategic approach to addressing these impacts over the longer term, to be disclosed in the 2016/17 report.

Compliance with regulations

Rathbones complies with the regulations for reporting greenhouse gas emissions. Whilst our financial reporting year is the calendar year, our reporting period for greenhouse gas emissions is 1 October to 30 September. Following an operational control approach to defining our organisational boundary, our 2015/16 greenhouse gas emissions from business activities amounted to:

- 357 tCO_2e resulting from the combustion of fuel and the operation of any facilities (classified as Scope 1 in this report)
- 1,009 tCO_2e from the purchase of electricity by the company for its own use (classified as Scope 2 in this report).

During 2015/16 we aquired a small office in Falmouth, which increased our reporting boundary. It has not been practical to gather data on energy use at our Lymington office and we have used typical energy consumption benchmarks to calculate the energy use at this site based on floor area.

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

Environmental impact continued

Carbon intensity

	Operational indicators				Carbon intensity (tCO_2e*)			
	2015/16	2014/15	2013/14	2012/13	2015/16	2014/15	2013/14	2012/13
Staff (FTE)	**1,045**	965	867	829	**2.7**	3.2	3.4	3.5
Net internal area of offices (m²)	**15,369**	14,518	14,430	14,430	**0.18**	0.21	0.20	0.20
Operating income (£m)	**243.8**	230.1	209.3	176.4	**11.54**	13.39	13.89	16.34
Funds under management (£bn)	**33.2**	29.2	27.2	22.0	**85**	106	107	131

* Carbon intensity is the total (all Scopes) tCO_2e per: FTE; m²; £m of operating income; £bn of funds under management

Carbon footprint by scope (tCO_2e)

		2015/16		2014/15		2013/14	2012/13
		Location	Market	Location	Market		(Baseline)
Scope 1	Natural gas	**357**	**357**	301	301	261	281
	Refrigerant	**–**	**–**	2	2	51	23
Scope 2	Purchased electricity	**1,009**	**1,262**	1,332	1,332	1,450	1,463
Scope 3	Data centre[1]	**294**	**356**	314	314	224	133
	Business travel	**649**	**649**	689	689	473	504
	Paper	**388**	**388**	308	308	311	333
	Waste	**27**	**27**	25	25	11	9
	Electricity transmission and distribution	**91**	**91**	110	110	127	136
Total		**2,814**	**3,130**	3,081	3,081	2,907	2,882

1. 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 centres are reported as Scope 3. However, where we state figures for overall buildings electricity use we have included the data centres, as we felt this is the more transparent approach

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 2015 to 30 September 2016. It does not represent an independent third party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbones for the ninth consecutive year to calculate Rathbones' carbon footprint for all offices for its 2016 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 WRI GHG Protocol principles of completeness, consistency and accuracy.

Carbon Smart's work has included interviews with key Rathbones' personnel, a review of internal and external documentation, 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 its organisational boundaries. Rathbones calculates total direct Scope 1, 2 and major Scope 3 emissions. Reported environmental data covers all employees and all entities that meet the criteria of being subject to control or significant influence of the reporting organisation.

Consistency

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

Transparency

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

Accuracy

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

Governance

Corporate governance report

You will find commentaries in this annual report from me and other committee chairmen on important aspects of the firm's governance.

The board's primary focus is on ensuring that the business prospers for the benefit of our shareholders and other stakeholders. The best way to achieve this goal is through good governance and good risk management across the firm. In addition, our long-established, client-focused service ensures that client interests and needs are central to the firm's culture.

The board had six board meetings during the year and met informally on a number of occasions. Prior to each board meeting, the board received written reports on the progress of the business and key performance indicators, together with detailed updates on the progress, and implementation, of agreed strategic initiatives. Immediately before each board meeting I met separately with the non-executive directors to discuss any significant matters arising from these reports and the focus of any challenges. Each board meeting is attended for relevant items by one or more members of the executive committee so that they can address their areas of responsibility in more depth. In addition, in October the board arranged a strategy day, attended by all members of the executive committee, to discuss and review the firm's culture and the progress of certain strategic initiatives.

As a board, we fully support the increasing focus on culture by our regulators. In March 2016, the Senior Managers and Certification Regime came into force. This, inter alia, sets out the responsibility of the board, and in particular of the chairman and chief executive, for leading the development of the firm's culture and embedding it throughout the business. The chief executive and I decided that the appropriate first step was to initiate a review of our culture. The findings were presented and discussed at length with both the full board and the executive committee. It was agreed that a number of metrics illustrating our cultural development would be developed and monitored by the conduct risk committee who would report quarterly to the board. It was also recognised that an overview of the development of our culture would be maintained by the non-executive directors through formal and informal engagement with employees throughout the business.

In relation to the board, David Harrel, our senior independent director and chairman of the remuneration committee, reached the ninth anniversary of his appointment in December 2016 and, as a result, will not be seeking re-election at the 2017 AGM. I would like to thank David for his significant contribution and counsel to the board and me over the last nine years. The board was strongly of the view that it was appropriate and in the best interests of the company that David Harrel should remain as chairman of the remuneration committee until the AGM in May 2017 when the remuneration report is voted upon by shareholders. Subject to regulatory consent, Sarah Gentleman will become chairman of the remuneration committee following the AGM.

I am pleased to also announce the appointment of Jim Pettigrew as a non-executive director, subject to regulatory approval. Jim has considerable experience as both an executive and a non-executive director in the financial services sector. This experience will be of great benefit to the board and I look forward to working with him.

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 maintain regular contact with David Harrel, 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.

During the year, we undertook an annual board effectiveness review, which we focused in particular on areas where we all agree we need to improve. This embraced the way we work together, the focus of the board agenda, including the quality of the board papers and succession planning.

Finally, Rathbones takes the recommendations of the UK Corporate Governance Code seriously and we have been compliant with it throughout the year. In relation to Lord Davies' recommendation on board diversity, we currently have two female directors on our board, which represents 29% of our total board membership. We are aware of the importance of having gender diversity on the board and consideration will be given to it during the recruitment process in order to achieve the 33% female representation target. The success of internal executive succession planning is highly reliant on the management of talent within the organisation, something the board also takes very seriously. In addition, the company is taking steps to ensure that there are no barriers to women succeeding at the highest levels.

Mark Nicholls
Chairman

22 February 2017

Governance at a glance

Governance framework

The board

Chaired by Mark Nicholls – meets six times a year

Accountable to shareholders for the long term sustainable success of the group. This is achieved through setting out the strategy, monitoring of these objectives and providing oversight of the implementation of these objectives by the management team.

Remuneration committee

Chaired by David Harrel

Meets four times a year

The remuneration committee reviews and recommends to the board the framework and policy for the remuneration of the chairman, the executive directors and the non-executive directors. The committee takes into account the business strategy of the group and how the remuneration policy reflects and supports that strategy

See page 60

Group risk committee

Chaired by Kathryn Matthews

Meets four times a year

The group risk committee is responsible for reviewing reports from the business, discussing risk appetite, discussing loss events and near misses and reviewing end-to-end process risk assessments

See page 80

Audit committee

Chaired by James Dean

Meets six times a year

The audit committee has responsibility for overseeing and monitoring the group's financial statements, accounting processes and audit (internal and external) controls

See page 82

Nomination committee

Chaired by Mark Nicholls

Meets twice a year

The nomination committee regularly reviews the structure, size and composition of the board and its committees. It identifies and nominates suitable candidates to be appointed to the board (subject to board approval) and considers talent and succession generally

See page 86

Executive committee

Chaired by Philip Howell

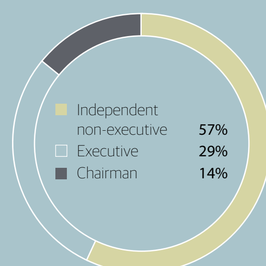
Meets 12 times a year

The executive committee is focused on the implementation of the agreed strategy and the day-to-day management of the group, including reviewing and discussing the annual business plan and budget prior to submission to the board for approval

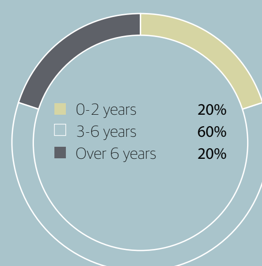
See page 88

Board summary

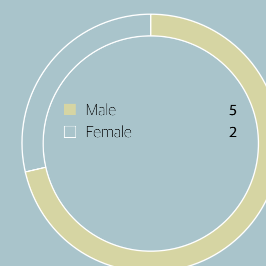
Board composition



Board tenure



Board diversity



Board attendance

	Plc board[1]	Executive committee[2]	Audit committee	Remuneration committee	Nomination committee	Group risk committee
P D G Chavasse	5/5*	11/12				
J W Dean	6/6		6/6	4/4	2/2	4/4
S F Gentleman	6/6		6/6	4/4	2/2	4/4
D T D Harrel	6/6		6/6	4/4	2/2	4/4
P L Howell	6/6	12/12				
K A Matthews	6/6		6/6	4/4	2/2	4/4
M P Nicholls	6/6			4/4	2/2	
R P Stockton	6/6	12/12				

* Mr. Chavasse stepped down from the board on 3 November 2016 and was only eligible to attend meetings up to this date
1. Scheduled bi-monthly meeting
2. Scheduled monthly meeting

UK Corporate Governance Code

Compliance statement

The company complied in full with the provisions of the UK Corporate Governance Code published in September 2014, which applied throughout the financial year ended 31 December 2016.

Board effectiveness

The main elements to board effectiveness are as follows:

i) External board evaluation conducted every three years, which has focused on the following areas:
   - management information flows to the board
   - succession planning to develop executive and non-executive directors
   - induction and development for board members
   - risk management.

ii) Annual director appraisals conducted by the chairman consisting of the completion of a questionnaire and follow up face-to-face meetings with the chairman.

iii) Training and development - annual completion of director CPD programmes.

The role of the board

The board provides the leadership and oversight to ensure long term success for the company. The board currently consists of a non-executive chairman, two 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, the chief executive, the senior independent director and the non-executive directors have been clearly defined and agreed by the board to ensure a separation of power and authority. In addition to their directors' duties, these roles have the following specific responsibilities.

Chairman

– Leading the board and ensuring effective engagement and contribution from all the directors
– Managing board meetings with accurate, clear and timely information in order to ensure effective decision-making
– Promoting effective and constructive relationships between non-executive directors, executive directors and the executive team
– Chairing the nomination committee and considering the composition and succession plans for the board
– Evaluating the performance of the board, its committees and individual directors on an annual basis

Chief executive

– Providing executive leadership and management to the business
– Responsible for the effectiveness of the executive committee
– Delivery of the strategic objectives set by the board in line with the group's risk appetite
– Oversight of the financial position of the group
– Maintain strong relationships with the chairman, the board and key shareholders

Senior independent director

– Act as a sounding board for the chairman and serve as an intermediary for the other directors if required
– Meet with the non-executive directors (without the chairman present) at least annually and lead the board in the ongoing monitoring and annual performance evaluation of the chairman
– Be available to meet with a range of major shareholders to develop a balanced understanding of their issues and concerns and report the outcome of such meetings to 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 biographies of the directors and their details are set out on pages 58 to 59.

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

The chairman and the company secretary manage board and committee meetings and ensure that the board (and particularly the non-executive directors) are receiving appropriate and balanced information. The company secretary facilitates the induction process for new directors, assists with their professional development and advises the board on corporate governance matters and on the rules and regulations that affect a UK-listed company. The appointment or removal of the company secretary is a matter for the board.

Governance of the company

In relation to compliance with the UK Corporate Governance Code ('the Code'), this report together with the directors' report states the position at 22 February 2017. The 2014 Code applied to the company's 2016 financial year. The directors have considered the contents and recommendations of the Code and confirm that throughout the year the company has applied the main principles and complied with the provisions of the Code.

Board effectiveness

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

Board effectiveness review

Each year, the board undertakes an annual review of its effectiveness. In 2014, an external review was undertaken by an independent third party, 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 and associated actions by the board in 2015 were disclosed in our 2015 report and accounts. A subsequent external board evaluation will be held during 2017.

The 2016 board effectiveness review was devised internally, as permitted by the Code. The board was keen for the evaluation to highlight learnings from the past and build on these for the future. The review consisted of a focused questionnaire on key topics such as:

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

The responses of all board members were collated and reported back to the board by an independent third party, Lintstock, who also commented on common themes arising therefrom. Follow up one-to-one sessions were held between the chairman and each director.

Overall the board effectiveness review and the one-to-one sessions were extremely positive and constructive. In particular, there are common views between the executive directors and non-executive directors about what we do well and where there could be improvement. Particular areas for improvement include better information on our performance against our strategic milestones, board papers should be more focused on strategy and strategic context and our executive and non-executive succession plans need further development.

Director appraisal

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

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.

Board committees

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

Directors

Chairman

Mark Nicholls
Chairman

Appointment: 01/12/2010
Age: 67
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: 61
Board committees: **E**

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

Paul Stockton
Finance Director

Appointment: 24/09/2008
Age: 51
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. Two years after the sale of Gerrard in 2005 he left to work initially for Euroclear and, subsequently, as a divisional finance director of the Phoenix Group. He joined Rathbones in 2008 and is also a non-executive director of the Financial Services Compensation Scheme.

Board committees

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

Bold in biographies indicates committee chairman

Non-executive directors

David Harrel
Senior Independent Director

Appointment: 1/12/2007
Age: 68
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. David has a variety of other appointments. He is non-executive chairman of Fairpoint Group plc and a trustee of the Clore Duffield Foundation. David will be retiring from the board following the 2017 AGM and will be stepping down as chairman of the remuneration committee and as senior independent director.

James Dean
Non-executive Director (Independent)

Appointment: 1/11/2013
Age: 59
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 is chairman of The Stafford Railway Building Society. He is chairman of the audit committee.

Sarah Gentleman
Non-executive Director (Independent)

Appointment: 21/01/2015
Age: 46
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. Sarah will be appointed chairman of the remuneration committee following the 2017 AGM.

Kathryn Matthews
Non-executive Director (Independent)

Appointment: 6/01/2010
Age: 57
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 Aperam S.A., J P Morgan Chinese Investment Trust Plc, Montanaro UK Smaller Companies Investment Trust Plc and BT Investments Limited. 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 retired as a non-executive director of Hermes Fund Managers Limited in January 2017. She is chairman of the group risk committee.

Remuneration committee chairman's annual statement

I am pleased to present the remuneration committee report for the year ended 31 December 2016.

2016 was the second year of operation of both the directors' remuneration policy and the Executive Incentive Plan (EIP), which were approved by shareholders in 2015. We have set out in this report details of the performance metrics and targets against which 2016 performance was judged.

Salary

The committee has considered non-executive and executive director salaries for 2017 in light of the prevailing economic conditions and has decided that no increases will be awarded. The budget for salary increases across the company is set at 3%. The committee will continue to use a number of reference points to determine future pay structure, quantum and peer group positioning for executive directors.

EIP outcomes

The strong performance of the FTSE in 2016 helped Rathbones to outperform our profitability targets although, in general, business conditions remained challenging. As reported in the financial performance measures on page 71, the company achieved above target performance in respect of return on capital employed (ROCE) annual profit before tax and operating margin targets, but did not meet threshold performance in respect of the earnings per share (EPS) and organic growth metrics. The committee also noted good progress in the non-financial strategic objectives, which cover critical project performance, stakeholder measures and client experience. In setting the award for non-financial objectives, the committee also considered shareholder feedback and the overall client experience. We have set out in more detail later in the remuneration committee report the 2016 targets and outcomes for the balanced scorecard, which drive the overall EIP award.

The committee has set targets for the EIP for 2017 which will be disclosed in the remuneration committee report next year.

Legacy LTIP scheme

The long term financial and shareholder return performance also meant that the legacy 2014-16 Long Term Incentive Plan (LTIP) has achieved vesting at 67% of maximum. This plan is now closed. There are no outstanding awards under the LTIP and no further awards will be made.

Other remuneration committee work

Over a number of meetings during the year, the remuneration committee considered and approved enhancements to investment managers' remuneration after a comprehensive review of legacy arrangements.

Plans for 2017

During 2017, we will continue to operate executive remuneration arrangements in line with the approved remuneration policy. No changes are proposed to the design of the EIP for the year ahead.

The committee will however be reviewing the level of shareholding that is required to be held by executive directors after conducting a market review of peer companies and following feedback received on last year's remuneration report. Currently, executive directors are encouraged to build and maintain shareholding equal to one times the value of their base salary.

Executive director changes

As announced on 3 November 2016, Paul Chavasse stepped down from the board and will leave the company on 31 March 2017. Information relating to remuneration that will be paid to Mr. Chavasse following his departure from the company can be found on page 70 of this report.

Conclusion

Overall, Rathbones has performed well in 2016 and this is reflected in the EIP awards. The broad range of performance measures in the EIP has allowed the board the scope to recognise appropriately the range of performance outcomes for 2016. The remuneration landscape continues to be the subject of political and regulatory policy changes and, as these evolve, the committee will ensure that our remuneration policy and practice change to ensure compliance and that we remain performance-driven and competitive.

The committee will continue to strive to support the business strategy and the delivery of our performance ambitions.

David Harrel
Chairman of the remuneration committee

22 February 2017

Remuneration at a glance

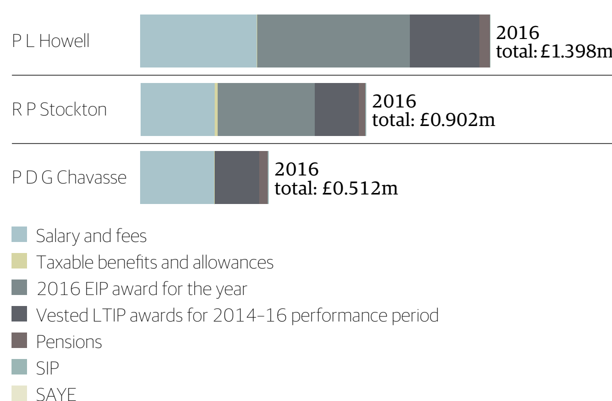
Our remuneration philosophy

Our remuneration policy is designed to be:

- linked to our strategy
- aligned with shareholders' interests with significant, long term equity participation
- simple and transparent
- 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.

To read about our remuneration policy please turn to page 62.

What executive directors were paid for 2016



Final vesting of legacy LTIP

This year is the last year of our transition from the Long Term Incentive Plan (LTIP) to the new Executive Incentive Plan (EIP). This year directors will receive a final vesting from the LTIP as the grants from 2014 vest. The EIP brings the following benefits:

- Simplicity: performance is measured using a single annual assessment
- Balance: performance is assessed using a balanced scorecard of long term and annual financial objectives of the business, non-financial strategic objectives and personal performance
- Alignment: the deferral into shares over five years for 60% of the EIP award, together with a five year holding period on the shares from award date, aligns remuneration with both our five-year strategy and the interests of our shareholders
- Prudence: The EIP maintains a cap on total variable pay of 200% of base salary.

Read more about the LTIP and EIP on pages 71 to 73 and 76.

Why they were paid that

Our overall scorecard

The EIP is based on our overall balanced scorecard. This includes the following metrics:

- financial one year (maximum 50% of base salary)
- financial three year (maximum 80% of base salary)
- non-financial (maximum 30% of base salary)
- personal performance (maximum 40% of base salary).

Read more about our overall balanced scorecard on pages 63 to 64.

Performance highlights

- Above target performance in ROCE, annual profit before tax and underlying operating profit margin
- Good performance in non-financial strategic objectives
- Good performance against personal objectives
- Below threshold performance on earnings per share growth rate and net organic growth.

Read more about our performance on pages 71 to 73.

Directors' remuneration policy

The executive and non-executive directors remuneration policy, which was approved by shareholders at the AGM on 14 May 2015, is presented below.

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 2017 remain unchanged: Philip Howell £463,500 Paul Stockton £294,580	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: – private medical insurance for directors and their dependants – death in service cover – Share Incentive Plan free and matching shares – Save As You Earn scheme – annual medicals – limited legal and professional advice on company-related matters – relocation costs.	Benefits make up a small percentage of total remuneration costs.	Not applicable.	Not applicable.

Executive Incentive Plan

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
The EIP rewards short term performance, 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.	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. Deferred awards are increased by notional adjustments for dividends paid until vesting, calculated using shares held at the record date.	The threshold EIP award is 25% of base salary. The target EIP award is 120% of base salary. The maximum EIP award is 200% of base salary. Actual awards for performance above or below target performance are calculated on a straight line basis between threshold and maximum.	EIP balanced scorecard measures are set by the committee to support the company's strategy. The 2016 metrics and weightings are shown below. These may be amended from time-to-time by the committee, as necessary to maintain alignment with strategy. **Financial (one year) (25% weighting, equally split between the measures)** – underlying profit before tax compared to the budget – net organic growth in funds under management compared to the target – underlying operating profit margin compared to target range. **Financial (three year trailing) (40% weighting, equally split between the measures)** – compound annual growth in EPS over three years – average ROCE over three years – the three year trailing measure are being phased in between 2015 and 2017. For 2016, specific two year targets have been set for EPS and ROCE. These targets are based on the 2016 budget. The performance metrics and range of outcomes for each financial measure (one year and three year trailing) are set by the committee and reviewed annually.	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. 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.

Directors' remuneration policy continued

Executive Incentive Plan continued

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
			Non-financial strategic measures (15% weighting) – assessment of non-financial performance relating to the delivery of client experience, project implementation, regulatory compliance and risk management – objectives and measures are proposed by the chief executive and approved by the remuneration committee annually. **Personal performance (20% weighting)** – personal performance against annual objectives – 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. **Additional considerations** 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: – underlying financial performance – risk management or regulatory compliance issues – personal performance.	

Pension or cash allowance

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
To provide the executive directors with retirement benefits.	Payments may be made to a defined contribution (DC) pension arrangement such as a SIPP or to the group defined contribution scheme. Alternatively, they may receive a cash allowance in lieu of pension.	The maximum personal pension or allowance payment is 14% of salary.	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.	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.	The base fee for the chairman in 2016 was £160,000. This was retained at £160,000 on 1 January 2017. The base fee for the other non-executive directors in 2016 was £50,000. This was retained at £50,000 on January 2017.	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.	Additional responsibility fees are reviewed annually by the board on 1 January.	The additional responsibility fee remained unchanged and payable at £10,000 per annum.	Not applicable.	Not applicable.

Directors' remuneration policy continued

Notes to the directors' remuneration policy table

Remuneration policy changes

No changes have been made to the remuneration policy since its agreement by shareholders in 2015.

Performance metrics

The performance metrics chosen for the EIP are key performance metrics used by the business and shareholders. The comparison of actual profit before tax 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 over a three year term.

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 did not consult 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 service 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
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.

Other directorships

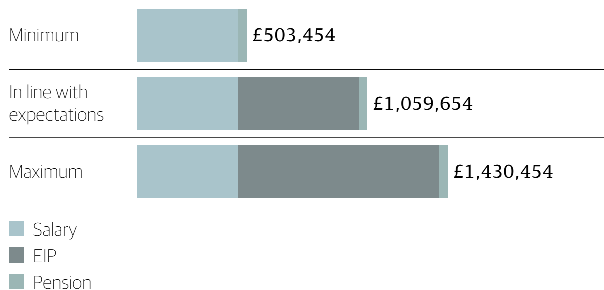
Executive directors are encouraged to take on external appointments as non-executive directors, but are discouraged from holding more than one other position in a quoted company given the time commitment. Prior approval of any new appointment is required by the board with fees being payable to the company.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

Directors' remuneration policy continued

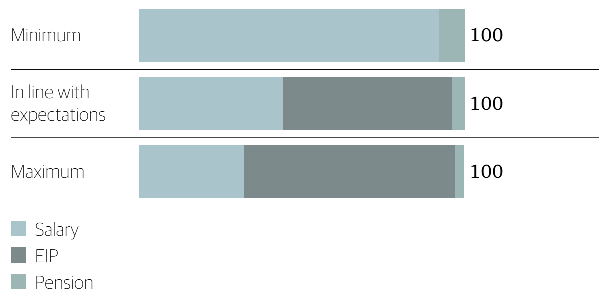
Statement of implementation of the remuneration policy in the current financial year

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

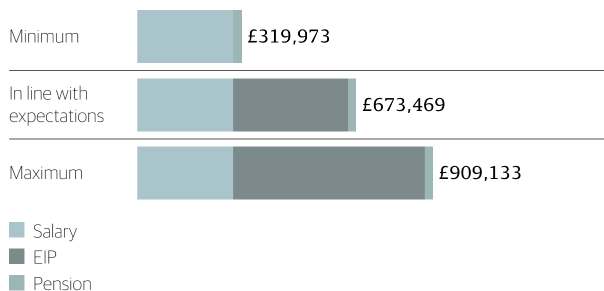
Philip Howell
Value of package (£m)



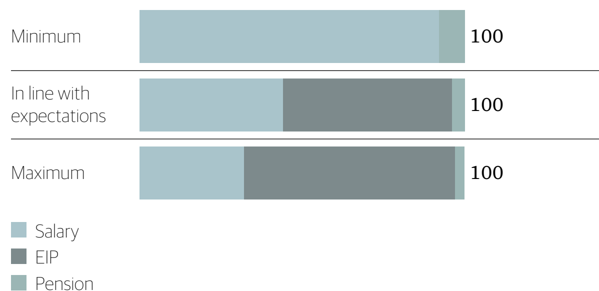
Philip Howell
Composition of package (%)



Paul Stockton
Value of package (£m)



Paul Stockton
Composition of package (%)



Legacy arrangements

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.

Difference between directors' remuneration policy and other employees

All employees, including executive directors, benefit from fixed and variable pay, pension and non-cash benefits. The company operates a number of variable remuneration schemes within the group, some fully discretionary, others with mechanistic elements in addition to a discretionary element. Membership of such schemes is defined by status and job type. Only executive directors and executive committee members benefit from membership of the Executive Incentive Plan.

Annual report on remuneration

The remuneration of directors in 2016 and 2015 is set out in the table below. Executive director remuneration for 2016 includes vesting of legacy LTIP awards made in 2014 where the performance period ended in the year and EIP awards for 2016 performance, 60% of which vests over five years.

The report has been prepared on behalf of the board by the remuneration committee, in accordance with the relevant provisions of the Companies Act 2006, as set out by The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Single total figure of remuneration for each director (audited)

	Salary and fees £'000	Taxable benefits and allowances £'000	2016 EIP award for the year – cash £'000	2016 EIP award for the year – unvested deferred shares £'000	Vested LTIP awards for 2014–16 performance period £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
2016									
Executive directors									
P D G Chavasse	**294**	**2**	**–**	**–**	**177**	**35**	**4**	**–**	**512**
P L Howell	**464**	**2**	**244**	**365**	**279**	**40**	**4**	**–**	**1,398**
R P Stockton	**295**	**13**	**155**	**232**	**177**	**25**	**4**	**1**	**902**
	1,053	**17**	**399**	**597**	**633**	**100**	**12**	**1**	**2,812**
Non-executive directors									
J W Dean	**60**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60**
S F Gentleman	**50**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50**
D T D Harrel	**70**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**70**
K A Matthews	**60**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60**
M P Nicholls	**160**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**160**
	400	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**400**
Total	**1,453**	**17**	**399**	**597**	**633**	**100**	**12**	**1**	**3,212**

	Salary and fees £'000	Taxable benefits and allowances £'000	2015 EIP award for the year – cash £'000	2015 EIP award for the year – unvested deferred shares £'000	Vested LTIP awards for 2013–15 performance period £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
2015									
Executive directors									
P D G Chavasse	294	2	169	254	318	85	3	4	1,129
P L Howell	464	2	290	435	373	40	3	1	1,608
R P Stockton	295	13	182	273	284	25	3	–	1,075
	1,053	17	641	962	975	150	9	5	3,812
Non-executive directors									
J W Dean	60	–	–	–	–	–	–	–	60
S F Gentleman	47	–	–	–	–	–	–	–	47
D T D Harrel	70	–	–	–	–	–	–	–	70
K A Matthews	60	–	–	–	–	–	–	–	60
M P Nicholls	160	–	–	–	–	–	–	–	160
	397	–	–	–	–	–	–	–	397
Total	1,450	17	641	962	975	150	9	5	4,209

Annual report on remuneration continued

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

Executive directors' salaries

As reported last year, salaries were not increased in 2016 and no salary increase will be awarded for the 2017 financial year. The salary disclosed for Paul Chavasse is for the whole financial year, although as noted below, he stepped down from the board on 3 November 2016 whilst continuing to perform his duties on the same salary until 31 December 2016. His employment will terminate on 31 March 2017.

Non-executive directors' fees

Fees paid to the non-executive directors were not increased in 2016 with no increase for the 2017 financial year. 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 and travel expenses for the executive directors.

Payments for loss of office (audited)

Paul Chavasse stepped down from the board effective 3 November 2016 and will leave the company on 31 March 2017 by reason of redundancy.

On cessation of his employment he will be paid in lieu of notice for the balance of his notice period (being seven months). In accordance with the directors' remuneration policy, the payment in lieu of notice will be confined to basic salary, pension allowance and benefits.

The rules of the EIP required the remuneration committee to determine Mr. Chavasse's leaver status and, as termination of his employment is due to redundancy, the committee deemed him to be a good leaver for the purposes of the EIP. This meant that he was granted a 2016 EIP award and that he will retain his 2015 and 2016 EIP awards following termination of his employment. For the avoidance of doubt, Mr. Chavasse will not be eligible for an award under the 2017 EIP. All share awards under the EIP will remain subject to their original vesting and retention schedules as well as the recovery provisions set out in the remuneration policy table.

As part of his termination arrangements, Mr. Chavasse has agreed that any other awards that will vest or have vested in accordance with their terms whilst he remains an employee, but, following his stepping down from the board, will be subject to the same recovery provisions as apply to the EIP.

As the termination of his employment is due to redundancy, Mr. Chavasse is classified as an 'automatic good leaver', under which he will be paid in line with the rules of the SAYE scheme and the SIP. Following cessation of his employment, Mr. Chavasse is entitled to exercise his SAYE options to the extent of the savings in the related SAYE savings contract for a period of six months and to receive his SIP shares.

The amounts paid to Mr. Chavasse as part of his termination arrangements are set out in the table below.

Payment reason	£
Pay in lieu of notice	214,370
Statutory redundancy payment	9,819
Share plans	
2015 Executive Incentive Plan (deferred shares)*	254,100
2016 Executive Incentive Plan (40% cash, 60% deferred shares)*	340,000
2014 deferred profit share*	139,008
Outplacement	10,000
Legal costs	9,500
Total	**976,797**

* Subject to malus and clawback

Executive Incentive Plan (EIP)

The EIP was approved by shareholders at the 2015 AGM. It replaced both the annual bonus scheme and the Long Term Incentive Plan, simplifying our incentive arrangements. It is aligned with our five year strategy and with the interests of shareholders. The overall cap is 200% of base salary. 60% of awards are made in deferred shares, which must be held for a minimum period of five years.

Executive Incentive Plan award 2016

Performance is assessed using a combination of measures that are detailed below:

	Weight %	% of base salary
One year financial	**25**	**50**
Three year financial	**40**	**80**
Non-financial strategic	**15**	**30**
Personal performance	**20**	**40**
Total	**100**	**200**

1) One year financial

The one year financial performance measures are three key performance indicators used by the business, which are closely aligned to our strategy. The one year financial measures and achievement levels are provided below:

	% of base salary	Threshold 25% of base salary	On target 120% of base salary	Maximum 200% of base salary	Actual	Weighted payout (% of base salary)
Financial 1 year						
Annual profit before tax (£m)	16.68%	35.8	39.8	43.8	**50.1**	**16.68%**
Total net organic growth in FUM (%)	16.66%	4.6	5.1	5.6	**4.5**	**0.00%**
Underlying operating margin (%)	16.66%	26.0	27.6	29.1	**29.8**	**16.66%**
	50.00%					**33.34%**

The organic growth in funds under management covers both our Investment Management and Unit Trusts businesses.

2) Three year financial

The three year financial performance measures and achievement levels are provided below:

	% of base salary	Threshold 25% of base salary	On target 120% of base salary	Maximum 200% of base salary	Actual	Weighted payout (% of base salary)
EPS growth (% CAGR)	40.00%	4.0	7.0	10.0	**(6.5)**	**0.00%**
ROCE average (%)	40.00%	15.6	17.0	18.6	**19.2**	**40.00%**
	80.00%					**40.00%**
	130.00%					**73.34%**

Annual report on remuneration continued

3) Non-financial strategic

The non-financial strategic measures are designed to drive strategic goals. They have three components: significant project performance, stakeholder measures (risk and internal audit performance) and client experience measures. For clarity, the measures for 2016 are set out below.

Strategic initiatives

- Complete operational readiness of the Rathbone Private Office
- Complete enhancements to the investment process
- Integration of the financial planning unit

Funds growth initiatives

- Achieve gross inflow targets for Rathbone Unit Trust Management and charities division
- Enhancement to remuneration schemes for investment managers
- Achieve distribution strategy targets

Infrastructure initiatives

- Complete integration of the acquisition of Vision Independent Financial Planning and achieve growth targets
- Complete IT infrastructure review
- Secure the sub letting of offices in Curzon Street

Stakeholder measures

- Risk and internal audit performance
- Employee engagement
- Shareholder feedback

Client experience measures

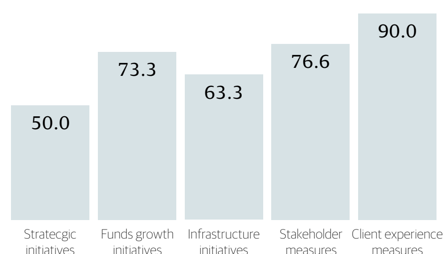
- Investment performance measures
- Conduct risk
- Maintain reduction in client losses and complaints

The remuneration committee has carefully reviewed progress in implementing each of these initiatives and the collective performance of the management team.

Progress on the strategic projects has generally been as planned and objectives have been in line with expectations. Some slippage in implementation for the Rathbone Private Office and Rathbone Financial Planning was evidenced during the year largely due to delays in hiring and contract negotiations. The property market for high-quality office space in Mayfair remains subdued, which has impacted the sub letting of the Curzon Street offices.

Investment performance has been in line with expectations. Client feedback continues to be positive overall and business retention metrics are also positive. Risk and internal audit metrics show good progress.

Non-financial strategic target achievement (%)



The committee concluded that an overall score for this element of 22% out of a maximum of 30% of base salary is merited.

4) Personal performance

Personal performance has been assessed using specific measures appropriate to the directors' roles and responsibilities. Personal performance outcomes are shown below.

Philip Howell's personal objectives included delivery on the strategic plan, incorporating the specific growth initiatives, and the related change agenda. There were also objectives relating to developing the management team and succession, the Vision acquisition and relationships with stakeholders. Philip scored highly on each objective, albeit the development of the Rathbone Private Office and the Rathbone Financial Planning service are behind timetable.

Paul Stockton's personal objectives included measures relating to cost challenges, capital raising and relationship building with external stakeholders. In addition, he has overseen the development and launch of a comprehensive financial management information system and contributed effectively to the board, executive committee and to the leadership of the group.

Executive director	Personal performance (% of base salary)
P L Howell	36%
R P Stockton	36%

Long Term Incentive Plan (LTIP)

The LTIP awards reported are the legacy awards for 2014-16 made prior to the approval of the current remuneration policy at the AGM in May 2015.

Executive directors were awarded rights to acquire ordinary shares at the start of a three year plan cycle. Awards were limited to 100% of salary. 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. The reported awards are those vesting at the end of the 2014-16 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.

TSR over the plan cycle (50%)

Rathbone Brothers Plc Total Return Index (TRI) relative to the FTSE All Share TRI (TSR element)	Vesting of Award %
Below the percentage change in the FTSE All Share TRI	0
Equal to the percentage change in the FTSE All Share TRI	25
Greater to the percentage change in the FTSE All Share TRI by 0.1% to 9.9%	Straight line increase
Greater to the percentage change in the FTSE All Share TRI by 10%	100
Performance achieved	9%
TSR award vesting	**93%**

EPS growth over the plan cycle (50%)

Rathbone Brothers Plc Total Return Index (TRI) relative to the FTSE All Share TRI (TSR element)	Vesting of Award %
Less than 15%	0
15%	25
Over 15% but less than 37.5%	Straight line increase
37.5% and over	100
Performance achieved	20%*
EPS award vesting	**41%**
Total LTIP vesting award 2016	**67%**

* adjusted to exclude costs relating to the acquisition of Vision and Castle, which were expensed as required by accounting standards

For the 2014-16 plan cycle, the Rathbone Brothers Plc TRI increased by 28% while the FTSE All Share TRI increased by 19%, a differential of 9%, resulting in a 93% award for this element of the plan.

EPS increased by 20% from 76.1p in 2013 to 91.1p in 2016 (adjusted to exclude costs relating to the acquisition of Vision and Castle, which were expensed as required by accounting standards), resulting in a 41% award for this element of the plan.

Overall, this resulted in 67% of the LTIP award vesting in 2016.

Pensions

Philip Howell and Paul Stockton are paid a cash allowance of 8.62% of salary.

During 2016, Paul Chavasse was a deferred member of the Rathbone 1987 Scheme having ceased the accrual of benefits with effect from 30 April 2015. The figure disclosed includes the increase in the value of his pension benefits (excluding CPI inflation) less his contributions. Since 1 May 2015, he has been paid a cash allowance of 12.07% of salary per annum.

All executive directors participate in the Rathbone 1987 Scheme for death in service benefits.

Annual report on remuneration continued

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 to buy partnership shares with contributions matched on a one-for-one basis by the company. Free share awards are linked to EPS growth.

Save As You Earn (SAYE)

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

Scheme interests awarded during the year (audited)

Paul Stockton was awarded interests in shares under the all-employee SAYE scheme. A SAYE option grant was made on 29 April 2016 at £16.48, which was 80% of the closing mid-market share price on 5 April 2016 of £20.59. Options may be exercised after three years.

	Number of shares	Option price	Exercise price
R P Stockton	273	£16.48	£4,499

Directors' interests in shares and shareholding guidelines (audited)

In order to align the interests of executive directors and shareholders, the executive directors are required to acquire and retain a holding in shares or rights to shares equivalent to the value of one year's basic salary within five years of the date of appointment. Shares that count towards these guidelines include shares that are owned outright, vested and not exercised EIP and SIP awards and net of tax LTIP awards that have vested. Currently, Paul Stockton has achieved this target and Philip Howell, who was appointed chief executive in March 2014, is expected to achieve this target by the end of 2017.

Directors' share interests as at 31 December 2016

The tables below set out details of the directors' shareholdings and outstanding share awards, which are subject to holding and vesting periods.

	Beneficially owned shares			Interests in shares					
	Private shares	SIP[1]	Total	LTIP	EIP	Deferred profit share scheme	SIP (not yet beneficially owned)[1]	SAYE	Total
Executive directors									
P D G Chavasse	**68,597**	**6,836**	**75,433**	**12,309**	**11,397**	**19,477**	**1,017**	**914**	**45,110**
P L Howell	**9,043**	**278**	**9,321**	**19,436**	**19,491**	**12,151**	**465**	**2,299**	**53,842**
R P Stockton	**46,019**	**2,186**	**48,205**	**12,352**	**12,229**	**16,962**	**634**	**1,140**	**43,318**
Chairman									
M P Nicholls	**3,000**	**749**	**3,749**	–	–	–	–	–	–
Non-executive directors									
J W Dean	**1,000**	–	**1,000**	–	–	–	–	–	–
S F Gentleman	–	–	–	–	–	–	–	–	–
D T D Harrel	–	**765**	**765**	–	–	–	–	–	–
K A Matthews	–	**1,260**	**1,260**	–	–	–	–	–	–
Total	**127,659**	**12,074**	**139,733**	**44,097**	**43,117**	**48,586**	**2,116**	**4,353**	**142,270**

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

Governance

Annual report on remuneration continued

Executive Incentive Plan awards

Executive	Grant date	Face value of award at grant[1]	Normal exercise date (end of sales restriction period)[2]	Unvested options	Vested but unexercised options (subject to sales restriction period)	Options granted[3]	Options vested	Options exercised	Dividend equivalents added to exercised shares	Unvested options	Vested but unexercised options (subject to sales retention)
P D G Chavasse	**22/03/16**	**£254,153**	**22/03/21**	**–**	**–**	**11,397**	**–**	**–**	**–**	**11,397**	**–**
P L Howell	**22/03/16**	**£434,649**	**22/03/21**	**–**	**–**	**19,491**	**–**	**–**	**–**	**19,491**	**–**
R P Stockton	**22/03/16**	**£272,707**	**22/03/21**	**–**	**–**	**12,229**	**–**	**–**	**–**	**12,229**	**–**
						43,117	**–**	**–**	**–**	**43,117**	**–**

1. Exercise price is nil
2. Awards vest in five equal tranches (1, 2, 3, 4 and 5 years from grant). All shares must be held until the fifth anniversary of the grant (the normal exercise date). There are no further performance conditions on these shares
3. The number of shares awarded is calculated based on the 20 day average share price on the day prior to grant. Share price on award was £22.30

LTIP outstanding awards

						Number of nil paid options				
Executive	Plan cycle	Grant date	Market value of shares at date of grant	Performance period end date	Vesting date	At 1 January 2016	Dividend adjustment on vesting	Exercised in 2016	Lapsed in 2016	At 31 December 2016
P D G Chavasse	2013–15	19/03/13	£14.31	31/12/15	19/03/16	13,390	1,140	14,530	–	–
	2014–16	25/03/14	£17.37	31/12/16	25/03/17	12,309	–	–	–	12,309
P L Howell	2013–15	19/03/13	£14.31	31/12/15	19/03/16	15,723	1,341	17,064	–	–
	2014–16	25/03/14	£17.37	31/12/16	25/03/17	19,436	–	–	–	19,436
R P Stockton	2013–15	19/03/13	£14.31	31/12/15	19/03/16	11,944	1,019	12,963	–	–
	2014–16	25/03/14	£17.37	31/12/16	25/03/17	12,352	–	–	–	12,352
Total						**85,154**	**3,500**	**44,557**	**–**	**44,097**

Deferred profit share scheme

Executive	Number of shares: At 1 January 2016	Vested in 2016	Dividend adjustment in 2016	At 31 December 2016
P D G Chavasse				
2012	12,347	12,347	–	–
2013	12,121	–	343	12,464
2014	6,815	–	194	7,009
	31,283	12,347	537	19,473
P L Howell				
2012	–	–	–	–
2013	–	–	–	–
2014	11,816	–	335	12,151
	11,816	–	335	12,151
R P Stockton				
2012	12,550	12,550	–	–
2013	9,388	–	266	9,654
2014	7,106	–	202	7,308
	29,044	12,550	468	16,962
Total	**72,143**	**24,897**	**1,340**	**48,586**

SAYE outstanding options

Executive	Grant date	Number of shares: At 1 January 2016	Granted in 2016	Exercised in 2016	Lapsed in 2016	At 31 December 2016	Earliest exercise date	Latest exercise date	Market price on grant (p)	Exercise price (p)
P D G Chavasse	28/03/13	813	–	813	–	–	01/05/16	01/11/16	1,397	1,106
	28/04/15	914	–	–	–	914	01/06/20	01/12/20	2,051	1,641
P L Howell	28/03/13	1,356	–	–	–	1,356	01/05/18	01/11/18	1,397	1,106
	01/05/14	578	–	–	–	578	01/06/19	01/12/19	1,945	1,556
	28/04/15	365	–	–	–	365	01/06/20	01/12/20	2,051	1,641
R P Stockton	28/03/13	406	–	406	–	–	01/05/16	01/11/16	1,397	1,106
	01/05/14	867	–	–	–	867	01/06/17	01/12/17	1,945	1,556
	28/04/16	–	273	–	–	273	01/06/19	01/12/19	2,059	1,648
Total		**5,299**	**273**	**1,219**	**–**	**4,353**				

Annual report on remuneration continued

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 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.

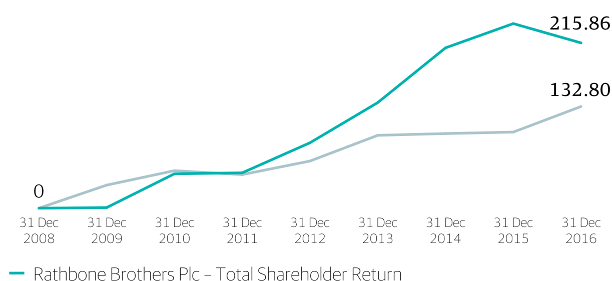
The following LTIP award will be paid out in respect of the 2014-16 plan cycle which ended on 31 December 2016. The conditional share awards were granted on 25 March 2014 using a share price of £17.36. The performance conditions were achieved at 67% of maximum and the awards will vest on 25 March 2017. Adjustments have been made to reflect dividends paid since the date of grant.

2014-16 LTIP actual award	Number of shares
I M Buckley	2,344

Performance graph (unaudited)

The chart below shows the company's TSR against the FTSE All Share Index for the eight years to 31 December 2016. 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.

Rathbone Brothers Plc TSR against the FTSE All Share Index TSR (% change)



Chief executive officer single figure (unaudited)

During the seven years to 31 December 2016, 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	EIP award or short term bonus as % of maximum opportunity	Long term incentive awarded as % of maximum opportunity
2016	**Philip Howell**	**1,398**	**66**	**67**
2015	Philip Howell	1,608	78	100
2014	Philip Howell	999	89	n/a
2014	Andy Pomfret	342	n/a	96
2013	Andy Pomfret	1,204	59	100
2012	Andy Pomfret	1,046	38	100
2011	Andy Pomfret	678	46	–
2010	Andy Pomfret	736	52	24

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

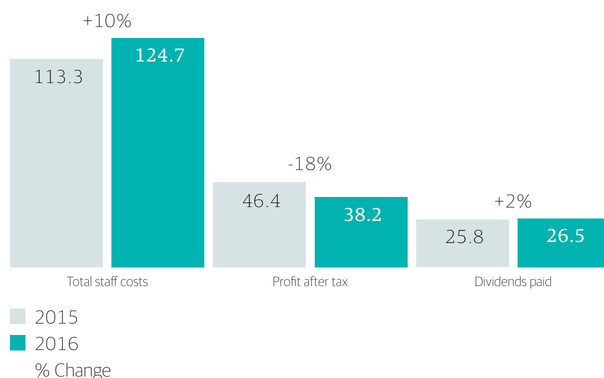
The table below shows the percentage year-on-year change in salary, benefits and bonus in 2016 for the chief executive compared with the average Rathbones employee.

	Salary	Benefits	Annual bonus
CEO	–	–	(16%)
Average pay based on all Rathbones employees	2%	14%	13%

Relative importance of spend on pay

The chart below shows the relationship between total employee remuneration, profit after tax and dividend distributions for 2015 and 2016. The reported profit after tax has been selected by the directors as a useful indicator when assessing the relative importance of spend on pay.

Relative importance of spend on pay (£m)



Implementation of the remuneration policy in 2017

In 2017, the remuneration policy will be applied in a similar way to 2016. Incentive awards under the EIP will continue to be linked to a scorecard of longer term financial metrics and annual metrics covering financial, non-financial strategic and personal performance criteria. Targets and outcomes will be published in the remuneration committee report following the 2017 year end. Performance under the long term trailing metrics (EPS growth and ROCE) will be measured against published underlying results over the three years from 2015.

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. The committee met on six occasions in 2016 (2015: four). Details of attendance by members are set out on page 55.

Advisers to the committee and their fees

New Bridge Street has been adviser to the committee since 1 July 2014. They are members of the Remuneration Consultants Group and advise 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 £37,381 in 2016. The appointment of advisers is reviewed annually.

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

Statement of shareholder voting

The directors' remuneration policy and the annual report on remuneration received the following votes from shareholders:

	Annual report on remuneration (2016 AGM)	Remuneration policy (2015 AGM)
Votes cast in favour	96.4%	96.8%
Votes cast against	3.6%	3.2%
Total votes cast	100.0%	100.0%
Votes withheld	210,393	1,373,106

Approval

The remuneration committee 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

22 February 2017

Group risk committee chairman's annual statement

The economic challenges and heavy regulatory agenda coupled with firm-specific risks have kept the group risk committee occupied throughout 2016. Significant enhancements to our risk management and risk appetite frameworks have been made throughout the year and we are satisfied that we have the skills and talent across the group to meet the challenges and opportunities that lie ahead.

As in previous years, the committee apportions its time between the planned periodic review of key risks and the close scrutiny of topical business risks as they develop. This approach allows us to ensure that emerging risks can be identified and debated and that management's plans for risk mitigation are well understood and appropriately resourced. During the year, the committee saw further improvement in the quality of the management information that it receives.

Committee members

Our current members are the independent non-executive directors: myself as chairman, James Dean, Sarah Gentleman and David Harrel. We met on four occasions in 2016 (2015: four). Details of attendance by members are set out on page 55.

In addition to the members of the committee, standing invitations are extended to the chairman, the executive directors, the chief risk officer and the head of internal audit. All attend committee meetings as a matter of course and inform the committee's discussions. Other executives, risk team members and external advisers are invited to attend the committee from time-to-time as required to present and advise on reports commissioned. In addition, I regularly meet with the chief risk officer and her risk team in a combination of formal and informal sessions and with senior management across all divisions of the group to discuss the business environment and to gather their views of emerging risks.

Role and responsibilities of the committee

These are set out in the terms of reference of the committee, which are available on the company website. The terms of reference are reviewed annually and approved by the board. The key activities of the committee are to:

- review reports from the investment management performance monitoring team
- review reports from the risk team on risk appetite issues including any early warning signals and advise the board accordingly
- review reports from the head of compliance
- review reports from the head of anti-money laundering
- discuss any loss events and near misses, the lessons learned and management action taken
- discuss external risk-related events
- discuss significant issues raised at the banking, conduct risk and risk management committee meetings
- review and approve changes to the top 10 risk list and the watch list of emerging risks
- review end-to-end process risk assessments undertaken and any resulting internal control enhancements
- advise the board on the risk aspects of proposed major strategic change
- review (prior to board approval) key regulatory submissions including the Group Internal Capital Adequacy Assessment Process (ICAAP) document
- review (prior to board approval) the annual ISAE3402 report on the investment management operations and custody control systems.

Actions in 2016

Further enhancements were made to the group's risk management framework in 2016, including the continued evolution of the three lines of defence model to ensure that it remains aligned to industry and regulatory standards, particularly as Rathbones became subject to the Senior Managers and Certification Regime. Emerging risk assessment has been an increasing focus of the risk management team and a standing agenda item for the committee's discussion.

A number of areas of operational risk were stressed as part of the annual ICAAP process. Following robust debate and challenge, the committee and board were satisfied that the group's business model and allocated risk appetite remained appropriate. This is an important outcome given the number of change management programmes underway across the group and in our regular meetings there is specific focus on the progress of key projects and initiatives.

Ensuring that we remain fully compliant with the numerous new banking rules is increasingly challenging and we continue to evolve our risk framework so that it remains appropriate and relevant for all our businesses.

Looking ahead to 2017

We are committed to the continuing development of our approach to risk management across the lines of defence. In the first line, we expect to see delivery of a number of projects currently in flight that should strengthen further the sustainability of good client outcomes. We have recently agreed additional resources, which will be used to strengthen the second line teams in anticipation of the likely demands arising from the current change agenda.

We also see further convergence between culture, risk and compensation as the risk culture approach in the firm is developed and revised compensation schemes are implemented. The group risk committee and remuneration committee will continue to work in cooperation to ensure that risk behaviours and the management of risk issues over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Full details of our risk management framework are included in the strategic report on pages 18 to 25.

Kathryn Matthews
Chairman of the group risk committee

22 February 2017

Audit committee chairman's annual statement

During 2016, the external environment and market conditions impacted Rathbones, which led to another busy year for the audit committee. The committee has considered a wide range of topics with a focus on the following areas:

- analysis of the firm's financial reporting with particular consideration on accounting judgments taken during the preparation of the financial statements
- oversight of the effectiveness of the firm's internal and external auditors
- monitoring of the firm's capital position in line with regulatory requirements.

In addition, the Financial Reporting Council (FRC) informed the company during the year that it had reviewed the annual report for the year ended 31 December 2015 and there were no proposed major financial reporting changes.

Committee members

Our current members are the independent non-executive directors: James Dean (chairman), Sarah Gentleman, David Harrel and Kathryn Matthews.

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 six occasions in 2016 (2015: six). Details of attendance by members are set out on page 55. The chief executive, finance director, chief risk officer, head of internal audit and the external audit partner and manager attend almost all meetings by invitation.

Role and responsibilities of the committee

These are set out in the terms of reference of the committee, which are available on the company's website. The terms of reference are reviewed annually and approved by the board.

What we have done

Financial reporting

During the year, we considered the significant financial and regulatory reporting issues, the judgments made in connection with the financial statements, viability and going concern statements and the appropriateness of accounting policies. We reviewed the narrative statements in the 2016 report and accounts, 2016 interim statement and other market updates to ensure that they were fair, balanced, understandable and consistent with the reported results. The committee has been aware of the latest developments in financial reporting and FRC guidance.

Placing

We considered the potentially significant impact the defined benefit pension schemes deficit could have on the firm's regulatory capital and distributable reserves. We discussed and supported the board's decision to undertake a share placing to raise approximately £36.9 million to fund the near term capital requirements and provide a degree of financial flexibility for the firm. The committee assessed the associated financial and reporting implications.

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 supporting the valuation of defined benefit pension obligations, particularly salary increases, investment returns, inflation and the discount rate, which are disclosed in note 27 to the financial statements. We reviewed the professional advice taken by the company and discussed the assumptions used by us and by other companies with the auditors. We satisfied ourselves that the assumptions used were reasonable.

Provisions and contingent liabilities

We discussed provisions totalling £14.7 million summarised in note 25 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.

Internal audit

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

The 2016 internal audit plan was approved by the committee ahead of the start of the year with a greater focus on thematic work. The internal audit plan is subject to an annual risk-based appraisal. In setting audit scope, the internal audit function will take into account business strategy and form an independent view of whether the key risks to the organisation have been identified, including emerging and systematic risks and assess how effectively these risks are being managed. The status of scheduled work, and the follow up of agreed actions arising from reviews, to ensure that agreed recommendations are acted upon promptly and regularly reported to the committee.

What we have done continued

External audit

We place great importance on the quality, effectiveness and independence of the external audit process. In order to review the external audit process, including the performance of the external auditors, feedback is gathered from both committee members and from management. This process was undertaken by internal audit. We also reviewed the annual FRC Audit Quality Inspection report prepared on our external auditor and discussed this report with the audit partner. The assessment of the auditor's effectiveness forms part of our annual consideration of whether the auditor should be recommended to the board for reappointment. We continue to believe that KPMG LLP are performing effectively and their reappointment will be recommended to shareholders at the 2017 AGM. There are no contractual or similar obligations restricting the firm's choice of external auditors.

The committee is 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 10th anniversary of their appointment and planning will commence during 2017. The committee is satisfied that the company has complied, during the financial year under review and up to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitor Tender Processes and Audit Committee Responsibilities) Order 2014.

We challenged reports from the external auditor outlining their risk assessments and 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.

Non-audit fees payable to the auditor in 2016 were £161,000. This represents 27% of the fees for assurance services of £597,000, which includes the assurance reports required by our regulators and the review of the interim statement (2015: £166,000, 29% of £570,000). Other non-audit work undertaken by the auditor in 2016 was largely in relation to pensions advisory work and the annual ISAE3402 attestation.

We discussed the independence of the external auditor, the nature of non-audit services supplied by them and non-audit fee levels relative to the audit fee. As a result of the EU Audit Directive and Audit Regulations, a review of the non-audit services policy was conducted and a new policy was approved effective as of 1 January 2017. The revised policy includes prohibited services and sets a new fee guide that aims to achieve a target cap of 70% of the statutory audit fee in any year. The committee's prior approval is only required where the fee for an individual non-audit service is expected to exceed £50,000.

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

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 7 to the financial statements) and reviewed the audit engagement letter. We also had discussions with the external auditor with no management present to provide an opportunity for any concerns to be raised and discussed.

Whistleblowing policy

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

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

Overview of priorities for 2017

As well as considering the standing items of business, the committee will also focus on the following areas during 2017:

- implementation plans for upcoming reporting standards, namely IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'
- accounting for recently implemented remuneration arrangements
- capital planning and forecasting.

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

Approval

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

James Dean
Chairman of the audit committee

22 February 2017

Nomination committee chairman's annual statement

The nomination committee's primary focus this year has again been on succession planning for the board.

Committee members

Our current members are Mark Nicholls (chairman), James Dean, Sarah Gentleman, David Harrel and Kathryn Matthews.

We met formally on two occasions in 2016 (2015: two). Details of attendance by members are set out on page 55. In addition, there have been a number of other informal discussions amongst members of the committee during the year.

Role and responsibilities of the committee

The responsibilities of the committee include reviewing the composition of the board and making recommendations to the board for the appointment of directors. The board as a whole then decides upon any such appointment.

The committee has responsibilities for succession planning for top management and for executive and non-executive directors. 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. The current terms of reference for the nomination committee are available on the company's website.

An external search consultancy is 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.

What we have done

Board appointment

The main focus of the committee has been on non-executive succession and, in particular, the appointment of a new non-executive director as David Harrel, senior independent director and chair of the remuneration committee, completed his nine years' service on 1 December 2016 and will not be seeking re-election at the AGM in 2017.

Considerable discussion took place between the directors during the year, both formally and informally, regarding the skills and experience we were seeking in a new non-executive director. It was agreed that it was important to appoint an experienced non-executive director with extensive knowledge of the financial services industry and who had significant listed company board experience. A job description was prepared and used as a basis for interviewing four independent search consultants. Spencer Stuart was chosen to undertake the search (this firm has no relationship with the company). After reviewing a long list, five candidates were shortlisted for interview. One candidate, Jim Pettigrew, was interviewed by the nomination committee and recommended for appointment by the board, subject to approval by the regulators.

The nomination committee recommended to the board that it was appropriate and in the best interests of the company that David Harrel should remain as chairman of the remuneration committee until the AGM in May 2017 when the remuneration committee report is voted upon by shareholders.

The nomination committee also recommended to the board that, subject to regulatory consent, Sarah Gentleman be appointed chairman of the remuneration committee following the AGM. In relation to the role of senior independent director, the nomination committee will be going through the process of appointment in due course.

Independence and re-election to the board

During 2016, we considered the independence of David Harrel and Kathryn Matthews as non-executive directors as their board tenure had reached nine and six years respectively. Consideration was given not only to their excellent contribution to the board, but also to whether there was any evidence that their independence had been impaired by their length of service on the board. The conclusion was that there was no evidence to indicate their independence had been impaired. All other non-executive directors, with the exception of David Harrel, will be standing for re-election at the 2017.

Board diversity

The board recognises the importance of diversity and that it is a wider issue than gender. We believe that members of the board should collectively possess a diverse range of skills, expertise, industry knowledge, business and other experience necessary for the effective oversight of the group. The nomination committee considers diversity as one of many factors when recommending new appointments to the board. For further information on our approach to diversity, please refer to the corporate responsibility report on pages 45 to 46.

Succession planning

We continued to develop and monitor succession plans at both board and executive levels. During 2016, the management presented information on the firm's short and long term succession planning and development programmes for senior management. Potential successors have been identified for senior management positions and non-executive directors have met key individuals as part of normal board interactions and their visits to various teams in London and across the country. Following the departure of Paul Chavasse, the committee reviewed the plan to redistribute his responsibilities and requested an updated succession plan.

While the benefits of a diverse board and management team are recognised, improving the gender balance at senior management level continues to be a challenge, as is the case in many similar businesses.

Looking forward

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

Mark Nicholls
Chairman of the nomination committee

22 February 2017

Executive committee chairman's annual statement

Please see the chief executive's review on pages 8 to 10. Biographies for the executive committee members are available on our website.

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.

What we have done

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

Items of particular focus in 2016 were implementation of the strategic initiatives relating to Rathbone Financial Planning and the Rathbone Private Office, the move to new London premises, implementation of an IT transformational programme, managing pension risks and raising £36.9 million in the October Rathbone Brothers Plc share placement. The committee also oversaw the launch of master feeder funds in Luxembourg, which facilitate international distribution and has been keen to develop suitability processes and systems in investment management teams in the year.

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

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

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

Philip Howell
Chairman of the executive committee

22 February 2017

Executive committee members

Our current members and their responsibilities are below.

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 55. Ad hoc and informal meetings are held as required.

Philip Howell
Chief Executive

Paul Stockton
Finance Director

Rupert Baron
Head of Investment Management in London

Mike Bolsover
Head of Strategy and Organisation Development

Andrew Butcher
Chief Operating Officer

Ivo Clifton
Head of Specialist and Charity Business

Andrew Morris
Head of Investment Management outside London

Sarah Owen-Jones
Chief Risk Officer

Richard Smeeton
Head of Investment Management Special Projects and Recruitment

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

Group results and company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2016 was £38,157,000 (2015: £46,371,000). The directors recommend the payment of a final dividend of 36.0p (2015: 34.0p) on 16 May 2017 to shareholders on the register on 21 April 2017. An interim dividend of 21.0p (2015: 21.0p) was paid on 5 October 2016 to shareholders on the register on 9 September 2016. This results in total dividends of 57.0p (2015: 55.0p) per ordinary share for the year. These dividends amount to £28,267,000 (2015: £26,305,000) – see note 12 to the financial statements.

The company operates a generally progressive dividend policy subject to market conditions. The aim is to increase the dividend in line with the growth of the business over each economic cycle. This means that there may be periods where the dividend is maintained but not increased and periods where profits are retained rather than distributed to maintain retained reserves and regulatory capital at prudent levels through troughs and peaks in the cycle.

Share capital

The company's share capital comprises one class of ordinary shares of 5p each. At 31 December 2016, 50,682,679 shares were in issue (2015: 48,134,286). 8,979 shares were held in treasury (2015: 50,000). Details of the movements during the year are set out in note 28 to the financial statements. The shares carry no rights to fixed income and each share carries the right to one vote at general meetings. All shares are fully paid.

There are no specific restrictions on the size of a shareholding or on the transfer of shares, which are both covered by the provisions of the Articles of Association and prevailing legislation.

New issues of share capital

Under section 551 of the Companies Act 2006, the board currently has the authority to allot 16,000,000 shares (approximately one third of the issued share capital at 31 March 2016). The existing authorities given to the company at the last AGM to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolutions renewing these authorities are included in the Notice of AGM.

Awards under the company's employee share plans are met from a combination of shares held either in treasury or in the employee share trust as well as by newly issued shares. During the year, the company transferred 41,021 shares out of treasury for a total consideration of £780,000 and issued 286,285 shares to satisfy share awards.

In addition, the company has, over the last three year period, issued a total of 7.5% of its issued share capital of ordinary shares. On 20 October 2016, the share placing was concluded and the directors authorised the allotment of 2,224,210 ordinary shares for a net consideration of £36.9 million, at a share price of £17.10.

Purchase of own shares

Following the last AGM resolution to purchase own shares, the board currently has the authority to buy back up to 2,400,000 shares under certain stringent conditions. During the year, the company did not utilise this authority but the board considers it would be appropriate to renew it. We intend to seek shareholder approval for the continued authority to purchase own shares at the forthcoming AGM in line with current investor sentiment.

Details of the resolution renewing the authority are included in the Notice of AGM.

Appointment and removal of directors

Regarding the appointment and replacement of directors, the company is governed by the company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation.

Amendments to the constitution of the company

Amendment of the Articles of Association requires a special resolution of shareholders.

Employee Share Trust

Salamanca Trustees Limited is the trustee of the Rathbone Employee Share Trust, an independent trust, which holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy awards under the Long Term Incentive Plan. As part of these arrangements, the company issued shares to the trust to enable the trustee to satisfy these awards. Further details are set out in note 29 to the financial statements. During the year, the Employee Share Trust issued 29,328 ordinary shares.

In addition, under the rules of the Rathbone Share Incentive Plan, shares are held in trust for participants by Equiniti Share Plan Trustees Limited ('the Trustee'). Voting rights are exercised by the Trustee on receipt of the participant's instructions. If no such instruction is received by the Trustee then no vote is registered. No person has any special rights of control over the company's share capital and all issued shares are either fully or nil paid.

Directors

All those who served as directors at any time during the year are listed on pages 58 to 59, with the exception of Paul Chavasse who stepped down from the board on 3 November 2016. The directors' interests in the share capital of the company at 31 December 2016 are set out on pages 74 to 75 of the remuneration committee report..

Employees

Details of the company's employment practices, its policy regarding the employment of disabled persons and its employee involvement practices can be found in the corporate responsibility report on pages 45 to 46.

Corporate responsibility

Information about greenhouse gas emissions are set out in the corporate responsibility report on pages 48 to 51.

Financial instruments and risk management

The risk management objectives and policies of the group are set out in note 31 to the financial statements.

Insurance and indemnification of directors

The company has put in place insurance to cover its directors and officers against the costs of defending themselves in civil legal action taken against them in that capacity and any damages awarded. The company has granted indemnities, which are uncapped, to its directors and to the company secretary by way of deed. Qualifying third party indemnity provisions, as defined by Section 234 of the Companies Act 2006, were therefore in place throughout 2016 and remain in force at the date of this report.

Substantial shareholdings

As at 31 December 2016, the company had received notifications in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following interests.

Table 1. Substantial shareholdings

Shareholder	Holding at 22 Feb 2017	% held at 22 Feb 2017
Lindsell Train Ltd.	7,064,822	13.94%
MFS Investment	4,509,649	8.9%
Mawer Investment Management Ltd	2,853,094	5.63%
Franklin Templeton Investments	2,186,536	4.31%
Aviva Investors	2,063,094	4.07%
Troy Asset Management	1,846,725	3.64%
Heronbridge Investment Management	1,540,395	3.04%

Share price

The mid-market price of the company's shares at 31 December 2016 was £19.83 (2015: £22.00) and the range during the year was £15.90 to £23.59 (2015: £19.99 to £23.13).

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 7 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 2017 AGM.

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

Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's review, strategic report and group risk committee report. In addition, note 1.5 to the financial statements provides further details.

Group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. The company publishes Pillar 3 disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. In July 2015, Rathbone Investment Management issued £20 million of 10 year subordinated loan notes to finance future growth. The group has no other external borrowings.

In 2016, 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.

Political donations

No political donations were made during the year (2015: nil).

Post-balance sheet events

Details of post-balance sheet events are set out in note 37 to the financial statements.

FCA's Disclosure Guidance and Transparency Rules

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, this directors' report and the strategic report on pages 1 to 51 comprise the management report.

Annual General Meeting

The 2017 AGM will be held on Thursday 11 May 2017 at 12.00 noon at 8 Finsbury Circus, London EC2M 7AZ. Full details of all resolutions and explanatory notes are set out in the separate Notice of AGM.

By order of the board

Ali Johnson
Company Secretary

22 February 2017

Registered office: 8 Finsbury Circus, London EC2M 7AZ

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

The directors are responsible for preparing the report and accounts 2016, comprising the consolidated financial statements of Rathbone Brothers Plc and its subsidiaries (the 'group') and holding company financial statements (the 'parent company') in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments 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, remuneration committee report and corporate governance statement that comply with that law and those regulations.

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

Disclosure of information to the auditor

The directors who held office at the date of approval of the 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 himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Responsibility statement of the directors in respect of the annual report

We confirm that to the best of our knowledge:

- the consolidated 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 the undertakings included in the consolidation taken as a whole
- the strategic report and directors' report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- 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 position and performance, business model and strategy.

By order of the board

Philip Howell
Chief Executive

22 February 2017

Financial statements

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 2016 set out on pages 100 to 174. 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 2016 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, in decreasing order of audit significance, were as follows.

Recognition and carrying amount of client relationship intangibles £97,201,000 (2015: £100,869,000) Risk vs 2015: ►
Refer to page 83 (audit committee report), pages 109 to 110 (accounting policy) and pages 126 to 127 (financial disclosures).

The risk: The group has capitalised significant amounts as client relationship intangibles, including both those purchased individually (initially recognised at cost) and those acquired as part of a business combination (initially recognised at fair value).

The key judgment areas our audit concentrated on were:

Judgment areas impacting individually purchased client relationships

- The group makes contractual payments to its investment managers for introducing new client relationships. For newly recruited managers, the group capitalises payments that are deemed to represent the transfer of existing client relationships already held by the investment manager. The group has determined the appropriate accounting policy is to capitalise payments made to investment managers in respect of previously held client relationships transferred to the group during the 12 month period after the conclusion of any 'non-compete' arrangements between an investment manager and their previous employer. The capitalisation period is extended beyond 12 months in exceptional circumstances, where management consider that the investment manager is introducing previously held client relationships beyond that period; although there were no such cases during the year. There is a risk that payments are inappropriately capitalised outside of the 12 month period or that they do not relate to client relationships previously held by the investment manager.

Judgment areas impacting individually purchased client relationships and client relationship intangibles acquired historically in business combinations

- For client relationship intangibles acquired historically in business combinations, the group assesses whether there is an indication of impairment considering a range of impairment triggers. Where such an indication exists, the group considers whether the ongoing benefits offered by the capitalised client relationship intangibles are greater than their carrying value and, if not, an impairment provision is recorded. However, in the current year the group assessed that there was no indication of impairment. There is a risk that a client relationship intangible was impaired, but the group did not record an impairment provision, because the impairment trigger remained undetected.
- The group assesses whether the ongoing benefits offered by the individually purchased client relationships are greater than their carrying value.
- The group estimates the useful economic lives of the client relationships over which these intangible assets are subsequently amortised to be typically between 10 and 15 years. The judgments made by the group in respect of the useful economic life could result in material differences in the financial statements.

Our response: To assess the appropriateness of the recognition and carrying value of client relationship intangibles 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:

Judgment areas impacting individually purchased client relationships

- We considered whether the payments capitalised fell within the relevant 12 month period by comparing the dates of client transfers with the employment contract of the investment manager. We performed a recalculation of new client relationship intangibles recognised in the year and assessed whether the amounts capitalised were in line with the contractual agreements with the investment manager. On a sample basis we tested that such costs related to relationships already held by the investment manager by obtaining relevant documentary evidence.

Judgment areas impacting individually purchased client relationships and client relationship intangibles acquired historically in business combinations

- For the element of the client relationship intangibles previously capitalised under IFRS 3 'Business Combinations' we have critically assessed the group's own review of the client relationship intangibles against a range of impairment triggers.
- In considering the adequacy of the impairment assessment performed by the group to support the carrying value of client relationship intangibles previously capitalised under IAS 18 'Revenue', we assessed the population for closed client accounts or non-income generating clients to assess whether they were appropriately derecognised.
- Our consideration of the appropriateness of the useful economic lives of the client relationships 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.

Valuation of defined benefit pension deficit £39,455,000 (2015: £4,501,000) Risks vs 2015: ▲

Refer to page 83 (audit committee report), page 111 (accounting policy) and pages 130 to 134 (financial disclosures).

The risk: The parent company has recognised a pension deficit of £39.5 million as at 31 December 2016. The valuation of the defined benefit pension deficit depends on a number of judgmental assumptions and estimates, including the discount rate used to calculate the current value of the future payments the group expects to pay pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments and the life expectancy of pension scheme members. The valuation is an important judgment as this balance is volatile and impacts the parent company's distributable reserves. The group obtained advice from actuarial specialists in order to calculate this obligation 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 than the liability recognised at the year end.

As a result of legislative changes which provide pension scheme members greater flexibility over the use of their pension, increased judgment is required to estimate the future number of members who will transfer out of the pension fund. This has increased the risk of material misstatement compared to the prior year.

Our response: Our procedures included using our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the pension deficit. The key assumptions and estimates we tested included the discount rate, RPI inflation, salary growth, allowance made for future transfers and life expectancy 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 also considered management's judgment in selecting its assumptions and whether there were any indicators of management bias.

We obtained a breakdown of assets held in both defined benefit pension schemes. We independently verified the value of a sample of the assets held within both schemes.

We have also considered the adequacy of the group's disclosure in respect of the defined benefit pension deficit and the assumptions used which is set out in note 27 to the financial statements.

Accounting for the acquisition of Vison Independent Financial Planning ('Vision') and Castle Investment Solutions ('Castle')

The accounting for the acquisition of Vision and Castle was identified as a significant audit risk in the prior year. Given this is a one-off risk in the year of acquisition in relation to the judgment involved in applying IFRS 3 'Business Combinations', we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

Opinions and conclusions arising from our audit continued

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

Materiality for the group financial statements as a whole was set at £2.8 million (2015: £2.8 million), determined with reference to a benchmark of group profit before tax, normalised to exclude payments of £4.4 million in relation to the acquisition of Vison and Castle which are one off expenses and not considered to be part of the continuing operations, of which it represents 5% (2015: 5%).

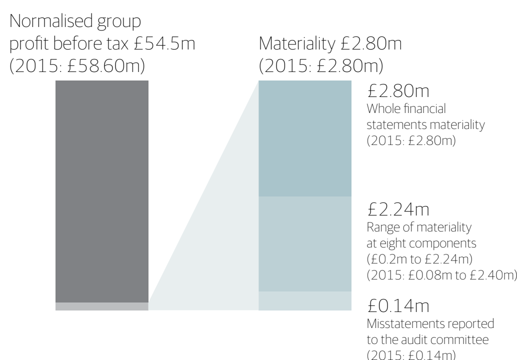
We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £140,000 (2015: £140,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed at all eight (2015: six) of the group's reporting components.

Audits of six (2015: six) of the eight (2015: six) reporting components were performed by the group audit team. This audit work was performed by the group auditor to materiality levels set individually for each component which ranged from ranged from £0.2 million to £2.24 million (2015: £0.08 million to £2.40 million).

For the remaining two (2015: nil) reporting components the group audit team instructed a component auditor as to the significant areas to be covered, including the relevant risks and the information to be reported back. The group audit team approved the component materialities, which ranged from £0.02 million to £0.1 million, having regard to the mix of size and risk profile of the group across the components. The group audit team held conference calls with the component auditors to assess the audit approach to key risks and to discuss the findings reported to the group audit team in more detail.

The components scoped in for group reporting purposes accounted for 100% of total group revenue, group profit before tax and total group assets.



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

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance report set out on pages 53 to 57 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures ('the specified Corporate Governance information') is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report, the directors' report and the corporate governance report:

- we have not identified material misstatements in the strategic report, the directors' report, or the specified Corporate Governance information;
- in our opinion, the strategic report and the directors' report have been prepared in accordance with the Companies Act 2006; and
- in our opinion, the corporate governance report has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Rules and Transparency Rules of the Financial Conduct Authority.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of longer term viability on page 25, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 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 position and 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' statements, set out on page 92 and page 25, in relation to going concern and longer term viability; and
- the part of the corporate governance report on page 57 relating to the company's compliance with the 11 provisions of the 2014 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 94, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/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

15 Canada Square
London
E14 5GL

22 February 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Interest and similar income		**13,890**	12,663
Interest expense and similar charges		**(2,319)**	(1,822)
Net interest income	4	**11,571**	10,841
Fee and commission income		**253,192**	222,638
Fee and commission expense		**(17,936)**	(8,049)
Net fee and commission income	5	**235,256**	214,589
Net trading income	6	**3,103**	2,230
Other operating income	6	**1,353**	1,361
Share of profit of associates		**–**	157
Gain on remeasurement of non-controlling interest	8	**–**	885
Operating income		**251,283**	230,063
Charges in relation to client relationships and goodwill	7	**(11,735)**	(11,014)
Acquisition-related costs	8	**(5,985)**	(162)
Loss on derivative financial instruments		**–**	(1,030)
Head office relocation costs	9	**(7,031)**	(412)
Other operating expenses		**(176,403)**	(158,813)
Operating expenses	7	**(201,154)**	(171,431)
Profit before tax		**50,129**	58,632
Taxation	11	**(11,972)**	(12,261)
Profit after tax		**38,157**	46,371
Profit for the year attributable to equity holders of the company		**38,157**	46,371
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability	27	**(37,318)**	6,524
Deferred tax relating to net remeasurement of defined benefit liability	20	**5,936**	(1,509)
Items that may be reclassified to profit or loss			
Net gain on revaluation of available for sale investment securities	17	**93**	53
Deferred tax relating to revaluation of available for sale investment securities	20	**(14)**	(10)
Other comprehensive income net of tax		**(31,303)**	5,058
Total comprehensive income for the year net of tax attributable to equity holders of the company		**6,854**	51,429
Dividends paid and proposed for the year per ordinary share	12	**57.0p**	55.0p
Dividends paid and proposed for the year		**28,267**	26,305
Earnings per share for the year attributable to equity holders of the company:	13		
– basic		**78.9p**	97.4p
– diluted		**78.2p**	96.6p

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

Consolidated statement of changes in equity

for the year ended 31 December 2016

	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 2015		2,395	92,987	31,835	28	(5,531)	149,557	271,271
Profit for the year							46,371	46,371
Net remeasurement of defined benefit liability	27						6,524	6,524
Net gain on revaluation of available for sale investment securities	17				53			53
Deferred tax relating to components of other comprehensive income	20				(10)		(1,509)	(1,519)
Other comprehensive income net of tax		–	–	–	43	–	5,015	5,058
Dividends paid	12						(25,836)	(25,836)
Issue of share capital	28	12	4,656					4,668
Share-based payments:								
– value of employee services							1,022	1,022
– cost of own shares acquired	29					(2,413)		(2,413)
– cost of own shares vesting	29					1,767	(1,767)	–
– tax on share-based payments	20						51	51
At 1 January 2016		**2,407**	**97,643**	**31,835**	**71**	**(6,177)**	**174,413**	**300,192**
Profit for the year							**38,157**	**38,157**
Net remeasurement of defined benefit liability	27						**(37,318)**	**(37,318)**
Net gain on revaluation of available for sale investment securities	17				**93**			**93**
Deferred tax relating to components of other comprehensive income	20				**(14)**		**5,936**	**5,922**
Other comprehensive income net of tax		**–**	**–**	**–**	**79**	**–**	**(31,382)**	**(31,303)**
Dividends paid	12						**(26,479)**	**(26,479)**
Issue of share capital	28	**128**	**42,003**					**42,131**
Share-based payments:								
– value of employee services							**3,035**	**3,035**
– cost of own shares acquired	29					**(1,585)**		**(1,585)**
– cost of own shares vesting	29					**1,084**	**(1,084)**	**–**
– own shares sold	29		**345**			**435**		**780**
– tax on share-based payments	20						**(115)**	**(115)**
At 31 December 2016		**2,535**	**139,991**	**31,835**	**150**	**(6,243)**	**156,545**	**324,813**

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

Consolidated financial statements

Consolidated balance sheet

as at 31 December 2016

	Note	2016 £'000	2015 £'000 (restated – note 1.4)
Assets			
Cash and balances with central banks	14	**1,075,673**	583,156
Settlement balances		**37,787**	17,948
Loans and advances to banks	15	**114,088**	108,877
Loans and advances to customers	16	**110,951**	117,269
Investment securities:			
– available for sale	17	**105,421**	53,386
– held to maturity	17	**700,000**	707,745
Prepayments, accrued income and other assets	18	**65,710**	59,513
Property, plant and equipment	19	**16,590**	10,006
Net deferred tax asset	20	**10,601**	4,577
Intangible assets	21	**167,192**	171,453
Total assets		**2,404,013**	1,833,930
Liabilities			
Deposits by banks	22	**294**	299
Settlement balances		**39,289**	21,481
Due to customers	23	**1,888,895**	1,402,890
Accruals, deferred income, provisions and other liabilities	24	**85,154**	78,716
Current tax liabilities		**6,523**	6,359
Subordinated loan notes	26	**19,590**	19,492
Retirement benefit obligations	27	**39,455**	4,501
Total liabilities		**2,079,200**	1,533,738
Equity			
Share capital	28	**2,535**	2,407
Share premium	28	**139,991**	97,643
Merger reserve		**31,835**	31,835
Available for sale reserve		**150**	71
Own shares	29	**(6,243)**	(6,177)
Retained earnings		**156,545**	174,413
Total equity		**324,813**	300,192
Total liabilities and equity		**2,404,013**	1,833,930

The financial statements were approved by the board of directors and authorised for issue on 22 February 2017 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 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit before tax		**50,129**	58,632
Share of profit of associates		**-**	(157)
Net interest income		**(11,571)**	(10,841)
Net impairment charges on impaired loans and advances	16	**9**	19
Net charge for provisions	25	**1,355**	1,045
Profit on disposal of property, plant and equipment		**(16)**	(4)
Loss on fair value of derivative financial instrument		**-**	1,030
Gain on remeasurement of non-controlling interest	8	**-**	(885)
Depreciation, amortisation and impairment		**20,716**	16,115
Defined benefit pension scheme charges	27	**3,058**	4,217
Defined benefit pension contributions paid	27	**(5,422)**	(6,902)
Share-based payment charges	10	**5,201**	4,629
Interest paid		**(2,308)**	(1,282)
Interest received		**14,085**	11,349
		75,236	76,965
Changes in operating assets and liabilities:			
– net decrease/(increase) in loans and advances to banks and customers		**16,785**	(5,606)
– net increase in settlement balance debtors		**(19,839)**	(2,058)
– net increase in prepayments, accrued income and other assets		**(6,392)**	(2,396)
– net increase in amounts due to customers and deposits by banks		**486,000**	120,763
– net increase/(decrease) in settlement balance creditors		**17,808**	(1,103)
– net increase in accruals, deferred income, provisions and other liabilities		**9,762**	329
Cash generated from operations		**579,360**	186,894
Tax paid		**(12,025)**	(10,414)
Net cash inflow from operating activities		**567,335**	176,480
Cash flows from investing activities			
Dividends received from associates		**-**	107
Acquisition of subsidiaries, net of cash acquired		**(2,532)**	(3,528)
Purchase of property, plant, equipment and intangible assets		**(26,137)**	(22,879)
Proceeds from sale of property, plant and equipment		**16**	33
Purchase of investment securities	17	**(905,701)**	(988,127)
Proceeds from sale and redemption of investment securities	17	**912,745**	709,853
Net cash used in investing activities		**(21,609)**	(304,541)
Cash flows from financing activities			
Issue of ordinary shares	36	**40,199**	2,255
Net proceeds from the issue of subordinated loan notes	26	**-**	19,454
Dividends paid	12	**(26,479)**	(25,836)
Net cash generated from/(used in) financing activities		**13,720**	(4,127)
Net increase/(decrease) in cash and cash equivalents		**559,446**	(132,188)
Cash and cash equivalents at the beginning of the year		**703,628**	835,816
Cash and cash equivalents at the end of the year	36	**1,263,074**	703,628

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

1 Principal accounting policies

Rathbone Brothers Plc ('the company') is a public company incorporated and domiciled in England and Wales under the Companies Act 2006.

1.1 Basis of preparation

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The company financial statements are presented on pages 157 to 174.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (notes 1.12 and 1.16). The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the consolidated financial statements.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries), together 'the group', made up to 31 December each year.

The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained, and no longer consolidated from the date that control ceases; their results are included in the consolidated financial statements up to the date that control ceases. Intercompany transactions and balances between group companies are eliminated on consolidation.

1.3 Developments in reporting standards and interpretations

Standards and interpretations affecting the reported results or the financial position

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

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:

- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Disclosure Initiative (Amendments to IAS 1)

Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual periods beginning after 1 January 2016 and, therefore, have not been applied in preparing these consolidated financial statements. IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' are expected to have the most significant effect on the consolidated financial statements of the group.

IFRS 9 'Financial Instruments'

IFRS 9 is effective for periods commencing on or after 1 January 2018. The standard was endorsed by the EU during 2016. The group has not adopted this standard early.

IFRS 9 changes the classification and measurement of financial assets and the timing and extent of credit provisioning. Although the group has not quantified the impact of adopting the standard, it has conducted a preliminary assessment of the potential impact, based on the profile of its financial instruments as at the balance sheet date.

Classification of financial assets

The basis of classification for financial assets under IFRS 9 is different from that under IAS 39. Financial assets will be classified into one of three categories: amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed. In addition, the classification criteria for allocating financial assets between categories are different under IFRS 9.

The group does not expect the new classification bases to have a material impact on its financial assets. Those currently carried at amortised cost (including cash with central banks, loans and advances to banks and customers, and debt securities) will continue to be classified as such. Money market funds currently classified as available for sale will most likely be classified as FVOCI, given that the intention is to hold them both to collect contractual cash flows and for sale, should the need or opportunity arise.

Impairment of financial assets

Under IFRS 9, an expected credit loss model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A provision must be made for the amount of any loss expected to arise over the life of the group's financial assets. Under IAS 39, credit losses are recognised when they are incurred.

Under the expected credit loss model, a dual measurement approach applies whereby a financial asset will attract a loss allowance equal to either 12 month expected credit losses or lifetime expected credit losses. The latter applies if there has been a significant deterioration in the credit quality of the asset.

This requires an assessment of the likelihood of default and any potential loss that may arise in the event of default. Consequently, a small impairment charge will be required to be recognised in the financial statements.

However, due to the high credit quality of the financial assets currently held (the group has not experienced any historical credit losses in its treasury or loan portfolios), the group does not expect material impairment losses to be recognised under the new standard.

Classification of financial liabilities

The basis of classification for financial liabilities under IFRS 9 remains unchanged from that under IAS 39. The two categories are amortised cost or fair value through profit or loss (either designated as such or held for trading).

The group does not currently designate any liabilities as fair value through profit or loss and does not anticipate doing so. Therefore, under IFRS 9, the group expects to classify all financial liabilities as amortised cost, with no material impact on measurement.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for periods commencing on or after 1 January 2018. The standard was endorsed by the EU during 2016. The group has not adopted this standard early.

IFRS 15 changes how and when revenue is recognised from contracts with customers. Although the group has not quantified the impact of adopting the standard, it has conducted a preliminary assessment of the potential impact, based on its existing revenue streams.

Net fee and commission income

A number of subsidiaries in the group charge initial fees in relation to certain business activities. Under IFRS 15, the group will be required to make an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, then these fees can be recognised when charged; if not, then the fees can only be recognised in the period the services are provided.

The group does not expect this change to result in a material impact on the consolidated financial statements.

Client relationship intangibles

Where payments are made to new investment managers to secure investment management contracts, such costs are capitalised and amortised, where they are separable, reliably measurable and expected to be recovered, under IAS 18.

IFRS 15 reinforces this view, stating that incremental costs of obtaining any contract with a customer shall be capitalised if the entity expects to recover those costs.

Therefore, the group does not believe the adoption of IFRS 15 will materially change the way it accounts for client relationship intangibles.

Transition

The group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach.

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard has not yet been endorsed by the EU and the group does not plan to adopt this standard early.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases. The group will be required to recognise all leases with a term of more than 12 months as a right-of-use lease asset on its balance sheet; the group will also recognise a financial liability representing its obligation to make future lease payments.

Although the group has not quantified the impact of adopting the standard, it has conducted an initial assessment of the potential impact, based on its existing lease contracts, as well as the new leases signed for its new London head office at 8 Finsbury Circus, all of which are classified as operating leases.

Transition

Definition of a lease

On transition to IFRS 16, the group can choose whether to:

– apply the new definition of a lease to all its contracts; or

– apply a practical expedient and retain previous assessments of which contracts contain a lease.

The group intends to apply the practical expedient.

1 Principal accounting policies 1.3 Developments in reporting standards and interpretations continued

Retrospective approach

As a lessee, the group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The group is assessing the impact of both approaches in relation to its existing lease contracts.

Potential impact

The group's total assets and total liabilities will be increased by the recognition of lease assets and liabilities. The lease assets will be depreciated over the shorter of the expected life of the asset and the lease term. The lease liability will be reduced by lease payments, offset by the unwinding of the liability over the lease term.

On the group's statement of comprehensive income, the profile of lease costs will be front-loaded, at least individually, as the interest charge is higher in the early years of a lease term as the discount rate unwinds. The total cost of the lease over the lease term is expected to be unchanged.

In addition to the above impacts, recognition of lease assets will increase the group's regulatory capital requirement. At the present time, the extent of this impact has not been clarified by the group's regulators.

Lessor accounting

Where the group acts as an intermediate lessor in a sub-lease arrangement it will need to make adjustments for such leases. However, the impact is expected to be immaterial.

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.

Measurement period adjustment

In the current year, the group recognised a measurement period adjustment to provisional amounts in respect of a business combination completed on 31 December 2015. This has arisen due to payments made to the previous owners of the acquired companies during the current year, in respect of the net assets of the companies at the acquisition date.

Comparatives have been restated for the impact of the adjustment. As at 31 December 2015, the group's total assets have been increased by £301,000, and total liabilities have been increased by the same amount. There has been no impact on operating income, profit or shareholders' equity in the current or prior periods. Further details on the restated comparatives can be found in note 8.

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 assets or liabilities related to employee benefit arrangements, which are measured in accordance with applicable accounting policies described elsewhere in this note.

1.5 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence. In forming this view, the directors have considered the company's and the group's prospects for a period exceeding 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.6 Foreign currencies

The functional and presentational currency of the company and its subsidiaries is sterling.

Transactions in currencies other than the relevant group entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in profit or loss for the year.

1.7 Income

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 investment management fees, commissions receivable or payable and fees from advisory services are recognised on a continuous basis over the period that the related service is provided.

Commission charges for executing transactions on behalf of clients are recognised when the transaction is dealt.

Initial charges receivable from the sale of unit holdings in the group's collective investment schemes and related rebates are recognised at the point of sale.

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.

1.8 Operating leases

Lease agreements which do not transfer substantially all of the risks and rewards of ownership of the leased assets to the group are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. The impact of any lease incentives is spread over the term of the lease.

1.9 Share-based payments

The group engages in 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 continued

1.10 Taxation

Current tax

Current tax is the expected tax payable or receivable on net taxable income for the year. Current tax is calculated using tax rates enacted or substantively enacted by the balance sheet date, together with any adjustment to tax payable or receivable in respect of previous years.

Deferred tax

Deferred tax is accounted for under the balance sheet liability method in respect of temporary differences using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised, except where the temporary difference arises:

- from the initial recognition of goodwill or
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination or
- in relation to investments in subsidiaries and associates, where the group is able to control the reversal of the temporary difference and it is the group's intention not to reverse the temporary difference in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

1.11 Cash and cash equivalents

Cash comprises cash in hand.

Cash equivalents comprise money market funds, which are realisable on demand and loans and advances to banks with a maturity of less than three months from the date of acquisition.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.12 Financial assets

Initial recognition

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 1.7), 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.

- 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 1.7), 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.

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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.

1.13 Property, plant and equipment

All property, plant and equipment is stated at historical cost, which includes directly attributable acquisition costs, less accumulated depreciation and impairment losses. Depreciation is charged so as to write off the cost of assets to their estimated residual value over their estimated useful lives, using the straight line method, on the following bases:

– leasehold improvements over the lease term

– plant, equipment and computer hardware over three to 10 years

The assets' residual lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in profit or loss.

1.14 Intangible assets

Goodwill

Goodwill arises through business combinations and represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a business at the date of acquisition.

Goodwill is recognised as an asset and 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 judgment. The factors that the group takes into consideration in making this judgment are set out in note 2.1.

1 Principal accounting policies 1.14 Intangible assets continued

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 judgment is required to determine whether payments made for the introduction of client relationships should be capitalised as intangible assets or charged to profit or loss.

Client relationships are subsequently carried at the amount initially recognised less accumulated amortisation, which is calculated using the straight line method over their estimated useful lives (normally 10 to 15 years, but not more than 15 years).

Computer software and software development costs

Costs incurred to acquire and bring to use computer software licences are capitalised and amortised through profit or loss over their expected useful lives (three to four years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the group are recognised as intangible assets when the group is expected to benefit from future use of the software and the costs are reliably measurable. Other costs of producing software are charged to profit or loss as incurred. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

1.15 Impairment of goodwill and intangible assets

At each balance sheet date the group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Goodwill is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to the group's cash generating units. The carrying amount of each cash generating unit is compared to its value-in-use, calculated using a discounted cash flow method. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Client relationship intangibles are tested for impairment by comparing the fair value of funds under management for each individually acquired client relationship (or, for client relationships acquired with a business combination, each acquired portfolio of clients) with their associated amortised value. An example of evidence of impairment would be lost client relationships. In determining whether a client relationship is lost, the group considers factors such as the level of funds withdrawn and the existence of other retained family relationships. When client relationships are lost, the full amount of unamortised cost is recognised immediately in profit or loss and the intangible asset is derecognised.

If the recoverable amount of any asset other than 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.

1.16 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 when they 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.

1.17 Provisions and contingent liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits, that can be reliably estimated, will occur. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are possible obligations that depend on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of crystallisation is judged to be remote.

1.18 Retirement benefit obligations on retirement benefit schemes

The group's net liability in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value and the fair value of any plan assets (at bid price) is deducted. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of providing benefits under defined benefit plans is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Net remeasurements of the defined benefit liability are recognised in full in the period in which they occur in other comprehensive income.

Past service 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.

The company determines the net interest on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability.

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

1.19 Segmental reporting

The group determines and presents operating segments based on the information that is provided internally to the group executive committee, which is the group's chief operating decision maker. Operating segments are organised around the services provided to clients. A description of the services provided by each segment is given in note 3. No operating segments have been aggregated in the group's financial statements.

Transactions between operating segments are reported within the income or expenses for those segments. Intra-segment income and expenditure is eliminated at group level. Indirect costs are allocated between segments in proportion to the principal cost driver for each category of indirect costs that is generated by each segment.

1.20 Fiduciary activities

The group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Such assets and income arising thereon are excluded from these financial statements, as they are not assets of the group. Largely as a result of cash and settlement processing, the group holds money on behalf of some clients in accordance with the Client Money Rules of the Financial Conduct Authority, the Jersey Financial Services Commission and the Solicitors' Accounts Rules issued by the Solicitors Regulation Authority, as applicable. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the group is not beneficially entitled to them.

1.21 Financial guarantees

The group provides a limited number of financial guarantees, which are backed by assets in clients' portfolios. Financial guarantees are initially recognised in the balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the guarantee.

2 Critical accounting judgments 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 judgments 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 21)

Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgment 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 judgment, 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.

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. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

The group determines a suitable period during which awards accruing to new investment managers are capitalised. Typically, this will be for the period ending up to 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 £7,926,000 of payments made to investment managers and expensed £4,005,000 (2015: £11,308,000 capitalised and £3,254,000 expensed). A reduction in the capitalisation period by one month would decrease client relationship intangibles by £617,000 and decrease profit before tax by £617,000 (2015: £256,000 and £256,000 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 £11,594,000 (2015: £10,698,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,100,000 (2015: £1,000,000). At 31 December 2016, the carrying value of client relationship intangibles was £97,201,000 (2015: £100,869,000).

2.2 Retirement benefit obligations (note 27)

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 judgmental 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 £39,455,000 (2015: £4,501,000 deficit) and information on the sensitivity of the retirement benefit obligations to changes in underlying estimates are set out in note 27.

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 page 3. All services other than Unit Trusts 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 2016	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	**163,268**	**21,532**	**–**	**184,800**
Net commission income	**38,904**	**–**	**–**	**38,904**
Net interest income	**11,571**	**–**	**–**	**11,571**
Fees from advisory services and other income	**12,578**	**3,430**	**–**	**16,008**
Underlying operating income	**226,321**	**24,962**	**–**	**251,283**
Staff costs – fixed	**(57,613)**	**(3,020)**	**(19,123)**	**(79,756)**
Staff costs – variable	**(32,437)**	**(5,333)**	**(7,210)**	**(44,980)**
Total staff costs	**(90,050)**	**(8,353)**	**(26,333)**	**(124,736)**
Other direct expenses	**(22,882)**	**(5,355)**	**(23,430)**	**(51,667)**
Allocation of indirect expenses	**(47,184)**	**(2,579)**	**49,763**	**–**
Underlying operating expenses	**(160,116)**	**(16,287)**	**–**	**(176,403)**
Underlying profit before tax	**66,205**	**8,675**	**–**	**74,880**
Charges in relation to client relationships and goodwill (note 21)	**(11,735)**	**–**	**–**	**(11,735)**
Acquisition-related costs (note 8)	**(5,985)**	**–**	**–**	**(5,985)**
Segment profit before tax	**48,485**	**8,675**	**–**	**57,160**
Head office relocation costs (note 9)				**(7,031)**
Profit before tax attributable to equity holders of the company				**50,129**
Taxation (note 11)				**(11,972)**
Profit for the year attributable to equity holders of the company				**38,157**

	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	**2,340,973**	**54,912**		**2,395,885**
Unallocated assets				**8,128**
Total assets				**2,404,013**

3 Segmental information continued

31 December 2015	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	143,777	17,632	–	161,409
Net commission income	43,136	–	–	43,136
Net interest income	10,841	–	–	10,841
Fees from advisory services and other income	11,241	2,551	–	13,792
Underlying operating income	208,995	20,183	–	229,178
Staff costs – fixed	(51,277)	(2,966)	(19,296)	(73,539)
Staff costs – variable	(29,460)	(3,794)	(6,493)	(39,747)
Total staff costs	(80,737)	(6,760)	(25,789)	(113,286)
Other direct expenses	(19,186)	(4,370)	(21,971)	(45,527)
Allocation of indirect expenses	(45,306)	(2,454)	47,760	–
Underlying operating expenses	(145,229)	(13,584)	–	(158,813)
Underlying profit before tax	63,766	6,599	–	70,365
Charges in relation to client relationships and goodwill (note 21)	(11,014)	–	–	(11,014)
Acquisition-related costs (note 8)	(162)	–	–	(162)
Loss on derivative financial instruments	(1,030)	–	–	(1,030)
Gain on remeasurement of non-controlling interest (note 8)	885	–	–	885
Segment profit before tax	52,445	6,599	–	59,044
Head office relocation costs (note 9)				(412)
Profit before tax attributable to equity holders of the company				58,632
Taxation (note 11)				(12,261)
Profit for the year attributable to equity holders of the company				46,371

	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	1,793,558	37,806		1,831,364
Unallocated assets				2,566
Total assets				1,833,930

The following table reconciles underlying operating income to operating income:

	2016 £'000	2015 £'000
Underlying operating income	**251,283**	229,178
Gain on remeasurement of non-controlling interest (note 8)	**–**	885
Operating income	**251,283**	230,063

The following table reconciles underlying operating expenses to operating expenses:

	2016 £'000	2015 £'000
Underlying operating expenses	**176,403**	158,813
Charges in relation to client relationships and goodwill (note 21)	**11,735**	11,014
Acquisition-related costs (note 8)	**5,985**	162
Loss on derivative financial instruments	**–**	1,030
Head office relocation costs (note 9)	**7,031**	412
Operating expenses	**201,154**	171,431

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 and composition of funds under management and the segment's total revenue.

Geographic analysis

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

	2016 £'000	2015 £'000
United Kingdom	**241,882**	221,957
Jersey	**9,401**	8,106
Operating income	**251,283**	230,063

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

	2016 £'000	2015 £'000 (restated – note 1.4)
United Kingdom	**178,172**	175,304
Jersey	**5,610**	6,155
Non-current assets	**183,782**	181,459

Major clients

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

4 Net interest income

	2016 £'000	2015 £'000
Interest income		
Cash and balances with central banks	**3,293**	3,503
Held to maturity investment securities	**6,014**	5,270
Available for sale investment securities	**368**	48
Loans and advances to banks	**1,202**	961
Loans and advances to customers	**3,013**	2,881
	13,890	12,663
Interest expense		
Banks and customers	**(1,050)**	(1,296)
Subordinated loan notes (note 26)	**(1,269)**	(526)
	(2,319)	(1,822)
Net interest income	**11,571**	10,841

5 Net fee and commission income

	2016 £'000	2015 £'000
Fee and commission income		
Investment Management	**225,937**	198,244
Unit Trusts	**27,255**	24,394
	253,192	222,638
Fee and commission expense		
Investment Management	**(13,558)**	(2,529)
Unit Trusts	**(4,378)**	(5,520)
	(17,936)	(8,049)
Net fee and commission income	**235,256**	214,589

6 Net trading and other operating income

Net trading income

Net trading income of £3,103,000 (2015: £2,230,000) comprises unit trust net dealing profits.

Other operating income

Other operating income of £1,353,000 (2015: £1,361,000) comprises dividend income from available for sale equity securities, rental income from sub-leases on certain properties leased by group companies and sundry income.

7 Operating expenses

	2016 £'000	2015 £'000
Staff costs (note 10)	**124,735**	113,288
Depreciation of property, plant and equipment (note 19)	**2,846**	2,815
Amortisation of internally generated intangible assets (note 21)	**421**	396
Amortisation of purchased software (note 21)	**2,969**	1,890
Auditor's remuneration (see below)	**758**	737
Net impairment charges on impaired loans and advances (note 16)	**9**	19
Operating lease rentals	**6,580**	6,272
Other	**38,085**	33,396
Other operating expenses	**176,403**	158,813
Charges in relation to client relationships and goodwill (note 21)	**11,735**	11,014
Acquisition-related costs (note 8)	**5,985**	162
Loss on derivative financial instruments	**–**	1,030
Head office relocation costs (note 9)	**7,031**	412
Total operating expenses	**201,154**	171,431

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

	2016 £'000	2015 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	**165**	128
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	**233**	249
– audit-related assurance services	**199**	194
– tax compliance services	**55**	21
– other services	**106**	145
	758	737

Of the above, audit-related services for the year totalled £597,000 (2015: £571,000).

Fees payable for the audit of the company's annual financial statements include £62,000 (2015: £35,000) relating to prior year audit work.

Fees for audit-related assurance services include £111,000 for the provision of assurance reports to our regulators and review of the interim statement (2015: £94,000). Fees for other services include advice in relation to the pension schemes and a qualified intermediary compliance review.

8 Business combinations

On 31 December 2015, the group acquired the remaining 80.1% of the ordinary share capital of Vision Independent Financial Planning and Castle Investment Solutions.

Deferred and contingent consideration

A payment of £1,563,000 was made in March 2016, following the agreement of the net asset value (as at the acquisition date) of the acquired businesses. The payment was lower than was provided for at 31 December 2015, and as such the comparative figures have been restated accordingly (see note 1.4).

Further payments of £3,232,000 and £2,400,000 were made in June 2016 and December 2016 respectively, following the achievement of certain operational targets. Of these, £1,212,000 related to contingent consideration. The remaining £4,420,000 related to deferred payments to previous owners who remain in employment with the acquired companies and was charged to profit or loss in the year to 31 December 2016. These payments were made 80% in cash and 20% in shares and are not deductible for corporation tax purposes (see note 11).

Contingent consideration of up to £1,506,000 is payable at the end of 2019 (see note 25). Further deferred payments to previous owners who remain employed of up to £5,494,000 is payable at the same time and is being charged to profit or loss over the deferral period. Of this, £1,118,000 has been charged to profit or loss in the year to 31 December 2016. These payments will be made 80% in cash and 20% in shares.

Identifiable assets acquired and liabilities assumed

As a result of the settlement of the net asset value payment (see above), the identifiable net assets of the acquired businesses at the acquisition date have been restated. This has resulted in a reduction in net asset value of the companies as at 31 December 2015.

8 Business combinations continued

Acquisition-related costs

The group has incurred the following costs in relation to this acquisition, summarised by their classification within the income statement:

	2016 £'000	2015 £'000
Staff costs	**5,418**	–
Interest expense	**120**	–
Legal and advisory fees	**447**	162
Acquisition-related costs	**5,985**	162

Amounts reported in staff costs relate to deferred payments to previous owners who are remaining in employment (described above).

Remeasurement of non-controlling interest

Prior to the acquisition of the remaining 80.1% of the two companies, the group remeasured its pre-existing 19.9% holdings to fair value, recognising a gain of £885,000 during the year ended 31 December 2015.

9 Head office relocation

On 6 January 2016, the group exchanged contracts for five 17 year leases for a total of 75,000 sq ft of office space at 8 Finsbury Circus. The group began recognising costs relating to rent and dilapidations on the new premises from the date the leases began, 13 May 2016.

During the year ended 31 December 2016, incremental costs of £7,031,000 (2015: £412,000) were incurred as a result of the decision to move the head office to 8 Finsbury Circus. These incremental costs were as follows.

	2016 £'000	2015 £'000
Rental costs for 8 Finsbury Circus	**2,848**	–
Service charge costs at 8 Finsbury Circus	**480**	–
Accelerated depreciation charge for 1 Curzon Street	**2,745**	–
Provision for dilapidations	**739**	412
Professional costs	**219**	–
	7,031	412

The move to the 8 Finsbury Circus office concluded on 13 February 2017, which triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing lease (see note 37).

10 Staff costs

	2016 £'000	2015 £'000
Wages and salaries	**99,543**	89,120
Social security costs	**12,298**	11,131
Equity-settled share-based payments	**4,352**	3,246
Cash-settled share-based payments	**849**	1,383
Pension costs (note 27):		
– defined benefit schemes	**3,058**	4,217
– defined contribution schemes	**4,635**	4,191
	7,693	8,408
	124,735	113,288

The average number of employees, on a full time equivalent basis, during the year was as follows.

	2016	2015
Investment Management:		
– investment management services	**698**	628
– advisory services	**82**	77
Unit Trusts	**27**	27
Shared services	**259**	249
	1,066	981

11 Income tax expense

	2016 £'000	2015 £'000
Current tax:		
– charge for the year	**12,366**	12,266
– adjustments in respect of prior years	**(177)**	17
Deferred tax (note 20):		
– credit for the year	**(233)**	(27)
– adjustments in respect of prior years	**16**	5
	11,972	12,261

The tax charge is calculated based on our best estimate of the amount payable as at the balance sheet date. Any subsequent differences between these estimates and the actual amounts paid are recorded as adjustments in respect of prior years.

The tax charge on profit for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.0% (2015: 20.2%). The differences are explained below.

	2016 £'000	2015 £'000
Tax on profit from ordinary activities at the standard rate of 20.0% (2015: 20.2%)	**10,026**	11,871
Effects of:		
– disallowable expenses	**958**	584
– share-based payments	**(72)**	(179)
– tax on overseas earnings	**(183)**	(75)
– (over)/underprovision for tax in previous years	**(161)**	22
– deferred payments to previous owners of acquired companies (note 8)	**1,237**	–
– other	**63**	(37)
Effect of change in corporation tax rate on deferred tax	**104**	75
	11,972	12,261

12 Dividends

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2015 of 34.0p (2014: 33.0p) per share	**16,336**	15,766
– interim dividend for the year ended 31 December 2016 of 21.0p (2015: 21.0p) per share	**10,143**	10,070
Dividends paid in the year of 55.0p (2015: 54.0p) per share	**26,479**	25,836
Proposed final dividend for the year ended 31 December 2016 of 36.0p (2015: 34.0p) per share	**18,124**	16,235

An interim dividend of 21.0p per share was paid on 5 October 2016 to shareholders on the register at the close of business on 9 September 2016 (2015: 21.0p).

A final dividend declared of 36.0p per share (2015: 34.0p) is payable on 16 May 2017 to shareholders on the register at the close of business on 21 April 2017. The final dividend is subject to approval by shareholders at the AGM on 11 May 2017 and has not been included as a liability in these financial statements.

13 Earnings per share

Earnings used to calculate earnings per share on the bases reported in these financial statements were:

	2016			2015		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	**74,880**	**(15,816)**	**59,064**	70,365	(14,637)	55,728
Gain on remeasurement of non-controlling interest (note 8)	**–**	**–**	**–**	885	(179)	706
Charges in relation to client relationships and goodwill (note 21)	**(11,735)**	**2,347**	**(9,388)**	(11,014)	2,230	(8,784)
Acquisition-related costs (note 8)	**(5,985)**	**91**	**(5,894)**	(162)	33	(129)
Loss on derivative financial instruments	**–**	**–**	**–**	(1,030)	209	(821)
Head office relocation costs (note 9)	**(7,031)**	**1,406**	**(5,625)**	(412)	83	(329)
Profit attributable to shareholders	**50,129**	**(11,972)**	**38,157**	58,632	(12,261)	46,371

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 48,357,728 (2015: 47,612,026).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Long Term Incentive Plan and Executive Incentive Plan, employee share options remaining capable of exercise and any dilutive shares to be issued under the Share Incentive Plan, all weighted for the relevant period.

	2016	2015
Weighted average number of ordinary shares in issue during the year – basic	**48,357,728**	47,612,026
Effect of ordinary share options/Save As You Earn	**114,415**	174,219
Effect of dilutive shares issuable under the Share Incentive Plan	**37,186**	26,636
Effect of contingently issuable shares under the Long Term Incentive Plan and Executive Incentive Plan	**260,655**	204,110
Diluted ordinary shares	**48,769,984**	48,016,991

	2016	2015
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**122.1p**	117.0p
– diluted	**121.1p**	116.1p

14 Cash and balances with central banks

	2016 £'000	2015 £'000
Cash in hand	**3**	2
Balances with central banks	**1,075,670**	583,154
	1,075,673	583,156

The fair value of balances with central banks is not materially different from their carrying amount. The impact of credit risk is not material.

	2016 £'000	2015 £'000
Repayable:		
– on demand	**1,075,003**	583,002
– 1 year or less but over 3 months	**670**	154
	1,075,673	583,156
Amounts include balances with:		
– variable interest rates	**1,075,000**	583,000
– non-interest-bearing	**673**	156
	1,075,673	583,156

15 Loans and advances to banks

	2016 £'000	2015 £'000
Repayable:		
– on demand	**73,844**	68,156
– 3 months or less excluding on demand	**10,000**	20,000
– 1 year or less but over 3 months	**30,226**	20,491
– 5 years or less but over 1 year	**18**	230
	114,088	108,877
Amounts include loans and advances with:		
– variable interest rates	**73,766**	68,783
– fixed interest rates	**40,000**	40,000
– non-interest-bearing	**322**	94
	114,088	108,877

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 2016 were £83,844,000 (note 36) (2015: £68,156,000).

The group's exposure to credit risk arising from loans and advances to banks is described in note 31.

16 Loans and advances to customers

	2016 £'000	2015 £'000
Overdrafts	**3,740**	4,468
Investment management loan book	**106,335**	111,810
Trust and financial planning debtors	**855**	978
Other debtors	**21**	13
	110,951	117,269

The fair value of loans and advances to customers is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates. Debtors arising from the trust and financial planning businesses are non-interest-bearing.

16 Loans and advances to customers continued

	2016 £'000	2015 £'000
Repayable:		
– on demand	**3,821**	4,609
– 3 months or less excluding on demand	**21,214**	18,437
– 1 year or less but over 3 months	**43,884**	58,979
– 5 years or less but over 1 year	**41,753**	34,908
– greater than 5 years	**370**	419
Less: allowance for losses on loans and advances (see below)	**(91)**	(83)
	110,951	117,269
Amounts include loans and advances with:		
– variable interest rates	**110,051**	116,258
– non-interest-bearing	**900**	1,011
	110,951	117,269

No overdrafts or investment management loan book balances were impaired as at 31 December 2016 (2015: none impaired).

Allowance for losses

	2016		2015	
	Trust and financial planning debtors £'000	Total £'000	Trust and financial planning debtors £'000	Total £'000
At 1 January	**83**	**83**	72	72
Amounts written off	**(1)**	**(1)**	(8)	(8)
Charge to profit or loss	**9**	**9**	19	19
At 31 December	**91**	**91**	83	83

The group's exposure to credit risk arising from loans and advances to customers is described in note 31.

17 Investment securities

Available for sale securities

	2016 £'000	2015 £'000
Equity securities – at fair value:		
– listed	**1,864**	1,070
Money market funds – at fair value:		
– unlisted	**103,557**	52,316
	105,421	53,386

Held to maturity securities

	2016 £'000	2015 £'000
Debt securities – at amortised cost:		
– unlisted	**700,000**	707,745
	700,000	707,745

All held to maturity debt securities are due to mature within one year (2015: all).

Available for sale securities include money market funds and direct holdings in equity securities. Equity securities comprises units in Rathbone Unit Trust Management managed funds. 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 36).

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 2015	15,514	429,974	445,488
Additions	36,345	987,624	1,023,969
Disposals (sales and redemptions)	–	(709,853)	(709,853)
Foreign exchange movements	1,474	–	1,474
Gain from changes in fair value	53	–	53
At 1 January 2016	**53,386**	**707,745**	**761,131**
Additions	**97,658**	**905,000**	**1,002,658**
Disposals (sales and redemptions)	**(53,859)**	**(912,745)**	**(966,604)**
Foreign exchange movements	**8,143**	**–**	**8,143**
Gain from changes in fair value	**93**	**–**	**93**
At 31 December 2016	**105,421**	**700,000**	**805,421**

Included within available for sale securities are additions of £701,000 (2015: £503,000) of financial instruments that are not classified as cash and cash equivalents.

18 Prepayments, accrued income and other assets

	2016 £'000	2015 £'000 (restated – note 1.4)
Work in progress	**1,530**	1,404
Prepayments and other assets	**12,020**	11,965
Accrued income	**52,160**	46,144
	65,710	59,513

19 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2015	12,182	13,736	25,918
Additions	848	1,699	2,547
Acquisitions through business combinations (restated – note 1.4)	36	115	151
Disposals	(30)	(419)	(449)
At 1 January 2016 (restated – note 1.4)	**13,036**	**15,131**	**28,167**
Additions	**9,729**	**2,446**	**12,175**
Disposals	**–**	**(216)**	**(216)**
At 31 December 2016	**22,765**	**17,361**	**40,126**
Depreciation			
At 1 January 2015	4,925	10,751	15,676
Charge for the year	1,069	1,746	2,815
Acquisitions through business combinations (restated – note 1.4)	5	85	90
Disposals	(8)	(412)	(420)
At 1 January 2016 (restated – note 1.4)	**5,991**	**12,170**	**18,161**
Charge for the year	**3,870**	**1,721**	**5,591**
Disposals	**–**	**(216)**	**(216)**
At 31 December 2016	**9,861**	**13,675**	**23,536**
Carrying amount at 31 December 2016	**12,904**	**3,686**	**16,590**
Carrying amount at 31 December 2015 (restated – note 1.4)	7,045	2,961	10,006
Carrying amount at 1 January 2015	7,257	2,985	10,242

20 Net deferred tax asset

The Finance Bill 2016, which included a provision for the UK corporation tax rate to be reduced to 17.0% in April 2020, received royal assent in September 2016 and the reduction is therefore deemed to be substantively enacted. Deferred tax balances have been calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows.

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
As at 1 January 2016 (restated – note 1.4)	**865**	**853**	**1,690**	**2,154**	**(16)**	**(969)**	**4,577**
Recognised in profit or loss in respect of:							
– current year	**348**	**(473)**	**(182)**	**542**	**–**	**103**	**338**
– prior year	**57**	**–**	**–**	**(73)**	**–**	**–**	**(16)**
– change in rate	**(148)**	**389**	**(129)**	**(303)**	**–**	**86**	**(105)**
Total	**257**	**(84)**	**(311)**	**166**	**–**	**189**	**217**
Recognised in other comprehensive income in respect of:							
– current year	**–**	**7,464**	**–**	**–**	**(18)**	**–**	**7,446**
– prior year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**(1,528)**	**–**	**–**	**4**	**–**	**(1,524)**
Total	**–**	**5,936**	**–**	**–**	**(14)**	**–**	**5,922**
Recognised in equity in respect of:							
– current year	**–**	**–**	**(99)**	**–**	**–**	**–**	**(99)**
– prior year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Total	**–**	**–**	**(115)**	**–**	**–**	**–**	**(115)**
As at 31 December 2016	**1,122**	**6,705**	**1,264**	**2,320**	**(30)**	**(780)**	**10,601**

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
Deferred tax assets	**1,122**	**6,705**	**1,264**	**2,320**	**–**	**–**	**11,411**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**(30)**	**(780)**	**(810)**
As at 31 December 2016	**1,122**	**6,705**	**1,264**	**2,320**	**(30)**	**(780)**	**10,601**

	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 2015	918	2,740	2,054	1,310	(6)	(121)	6,895
Recognised in profit or loss in respect of:							
– current year	38	(544)	(343)	942	–	9	102
– prior year	(34)	–	–	29	–	–	(5)
– change in rate	(47)	166	(72)	(127)	–	5	(75)
Total	(43)	(378)	(415)	844	–	14	22
Recognised in other comprehensive income in respect of:							
– current year	–	(1,321)	–	–	(11)	–	(1,332)
– prior year	–	–	–	–	–	–	–
– change in rate	–	(188)	–	–	1	–	(187)
Total	–	(1,509)	–	–	(10)	–	(1,519)
Recognised in equity in respect of:							
– current year	–	–	70	–	–	–	70
– prior year	–	–	(4)	–	–	–	(4)
– change in rate	–	–	(15)	–	–	–	(15)
Total	–	–	51	–	–	–	51
Acquisitions:							
– business combinations (restated – note 1.4)	(10)	–	–	–	–	(862)	(872)
As at 31 December 2015 (restated – note 1.4)	865	853	1,690	2,154	(16)	(969)	4,577

	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	865	853	1,690	2,154	–	–	5,562
Deferred tax liabilities	–	–	–	–	(16)	(969)	(985)
As at 31 December 2015	865	853	1,690	2,154	(16)	(969)	4,577

21 Intangible assets

	2016 £'000	2015 £'000 (restated – note 1.4)
Goodwill	**63,465**	63,606
Other intangible assets	**103,727**	107,847
	167,192	171,453

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
Cost				
At 1 January 2015	56,053	1,954	227	58,234
Acquired through business combinations (restated - note 1.4)	6,038	–	–	6,038
At 1 January 2016 (restated – note 1.4) and 31 December 2016	**62,091**	**1,954**	**227**	**64,272**
Impairment				
At 1 January 2015	–	350	–	350
Charge in the year	–	316	–	316
At 1 January 2016	**–**	**666**	**–**	**666**
Charge in the year	**–**	**141**	**–**	**141**
At 31 December 2016	**–**	**807**	**–**	**807**
Carrying amount at 31 December 2016	**62,091**	**1,147**	**227**	**63,465**
Carrying amount at 31 December 2015 (restated - note 1.4)	62,091	1,288	227	63,606
Carrying amount at 1 January 2015	56,053	1,604	227	57,884

Goodwill acquired through business combinations in the prior year comprised goodwill arising on the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions. The goodwill was allocated to the investment management CGU.

The recoverable amounts of the CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. The key assumptions underlying the budgets are that, absent evidence to the contrary, organic growth rates, revenue margins and profit margins will be in line with recent historical rates and equity markets will not change significantly in the forthcoming year. Budgets are extrapolated for up to 10 years based on annual revenue growth for each CGU (see table below); as well as the group's expectation of future industry growth rates. A 10 year extrapolation period is chosen based on the group's assessment of the likely associated duration of client relationships. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The pre-tax rate used to discount the forecast cash flows for each CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which the CGUs operate and, in particular, the relatively small size of the trust and tax CGU.

	Investment management		Trust and tax		Rooper & Whately	
At 31 December	2016	2015	2016	2015	2016	2015
Discount rate	**9.3%**	9.3%	**11.3%**	11.3%	**9.3%**	9.3%
Annual revenue growth rate	**4.0%**	8.0%	**(1.0)%**	0.0%	**0.0%**	0.0%

At 30 June 2016, the group recognised an impairment charge of £141,000 in relation to goodwill allocated to the trust and tax CGU. An impairment was recognised as the recoverable amount of the CGU at 30 June 2016 was £1,147,000, which was lower than the carrying value of £1,288,000 at 31 December 2015. The recoverable amount was calculated based on forecast earnings for 2016, extrapolated over 10 years based on a decrease in revenues of 1.0% per annum. The pre-tax rate used to discount the forecast cash flows was 9.3%. The impairment was recognised in the Investment Management segment in the segmental analysis. No further impairment was recognised at 31 December 2016.

Based on the assumptions in the table above, the calculated recoverable amount of the trust and tax CGU at 31 December 2016 was £1,392,000; this was higher than its carrying value of £1,147,000. Reducing the assumed growth rate for income in the trust and tax CGU by one percentage point would reduce the calculated recoverable amount of the CGU to £987,000. 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
Cost				
At 1 January 2015	124,679	4,034	19,104	147,817
Internally developed in the year	–	480	–	480
Acquired through business combinations	4,539	–	–	4,539
Purchased in the year	11,308	–	2,734	14,042
Disposals	(1,867)	–	–	(1,867)
At 1 January 2016	**138,659**	**4,514**	**21,838**	**165,011**
Internally developed in the year	**–**	**422**	**–**	**422**
Purchased in the year	**7,926**	**–**	**2,516**	**10,442**
Disposals	**(1,933)**	**–**	**–**	**(1,933)**
At 31 December 2016	**144,652**	**4,936**	**24,354**	**173,942**
Amortisation				
At 1 January 2015	28,959	3,220	13,868	46,047
Charge for the year	10,698	396	1,890	12,984
Disposals	(1,867)	–	–	(1,867)
At 1 January 2016	**37,790**	**3,616**	**15,758**	**57,164**
Charge for the year	**11,594**	**421**	**2,969**	**14,984**
Disposals	**(1,933)**	**–**	**–**	**(1,933)**
At 31 December 2016	**47,451**	**4,037**	**18,727**	**70,215**
Carrying amount at 31 December 2016	**97,201**	**899**	**5,627**	**103,727**
Carrying amount at 31 December 2015	100,869	898	6,080	107,847
Carrying amount at 1 January 2015	95,720	814	5,236	101,770

Client relationships acquired through business combinations in the prior year related to the acquisition of Vision and Castle.

Purchases of client relationships in the year relate to payments made to investment managers and third parties for the introduction of client relationships.

The total amount charged to profit or loss in the year, in relation to goodwill and client relationships, was £11,735,000 (2015: £11,014,000). A further £4,005,000 (2015: £3,254,000) was expensed as staff costs during the year, representing amounts due for client relationships introduced more than 12 months after the cessation of non-compete periods (note 2.1).

Purchased software with a cost of £14,117,000 (2015: £12,310,000) has been fully amortised but is still in use.

22 Deposits by banks

On 31 December 2016, deposits by banks included overnight cash book overdraft balances of £294,000 (2015: £299,000).

The fair value of deposits by banks was not materially different to their carrying value. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be paid using current market rates.

23 Due to customers

	2016 £'000	2015 £'000
Repayable:		
– on demand	**1,768,215**	1,321,575
– 3 months or less excluding on demand	**119,438**	79,966
– 1 year or less but over 3 months	**1,242**	1,349
	1,888,895	1,402,890
Amounts include balances with:		
– variable interest rates	**1,751,483**	1,316,670
– fixed interest rates	**115,148**	71,243
– non-interest-bearing	**22,264**	14,977
	1,888,895	1,402,890

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.

24 Accruals, deferred income, provisions and other liabilities

	2016 £'000	2015 £'000 (restated – note 1.4)
Creditors	**17,790**	16,556
Accruals and deferred income	**52,620**	42,344
Other provisions (note 25)	**14,744**	19,816
	85,154	78,716

25 Other provisions

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property-related £'000	Total £'000
At 1 January 2015	19,179	30	653	1,082	20,944
Charged to profit or loss	–	–	434	713	1,147
Unused amount credited to profit or loss	–	(7)	(95)	–	(102)
Net charge to profit or loss	–	(7)	339	713	1,045
Business combinations (restated - note 1.4)	–	3,908	–	–	3,908
Other movements	11,308	–	–	–	11,308
Utilised/paid during the year	(17,095)	(23)	(271)	–	(17,389)
At 1 January 2016 (restated - note 1.4)	**13,392**	**3,908**	**721**	**1,795**	**19,816**
Charged to profit or loss	**–**	**–**	**917**	**1,003**	**1,920**
Unused amount credited to profit or loss	**–**	**(79)**	**(486)**	**–**	**(565)**
Net charge to profit or loss	**–**	**(79)**	**431**	**1,003**	**1,355**
Other movements	**7,926**	**82**	**–**	**–**	**8,008**
Utilised/paid during the year	**(11,106)**	**(2,775)**	**(554)**	**–**	**(14,435)**
At 31 December 2016	**10,212**	**1,136**	**598**	**2,798**	**14,744**
Payable within 1 year	**1,834**	**–**	**598**	**1,292**	**3,724**
Payable after 1 year	**8,378**	**1,136**	**–**	**1,506**	**11,020**
	10,212	**1,136**	**598**	**2,798**	**14,744**

Deferred, variable costs to acquire client relationship intangibles

Deferred, variable costs to acquire client relationship intangibles of £7,820,000 arose during the year, in relation to deferred payments to investment managers and third parties linked to the value of client funds introduced (2015: £11,305,000). These amounts have been capitalised (see note 21).

At 31 December 2015, deferred, variable costs to acquire client relationship intangibles included £4,389,000 in relation to the purchase of part of Deutsche Asset & Wealth Management's London-based private client investment management business. The final payment of £4,495,000 was made during the year, based on the value of transferred funds under management retained by the group at 31 December 2015.

Deferred and contingent consideration in business combinations

Deferred and contingent consideration of £1,136,000 (2015 (restated – note 1.4): £3,908,000) is the present value of amounts payable at end of 2019 in respect of the acquisition of Vision and Castle (see note 8).

The group has estimated the size and timing of the amounts payable by taking into account the expected outcome of the conditions attached to the payments. The group has discounted the amounts payable after one year.

Following the agreement of the net asset value of the acquired businesses, a net asset value payment of £1,563,000 was made in March 2016. As a result, deferred and contingent consideration in business combinations as at 1 January 2016 has been restated to reflect this measurement period adjustment (see note 1.4).

Further payments of £695,000 and £517,000 were made in June 2016 and December 2016 respectively, following the achievement of operational and financial targets.

Legal and compensation

During the ordinary course of business the group may, from time-to-time, be subject to complaints, as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

Property-related

Property-related provisions consist of £2,798,000 in relation to dilapidation provisions expected to arise on leasehold premises held by the group (2015: £1,795,000). Dilapidation provisions are calculated using a discounted cash flow model. During the year, provisions have increased by £1,003,000 due to the creation of a provision for the new London office at 8 Finsbury Circus (note 9).

Ageing of provisions

Provisions payable after one year are expected to be settled within three years of the balance sheet date (2015: four years), except for property-related provisions of £1,506,000, which are expected to be settled within 20 years of the balance sheet date (2015: 21 years).

26 Subordinated loan notes

	2016		2015	
	Face value £'000	Carrying value £'000	Face value £'000	Carrying value £'000
Subordinated loan notes	**20,000**	**19,590**	20,000	19,492

On 3 August 2015, Rathbone Investment Management issued £20,000,000 of 10 year Tier 2 notes ('Notes'). The Notes are repayable in August 2025, with a call option in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six month LIBOR thereafter. An interest expense of £1,269,000 (2015: £526,000) was recognised in the year (see note 4).

27 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 these schemes during the year was £4,595,000 (2015: £4,160,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £40,000 (2015: £31,000).

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.

On 20 October 2016, the group commenced a consultation with members of the schemes with a view to ceasing future accrual and breaking the link to final salary in both schemes. The consultation period ended on 31 January 2017. As the consultation period was ongoing at the year end, the potential outcomes of the consultation were not reflected in the assumptions to measure the liabilities at 31 December 2016 (see note 37).

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 £1,134,000 of related insurance premiums were expensed to profit or loss in the year (2015: £1,028,000). 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

The next triennial valuation of both schemes will be carried out during 2017, based on 31 December 2016 data, and may result in changes to the funding commitments described below.

The assumptions used by the actuaries, to estimate the schemes' liabilities, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice.

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2016 %	2015 %	2016 %	2015 %
Rate of increase of salaries	**4.50**	4.20	**4.50**	4.20
Rate of increase of pensions in payment	**3.60**	3.50	**3.40**	3.10
Rate of increase of deferred pensions	**3.50**	3.20	**3.50**	3.20
Discount rate	**2.80**	4.00	**2.80**	4.00
Inflation*	**3.50**	3.20	**3.50**	3.20

* Inflation assumptions are based on the Retail Prices Index

Over the year, the financial assumptions have been amended to reflect changes in market conditions. Specifically:

i. the discount rate has been decreased by 1.2% 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 increased by 0.3% to reflect an increase in expectations of long term inflation as implied by changes in the fixed-interest and index-linked gilts market

iii. the assumed rates of salary growth and future increases to pensions in payment have been increased for consistency with the change in the assumed rate of future inflation.

During the year, the group introduced an allowance for 3% of members, with an average age of 52.5 at the time of transferring out, to transfer their benefits out of the scheme each year over the average remaining lifetime of the members. This reflects an increase in the level of members seen to be transferring out, following changes to tax rules for pension benefits in 2015. There were no other changes to the demographic assumptions.

The assumed duration of the liabilities for the Laurence Keen Scheme is 20 years (2015: 19 years) and the assumed duration for the Rathbone 1987 Scheme is 24 years (2015: 23 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 (2015: S2NA tables). The assumed life expectations on retirement were:

		2016		2015	
		Males	Females	Males	Females
Retiring today:	– aged 60	**29.3**	**31.5**	29.2	31.4
	– aged 65	**24.3**	**26.5**	24.2	26.4
Retiring in 20 years:	– aged 60	**31.8**	**33.9**	31.6	33.8
	– aged 65	**26.6**	**28.8**	26.5	28.6

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows.

	2016			2015		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Present value of defined benefit obligations	**(16,203)**	**(216,238)**	**(232,441)**	(14,002)	(161,965)	(175,967)
Fair value of scheme assets	**14,099**	**178,887**	**192,986**	13,991	157,475	171,466
Net defined benefit liability	**(2,104)**	**(37,351)**	**(39,455)**	(11)	(4,490)	(4,501)

The amounts recognised in profit or loss, within operating expenses, are as follows.

	2016			2015		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Current service cost	**–**	**3,022**	**3,022**	–	3,880	3,880
Interest income	**1**	**35**	**36**	17	320	337
	1	**3,057**	**3,058**	17	4,200	4,217

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 £2,018,000 (2015: £531,000 rise) for the Laurence Keen Scheme and a rise in value of £31,353,000 (2015: £5,431,000 rise) for the Rathbone 1987 Scheme.

27 Long term employee benefits continued

Movements in the present value of defined benefit obligations were as follows.

	2016			2015		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**14,002**	**161,965**	**175,967**	16,770	163,859	180,629
Service cost (employer's part)	**–**	**3,022**	**3,022**	–	3,880	3,880
Interest cost	**522**	**6,172**	**6,694**	583	6,123	6,706
Contributions from members	**–**	**981**	**981**	–	1,227	1,227
Actuarial experience gains	**(135)**	**(1,783)**	**(1,918)**	–	–	–
Actuarial gain/(loss) arising from:						
– demographic assumptions	**(519)**	**(4,379)**	**(4,898)**	–	–	–
– financial assumptions	**4,262**	**66,585**	**70,847**	(474)	(6,457)	(6,931)
Benefits paid	**(1,929)**	**(16,325)**	**(18,254)**	(2,877)	(6,667)	(9,544)
At 31 December	**16,203**	**216,238**	**232,441**	14,002	161,965	175,967

Movements in the fair value of scheme assets were as follows.

	2016			2015		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**13,991**	**157,475**	**171,466**	16,337	150,582	166,919
Remeasurement of defined benefit liability:						
– interest income	**521**	**6,137**	**6,658**	566	5,803	6,369
– return on scheme assets (excluding amounts included in interest income)	**1,497**	**25,216**	**26,713**	(35)	(372)	(407)
Contributions from the sponsoring company	**19**	**5,403**	**5,422**	–	6,902	6,902
Contributions from scheme members	**–**	**981**	**981**	–	1,227	1,227
Benefits paid	**(1,929)**	**(16,325)**	**(18,254)**	(2,877)	(6,667)	(9,544)
At 31 December	**14,099**	**178,887**	**192,986**	13,991	157,475	171,466

The statements of investment principles set by the trustees of both schemes were revised in 2015. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between return seeking assets (primarily equities) and safer assets (gilts, index-linked gilts, corporate bonds and other fixed income investments) with a switch to a greater percentage of safer assets over time as the schemes mature.

In the Rathbone 1987 Scheme, the target date for the 100% allocation to safer assets is 31 December 2048. The scheme was also seeking to hedge around 50% of its interest rate and inflation risk by 31 December 2016 using Liability Driven Investment (LDI) strategies. The extent to which this was achieved in 2016 will not be known until the triennial valuation is completed during 2017.

In the Laurence Keen Scheme the target date for the 100% allocation to safer assets is 31 December 2040.

The expected asset allocations at 31 December 2016 as set out in the statements of investment principles are as follows.

Target asset allocation at 31 December 2016	Laurence Keen Scheme	Rathbone 1987 Scheme
Benchmark		
Return seeking assets	**50%**	**38%**
Growth assets	**50%**	**62%**
Range		
Return seeking assets `	**44% – 56%**	**32% – 44%**
Growth assets	**44% – 56%**	**56% – 68%**

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows.

Laurence Keen Scheme	2016 Fair value £'000	2015 Fair value £'000	2016 Current allocation %	2015 Current allocation %
Equity instruments:				
– United Kingdom	**4,178**	4,672		
– Eurozone	**358**	470		
– North America	**921**	702		
– Other	**710**	763		
	6,167	6,607	**44**	47
Debt instruments:				
– United Kingdom government bonds	**5,413**	4,594		
– United Kingdom corporate bonds	**1,918**	2,044		
	7,331	6,638	**52**	48
Cash	**10**	314	**–**	2
Other	**591**	432	**4**	3
At 31 December	**14,099**	13,991	**100**	100

Rathbone 1987 Scheme	2016 Fair value £'000	2015 Fair value £'000	2016 Current allocation %	2015 Current allocation %
Equity instruments:				
– United Kingdom	**57,134**	56,262		
– Eurozone	**8,807**	10,171		
– North America	**14,486**	13,436		
– Other	**12,384**	11,046		
	92,811	90,915	**52**	58
Debt instruments:				
– United Kingdom government bonds	**35,836**	30,616		
– Overseas government bonds	**3,670**	3,033		
– United Kingdom corporate bonds	**17,505**	16,992		
– Overseas corporate bonds	**1,010**	992		
	58,021	51,633	**32**	32
Derivatives:				
– Interest rate swap funds	**17,365**	7,936		
	17,365	7,936	**10**	5
Cash	**9,885**	4,504	**6**	3
Other	**805**	2,487	**–**	2
At 31 December	**178,887**	157,475	**100**	100

During 2016, the Rathbone 1987 Scheme held shares in real time inflation-linked interest rate swap funds, which had a fair value of £17,365,000 at the year end (2015: £7,936,000). The value of these investments is expected to increase when the value of the scheme's liabilities increases (and vice versa). They therefore act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation. The funds are selected so that their average duration is intended to broadly align with the duration of the scheme's liabilities.

All equity and debt instruments have quoted prices in active markets. The majority of government bonds are issued by governments of the United Kingdom, the United States of America and Germany, all of which are rated AAA, AA+ or AA, based on credit ratings awarded by Fitch 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.

27 Long term employee benefits continued

The key assumptions affecting the results of the valuation are the discount rate, future inflation, future salary growth, mortality, the rate of members transferring out and the average age at the time of transferring out. In order to demonstrate the sensitivity of the results to these assumptions, the actuary has recalculated the defined benefit obligations for each scheme by varying each of these assumptions in isolation whilst leaving the other assumptions unchanged. For example, in order to demonstrate the sensitivity of the results to the discount rate, the actuary has recalculated the defined benefit obligations for each scheme using a discount rate that is 0.5% higher than used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations is set out below.

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% increase in:		
– discount rate	(28,225)	(12.1)
– rate of inflation	7,929	3.4
– rate of salary growth	6,213	2.7
1% increase in the rate of members transferring out each year	(1,256)	(0.5)
1 year increase to:		
– longevity at 60	8,598	3.7
– average age of members at the time of transferring out	1,537	0.7

The total regular contributions made by the group to the Rathbone 1987 Scheme during the year were £2,558,000 (2015: £3,176,000) based on 20.3% of pensionable salaries (2015: 20.3%). Additional lump sum contributions of £2,917,000 were paid in 2016 (2015: £3,792,000). Following the most recent triennial valuations, from 1 January 2015, the group has made regular contributions of 20.3% of pensionable salaries and the group has committed to make an additional contribution to the scheme of £500,000 in 2017, if the scheme remains in deficit at the time of the payment. The group is not committed to making any further deficit reduction contributions as at the year end.

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 (2015: 7.8%). 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 £19,000 (2015: £nil). No additional lump sum contributions were paid in 2016 (2015: £nil), and the group has no commitment to make further contributions. Regular contributions to the Laurence Keen Scheme stopped with effect from 1 January 2015.

28 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 2015	47,890,269		2,395	92,987	95,382
Shares issued:					
– to Share Incentive Plan	205,883	1,934.0 – 2,264.0	10	4,275	4,285
– to Save As You Earn scheme	35,074	934.0 – 1,641.0	2	353	355
– on exercise of options	3,060	852.0 – 1,172.0	–	28	28
At 1 January 2016	**48,134,286**		**2,407**	**97,643**	**100,050**
Shares issued:					
– in relation to business combinations (note 8)	**37,898**	**1,705.0**	**2**	**644**	**646**
– to Share Incentive Plan	**170,177**	**1,820.0 – 2,039.0**	**9**	**3,259**	**3,268**
– to Save As You Earn scheme	**116,108**	**934.0 – 1,648.0**	**6**	**1,270**	**1,276**
– on placing	**2,224,210**	**1,710.0**	**111**	**36,830**	**36,941**
Own shares sold	**–**	**1,754.0 – 1,949.0**	**–**	**345**	**345**
At 31 December 2016	**50,682,679**		**2,535**	**139,991**	**142,526**

The total number of issued and fully paid up ordinary shares at 31 December 2016 was 50,682,679 (2015: 48,134,286) 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 20 October 2016, the company issued 2,224,210 shares by way of a placing for cash consideration at £17.10 per share, which raised £36,941,000, net of £1,093,000 placing costs, offset against share premium arising on the issue.

29 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 January 2015	411,195	5,531
Acquired in the year	115,782	2,413
Released on vesting	(142,682)	(1,767)
At 1 January 2016	**384,295**	**6,177**
Acquired in the year	**81,992**	**1,585**
Released on vesting	**(88,279)**	**(1,084)**
Sold in the year	**(41,021)**	**(435)**
At 31 December 2016	**336,987**	**6,243**

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 30). The number of own shares held as treasury shares by the company at 31 December 2016 was 8,979 (2015: 50,000). In addition, 31,803 shares were held in the Employee Benefit Trust at 31 December 2016 (2015: 61,131) and a further 296,205 (2015: 273,164) shares were held by the trustees of the Share Incentive Plan but were not unconditionally gifted to employees.

30 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 2016, the trustees of the SIP held 1,243,979 (2015: 1,260,007) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £24,668,000 (2015: £27,720,000). Of the total number of shares held by the trustees, 294,680 (2015: 268,512) have been conditionally gifted to employees and 1,525 (2015: 4,652) remain unallocated. Dividends on the unallocated shares have been waived by the trustees.

Executive Incentive Plan

In 2015, the group introduced a new scheme for rewarding executive management. It replaces the Long Term Incentive Plan (LTIP) and the executive bonus scheme for 2015 onwards. Details of the general terms of this plan are set out in the remuneration committee report on pages 63 to 64.

Under the remuneration policy, 40% of the total award will be given in cash with the remaining 60% of the award granted in shares. The group treats the cash element of the award as an employee benefit under IAS 19 and the share element of the award as an equity-settled share-based payment under IFRS 2.

30 Share-based payments continued

Long Term Incentive Plan

This year is the last year of the group's transition from the LTIP to the Executive Incentive Plan (EIP) (above). The LTIP scheme will be discontinued and the variable aspect of executive management remuneration will be awarded under the EIP. 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 £1,414,000 (2015: £2,543,000) has been recognised for the estimated fair value of future awards.

At 31 December 2016, the trustees held 31,803 (2015: 61,131) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £631,000 (2015: £1,345,000). Dividends on these shares have been waived by the trustees.

Executive bonus scheme

Shares for plan awards will be provided by market purchase or treasury shares.

Savings-related share option or Save As You Earn plan

Under the Save As You Earn (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 committee report on page 74.

Options with an aggregate estimated fair value of £672,000, determined using a binomial valuation model including expected dividends, were granted on 29 April 2016 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2016, as at the date of issue, were as follows.

	2016	2015
Share price (pence)	**2,033**	2,147
Exercise price (pence)	**1,648**	1,641
Expected volatility	**21%**	22%
Risk-free rate	**0.7%**	1.1%
Expected dividend yield	**2.7%**	2.4%

The number of share options outstanding for the SAYE plan at the end of the year, the period in which they were granted and the dates on which they may be exercised are given below.

Year of grant	Exercise price pence	Exercise period	2016 Number of share options	2015 Number of share options
2011	934.0	2016	**–**	19,706
2012	984.0	2015 and 2017	**16,966**	16,966
2013	1,106.0	2016 and 2018	**76,495**	167,815
2014	1,556.0	2017 and 2019	**134,265**	142,396
2015	1,641.0	2018 and 2020	**128,418**	137,481
2016	1,648.0	2019 and 2021	**151,570**	–
At 31 December			**507,714**	484,364

Movements in the number of share options outstanding for the SAYE plan were as follows.

	2016		2015	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
At 1 January	**484,364**	**1,379.0**	397,760	1,251.0
Granted in the year	**155,334**	**1,648.0**	143,821	1,641.0
Forfeited in the year	**(15,876)**	**1,612.0**	(19,083)	1,442.0
Exercised in the year	**(116,108)**	**1,098.0**	(38,134)	1,003.0
At 31 December	**507,714**	**1,518.0**	484,364	1,379.0

The weighted average share price at the dates of exercise for share options exercised during the year was £20.06 (2015: £21.63). The options outstanding at 31 December 2016 had a weighted average contractual life of 2.5 years (2015: 2.6 years) and a weighted average exercise price of £15.18 (2015: £13.79).

The group recognised total expenses of £5,201,000 in relation to share-based payment transactions in 2016 (2015: £4,629,000) (see note 10).

31 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 80 to 81.

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 27.

The group's financial risk management policies are designed to identify and analyse the financial risks that the group faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The group regularly reviews its financial risk management policies and systems to reflect changes in the business, counterparties, markets and the range of financial instruments that it utilises.

The treasury department, reporting through the banking committee, has principal responsibility for monitoring exposure to credit risk, liquidity risk and market risk. Procedures and delegated authorities are documented in a group treasury manual and policy documents prescribe the management and monitoring of each type of risk. The primary objective of the group's treasury policy is to manage short term liquidity requirements whilst maintaining an appropriate level of exposure to other financial risks in accordance with the group's risk appetite.

i. Credit risk

The group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its banking, treasury, trust and financial planning activities. The principal source of credit risk arises from placing funds in the money market and holding interest-bearing securities. The group also has exposure to credit risk through its client loan book and guarantees given on clients' behalf.

It is the group's policy to place funds generated internally and from deposits by clients with a range of high-quality financial institutions and the Bank of England. Investments with financial institutions are spread to avoid excessive exposure to any individual counterparty. Loans made to clients are secured against clients' assets that are held and managed by group companies.

Exposure to credit risk is managed through setting appropriate ratings requirements and lending limits. Limits are reviewed regularly, taking into account the ability of borrowers and potential borrowers to meet repayment obligations.

The group categorises its exposures based on the long term ratings awarded to counterparties by Fitch 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.

31 Financial risk management i. Credit risk continued

The group's financial assets are categorised as follows.

Balances with central banks (note 14)

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 segments have exposure to market counterparties in the settlement of trades. Settlement balances arising in the Investment Management segment are primarily in relation to client trades and risk of non-settlement is borne by clients.

Loans and advances to banks (note 15) and debt and other securities (note 17)

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 2015, 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 single A by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis by the treasury department and reviewed by the banking committee on a monthly basis, or more frequently when necessary. The banking committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers (note 16)

The group provides loans to clients through its investment management operations ('the investment management loan book'). The group is also exposed to credit risk on overdrafts on clients' investment management accounts, trade debtors arising from the trust, tax and financial planning businesses ('trust and financial planning debtors') and other debtors.

(a) Overdrafts

Overdrafts on clients' Investment Management accounts arise from time-to-time due to short term timing differences between the purchase and sale of assets on a client's behalf. Overdrafts are actively monitored and reported to the banking committee on a monthly basis.

(b) Investment management loan book

Loans are provided as a service to Investment Management clients, who are generally asset rich but have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name, and some loans may be partially secured by property. Extensions to the initial loan period may be granted subject to credit criteria.

At 31 December 2016, the total lending exposure limit for the investment management loan book was £150,000,000 (2015: £150,000,000), of which £106,276,000 had been advanced (2015: £111,682,000) and a further £31,642,000 had been committed (2015: £20,417,000).

(c) Trust and financial planning debtors

Trust and financial planning debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and financial planning debtors are reviewed on a monthly basis by the management committees of the group's trust and financial planning businesses. 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.

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 security and/or 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 financial planning debtors, are set out in note 16.

Maximum exposure to credit risk

	2016 £'000	2015 £'000 (restated – note 1.4)
Credit risk relating to on-balance sheet exposures:		
Cash and balances with central banks	**1,075,670**	583,154
Settlement balances	**37,787**	17,948
Loans and advances to banks	**114,088**	108,877
Loans and advances to customers:		
– overdrafts	**3,740**	4,468
– investment management loan book	**106,335**	111,810
– trust and financial planning debtors	**946**	1,061
– other debtors	**21**	13
Investment securities:		
– unlisted debt securities and money market funds	**803,557**	760,061
Other financial assets	**56,986**	50,743
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**31,642**	20,417
Financial guarantees	**117**	–
	2,230,889	1,658,552

The above table represents the group's gross credit risk exposure at 31 December 2016 and 2015, without taking account of any associated collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

10.1% of the total maximum exposure is derived from loans and advances to banks and customers (2015: 13.6%) and 36.0% represents investment securities (2015: 45.8%).

The credit risk relating to off-balance sheet exposures for financial guarantees reflects the group's gross potential exposure of guarantees held on balance sheet (see note 1.21).

Balances with central banks

All 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.

	2016 £'000	2015 £'000
AA+ to AA-	**1,075,670**	583,154
Carrying value	**1,075,670**	583,154

Settlement balances

Settlement balances are summarised as follows.

	2016 £'000	2015 £'000
Neither past due nor impaired	**36,964**	17,117
Past due but not impaired < 90 days	**823**	823
Past due but not impaired > 90 days	**–**	8
Carrying value	**37,787**	17,948

31 Financial risk management i. Credit risk continued

Loans and advances

Loans and advances are summarised as follows.

	2016		2015	
	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000
Neither past due nor impaired	**114,088**	**110,461**	108,877	116,860
Past due but not impaired	**–**	**487**	–	401
Impaired (see (c) below)	**–**	**94**	–	91
Gross carrying value	**114,088**	**111,042**	108,877	117,352
Less: allowance for impairment (note 16)	**–**	**(91)**	–	(83)
Net carrying value	**114,088**	**110,951**	108,877	117,269

No loans and advances have been renegotiated (2015: 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 2016 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:

	2016 £'000	2015 £'000
AA+ to AA-	**23,321**	21,838
A+ to A	**90,737**	86,522
Other*	**30**	517
	114,088	108,877

* 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 2016, which are all externally unrated, is analysed between those loans that are subject to standard lending criteria, which are described on page 138, and, where applicable, those loans for which there are no standard lending criteria. At 31 December 2016, all loans are subject to standard lending criteria (2015: 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 financial planning debtors, where a normal settlement period of up to 30 days is expected.

(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 financial planning 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 2016 and 2015, no overdrafts, loans and other debtors were past due but not impaired. The gross amounts of trust and financial planning debtors that were past due but not impaired were:

	2016 £'000	2015 £'000
<90 days overdue	**149**	110
90-180 days overdue	**148**	74
180-270 days overdue	**55**	73
270-365 days overdue	**46**	97
>365 days overdue	**89**	47
	487	401

(c) Impaired

Allowance has been made for individually impaired loans and advances to customers, as set out below.

Movement in impairment provision during the year	Trust and financial planning debtors £'000
At 1 January 2016	**83**
Amounts written off	**(1)**
Credit to profit or loss	**9**
At 31 December 2016	**91**

Gross carrying value of impaired loans and advances to customers	
At 31 December 2016	**94**
At 31 December 2015	91

All loans and advances to customers impaired relate to trust and financial planning debtors (2015: all). There were no other impaired credit exposures at 31 December 2016 (2015: £nil).

Investment securities

The table below presents an analysis of investment securities by rating agency designation, as at 31 December, based on Fitch or Moody's long term rating designation.

	2016				2015			
	Government securities £'000	Money market funds £'000	Certificates of deposit £'000	Total £'000	Government securities £'000	Money market funds £'000	Certificates of deposit £'000	Total £'000
AAA	**–**	**103,557**	**–**	**103,557**	–	52,316	–	52,316
AA+ to AA-	**–**	**–**	**325,000**	**325,000**	22,745	–	115,000	137,745
A+ to A-	**–**	**–**	**375,000**	**375,000**	–	–	570,000	570,000
	–	**103,557**	**700,000**	**803,557**	22,745	52,316	685,000	760,061

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.

At 31 December 2016	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	**1,075,670**	**–**	**–**	**1,075,670**
Settlement balances	**34,005**	**622**	**3,160**	**37,787**
Loans and advances to banks	**114,088**	**–**	**–**	**114,088**
Loans and advances to customers:				
– overdrafts	**3,171**	**201**	**368**	**3,740**
– investment management loan book	**99,392**	**258**	**6,685**	**106,335**
– trust and financial planning debtors	**855**	**–**	**–**	**855**
– other debtors	**21**	**–**	**–**	**21**
Investment securities:				
– unlisted debt securities and money market funds	**195,000**	**223,557**	**385,000**	**803,557**
Other financial assets	**53,642**	**791**	**2,542**	**56,975**
	1,575,844	**225,429**	**397,755**	**2,199,028**

31 Financial risk management i. Credit risk continued

At 31 December 2015 (restated – note 1.4)	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	583,154	–	–	583,154
Settlement balances	16,616	199	1,133	17,948
Loans and advances to banks	108,877	–	–	108,877
Loans and advances to customers:				
– overdrafts	3,926	68	474	4,468
– investment management loan book	107,197	1,384	3,229	111,810
– trust and financial planning debtors	978	–	–	978
– other debtors	13	–	–	13
Investment securities:				
– unlisted debt securities and money market funds	307,745	252,316	200,000	760,061
Other financial assets	48,706	812	1,208	50,726
	1,177,212	254,779	206,044	1,638,035

At 31 December 2016, materially all eurozone exposures were to counterparties based in the Netherlands and France (2015: Netherlands, France and Germany) and all Rest of the World exposures were to counterparties based in Switzerland, Sweden, Canada and Australia (2015: Switzerland). At 31 December 2016, the group had no exposure to sovereign debt (2015: £22,745,000 of UK treasury bills).

(a) Industry sectors

The group's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2016	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	**1,075,670**	**–**	**–**	**1,075,670**
Settlement balances	**–**	**37,787**	**–**	**37,787**
Loans and advances to banks	**–**	**114,088**	**–**	**114,088**
Loans and advances to customers:				
– overdrafts	**–**	**–**	**3,740**	**3,740**
– investment management loan book	**–**	**–**	**106,335**	**106,335**
– trust and financial planning debtors	**–**	**–**	**855**	**855**
– other debtors	**–**	**–**	**21**	**21**
Investment securities:				
– unlisted debt securities and money market funds	**–**	**803,557**	**–**	**803,557**
Other financial assets	**125**	**3,276**	**53,574**	**56,975**
	1,075,795	**958,708**	**164,525**	**2,199,028**

At 31 December 2015 (restated – note 1.4)	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	583,154	–	–	583,154
Settlement balances	–	17,942	6	17,948
Loans and advances to banks	–	108,877	–	108,877
Loans and advances to customers:				
– overdrafts	–	–	4,468	4,468
– investment management loan book	–	–	111,810	111,810
– trust and financial planning debtors	–	–	978	978
– other debtors	–	–	13	13
Investment securities:				
– unlisted debt securities and money market funds	22,745	737,316	–	760,061
Other financial assets	192	3,322	47,212	50,726
	606,091	867,457	164,487	1,638,035

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 that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

Retail funding risks are monitored by daily cash mismatch analyses and Basel Committee ratios using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market-wide stresses. Marketable assets risk is primarily managed by holding cash and marketable instruments which are realisable at short notice. The group operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the board at least annually in conjunction with an amount prescribed by the PRA.

31 Financial risk management ii. Liquidity risk continued

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.

At 31 December 2016	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
Cash and balances with central banks	1,075,003	125	670	–	–	–	1,075,798
Settlement balances	–	37,787	–	–	–	–	37,787
Loans and advances to banks	73,844	10,215	30,505	18	–	–	114,582
Loans and advances to customers	3,822	21,271	44,678	45,233	430	–	115,434
Debt securities and money market funds	103,599	251,698	453,116	–	–	–	808,413
Other financial assets	155	52,939	335	343	–	–	53,772
Cash flows arising from financial assets	1,256,423	374,035	529,304	45,594	430	–	2,205,786
Deposits by banks	294	–	–	–	–	–	294
Settlement balances	–	39,289	–	–	–	–	39,289
Due to customers	1,768,215	119,460	1,246	–	–	–	1,888,921
Subordinated loan notes	–	98	586	23,514	–	–	24,198
Other financial liabilities	1,532	38,177	3,963	27,128	3,386	–	74,186
Cash flows arising from financial liabilities	1,770,041	197,024	5,795	50,642	3,386	–	2,026,888
Net liquidity gap	(513,618)	177,011	523,509	(5,048)	(2,956)	–	178,898
Cumulative net liquidity gap	(513,618)	(336,607)	186,902	181,854	178,898	178,898	

At 31 December 2015 (restated – note 1.4)	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
Cash and balances with central banks	583,002	172	154	–	–	–	583,328
Settlement balances	–	17,948	–	–	–	–	17,948
Loans and advances to banks	68,156	20,101	20,751	230	–	–	109,238
Loans and advances to customers	4,609	18,504	60,115	37,736	505	–	121,469
Debt securities and money market funds	62,397	246,781	456,209	–	–	–	765,387
Other financial assets	155	46,648	336	286	–	–	47,425
Cash flows arising from financial assets	718,319	350,154	537,565	38,252	505	–	1,644,795
Deposits by banks	299	–	–	–	–	–	299
Settlement balances	–	21,481	–	–	–	–	21,481
Due to customers	1,321,575	79,995	1,354	–	–	–	1,402,924
Subordinated loan notes	–	586	586	24,685	–	–	25,857
Other financial liabilities	1,174	35,911	6,542	23,856	1,368	–	68,851
Cash flows arising from financial liabilities	1,323,048	137,973	8,482	48,541	1,368	–	1,519,412
Net liquidity gap	(604,729)	212,181	529,083	(10,289)	(863)	–	125,383
Cumulative net liquidity gap	(604,729)	(392,548)	136,535	126,246	125,383	125,383	

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 £1,864,000 of equity investments (2015: £1,070,000) 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.

31 Financial risk management ii. Liquidity risk continued

Off-balance sheet items

Cash flows arising from the group's off-balance sheet financial liabilities (note 33) 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.

At 31 December 2016	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
Loan commitments	**31,642**	**–**	**–**	**–**	**31,642**
Financial guarantees	**–**	**–**	**117**	**–**	**117**
Operating lease commitments	**1,481**	**4,530**	**39,336**	**69,148**	**114,495**
Capital commitments	**4,430**	**–**	**–**	**–**	**4,430**
Total off-balance sheet items	**37,553**	**4,530**	**39,453**	**69,148**	**150,684**

At 31 December 2015	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
Loan commitments	20,417	–	–	–	20,417
Financial guarantees	–	–	–	–	–
Operating lease commitments	1,459	4,441	22,782	15,643	44,325
Capital commitments	534	–	–	–	534
Total off-balance sheet items	22,410	4,441	22,782	15,643	65,276

Total liquidity requirement

At 31 December 2016	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
Cash flows arising from financial liabilities	**1,770,041**	**197,024**	**5,795**	**50,642**	**3,386**	**2,026,888**
Total off-balance sheet items	**–**	**37,553**	**4,530**	**39,453**	**69,148**	**150,684**
Total liquidity requirement	**1,770,041**	**234,577**	**10,325**	**90,095**	**72,534**	**2,177,572**

At 31 December 2015 (restated – note 1.4)	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
Cash flows arising from financial liabilities	1,323,048	137,973	8,482	48,541	1,368	1,519,412
Total off-balance sheet items	–	22,410	4,441	22,782	15,643	65,276
Total liquidity requirement	1,323,048	160,383	12,923	71,323	17,011	1,584,688

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.

The table below shows the consolidated repricing profile of the group's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2016	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
Assets						
Cash and balances with central banks	**1,075,000**	**–**	**–**	**–**	**673**	**1,075,673**
Settlement balances	**–**	**–**	**–**	**–**	**37,787**	**37,787**
Loans and advances to banks	**83,766**	**–**	**30,000**	**–**	**322**	**114,088**
Loans and advances to customers	**110,051**	**–**	**–**	**–**	**900**	**110,951**
Investment securities:						
– equity securities	**–**	**–**	**–**	**–**	**1,864**	**1,864**
– unlisted debt securities and money market funds	**353,557**	**155,000**	**295,000**	**–**	**–**	**803,557**
Other financial assets	**–**	**–**	**–**	**–**	**56,975**	**56,975**
Total financial assets	**1,622,374**	**155,000**	**325,000**	**–**	**98,521**	**2,200,895**
Liabilities						
Deposits by banks	**294**	**–**	**–**	**–**	**–**	**294**
Settlement balances	**–**	**–**	**–**	**–**	**39,289**	**39,289**
Due to customers	**1,865,389**	**1,242**	**–**	**–**	**22,264**	**1,888,895**
Subordinated loan notes	**–**	**–**	**–**	**19,590**	**–**	**19,590**
Other financial liabilities	**–**	**–**	**–**	**–**	**64,586**	**64,586**
Total financial liabilities	**1,865,683**	**1,242**	**–**	**19,590**	**126,139**	**2,012,654**
Interest rate repricing gap	**(243,309)**	**153,758**	**325,000**	**(19,590)**	**(27,618)**	**188,241**

31 Financial risk management iii. Market risk continued

At 31 December 2015 (restated – note 1.4)	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
Assets						
Cash and balances with central banks	583,000	–	–	–	156	583,156
Settlement balances	–	–	–	–	17,948	17,948
Loans and advances to banks	88,783	–	20,000	–	94	108,877
Loans and advances to customers	116,258	–	–	–	1,011	117,269
Investment securities:						
– equity securities	–	–	–	–	1,070	1,070
– unlisted debt securities and money market funds	307,288	267,773	185,000	–	–	760,061
Other financial assets	–	–	–	–	50,726	50,726
Total financial assets	1,095,329	267,773	205,000	–	71,005	1,639,107
Liabilities						
Deposits by banks	299	–	–	–	–	299
Settlement balances	–	–	–	–	21,481	21,481
Due to customers	1,386,564	1,349	–	–	14,977	1,402,890
Subordinated loan notes	–	–	–	19,492	–	19,492
Other financial liabilities	–	–	–	–	59,337	59,337
Total financial liabilities	1,386,863	1,349	–	19,492	95,795	1,503,499
Interest rate repricing gap	(291,534)	266,424	205,000	(19,492)	(24,790)	135,608

The banking committee has set an overall pre-tax interest rate exposure limit of £6,000,000 (2015: £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 2016, the Bank had a net present value sensitivity of £3,696,000 (2015: £2,365,000) for an upward 2% shift in rates. The group held no forward rate agreements at 31 December 2016 (2015: none).

Foreign exchange risk

The group is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to foreign exchange rate fluctuations. The group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time-to-time, so as to reduce any currency exposure to a minimal amount. The group has no structural foreign currency exposure.

The group does not have any material exposure to transactional foreign exchange risk. The table below summarises the group's exposure to foreign currency translation risk at 31 December 2016. Included in the table are the group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2016	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances with central banks	**1,075,673**	**–**	**–**	**–**	**1,075,673**
Settlement balances	**36,911**	**809**	**10**	**57**	**37,787**
Loans and advances to banks	**74,503**	**21,205**	**12,217**	**6,163**	**114,088**
Loans and advances to customers	**103,110**	**4,974**	**2,867**	**–**	**110,951**
Investment securities:					
– equity securities	**1,864**	**–**	**–**	**–**	**1,864**
– unlisted debt securities and money market funds	**755,000**	**48,557**	**–**	**–**	**803,557**
Other financial assets	**56,613**	**303**	**10**	**49**	**56,975**
Total financial assets	**2,103,674**	**75,848**	**15,104**	**6,269**	**2,200,895**
Liabilities					
Deposits by banks	**294**	**–**	**–**	**–**	**294**
Settlement balances	**37,343**	**1,830**	**116**	**–**	**39,289**
Due to customers	**1,796,166**	**72,439**	**14,567**	**5,723**	**1,888,895**
Subordinated loan notes	**19,590**	**–**	**–**	**–**	**19,590**
Other financial liabilities	**64,467**	**31**	**44**	**44**	**64,586**
Total financial liabilities	**1,917,860**	**74,300**	**14,727**	**5,767**	**2,012,654**
Net on-balance sheet position	**185,814**	**1,548**	**377**	**502**	**188,241**
Loan commitments	**31,642**	**–**	**–**	**–**	**31,642**

31 Financial risk management iii. Market risk continued

At 31 December 2015 (restated – note 1.4)	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances with central banks	583,156	–	–	–	583,156
Settlement balances	17,184	592	121	51	17,948
Loans and advances to banks	73,069	15,066	16,387	4,355	108,877
Loans and advances to customers	115,793	1,167	307	2	117,269
Investment securities:					
– equity securities	1,070	–	–	–	1,070
– unlisted debt securities and money market funds	722,745	37,316	–	–	760,061
Other financial assets	50,432	213	–	81	50,726
Total financial assets	1,563,449	54,354	16,815	4,489	1,639,107
Liabilities					
Deposits by banks	299	–	–	–	299
Settlement balances	20,555	715	211	–	21,481
Due to customers	1,330,242	52,352	16,292	4,004	1,402,890
Subordinated loan notes	19,492	–	–	–	19,492
Other financial liabilities	59,321	16	–	–	59,337
Total financial liabilities	1,429,909	53,083	16,503	4,004	1,503,499
Net on-balance sheet position	133,540	1,271	312	485	135,608
Loan commitments	20,417	–	–	–	20,417

A 10% weakening of the US dollar against sterling, occurring on 31 December 2016, would have reduced equity and profit after tax by £124,000 (2015: reduced by £101,000). A 10% weakening of the euro against sterling, occurring on 31 December 2016, would have reduced equity and profit after tax by £30,000 (2015: reduced by £25,000). 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.

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 17).

At 31 December 2016, the fair value of equity securities recognised on the balance sheet was £1,864,000 (2015: £1,070,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax decrease to net assets of £110,000 (2015: £60,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**1,864**	**–**	**–**	**1,864**
– money market funds	**–**	**103,557**	**–**	**103,557**
	1,864	**103,557**	**–**	**105,421**

At 31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	1,070	–	–	1,070
– money market funds	–	52,316	–	52,316
	1,070	52,316	–	53,386

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 (2015: 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.

In the current year, there were no gains or losses arising from changes in the fair value of financial instruments categorised as Level 3 within the fair value hierarchy. In 2015, a loss of £1,030,000 was recognised in profit or loss in relation to derivative financial instruments.

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of the following:

- Held to maturity investment debt securities (note 17) comprise bank and building society certificates of deposit, which have fixed coupons and, in 2015, treasury bills. The fair value of debt securities at 31 December 2016 was £704,815,000 (2015: £710,718,000) and the carrying value was £700,000,000 (2015: £707,745,000). 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.
- Subordinated loan notes (note 26) comprise Tier 2 loan notes issued in 2015. The fair value of the loan notes at 31 December 2016 was £19,578,000 (2015: £20,099,000) and the carrying value was £19,590,000 (2015: £19,492,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

32 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as total equity. As at 31 December 2016 this totalled £324,813,000 (2015: £300,192,000). The increase during the year was attributable to the company issuing shares by way of a placing (note 28), offset by the loss recognised on remeasurement of the defined benefit pension liability (note 27).

In the prior year, Rathbone Investment Management issued subordinated Tier 2 loan notes (note 26). At 31 December 2016, the carrying value of the notes was £19,590,000 (2015: £19,492,000). From time-to-time, the group also runs small overnight overdraft balances as part of working capital.

The group's objectives when managing capital are to:

- safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- maintain a strong capital base in a cost-efficient manner to be able to support the development of the business when required
- optimise the distribution of capital across group companies, reflecting the requirements of each business
- strive to make capital freely transferable across the group where possible and
- comply with regulatory requirements at all times.

Rathbones is classified for capital purposes as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP), which is presented to the PRA on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with published rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the PRA's Pillar 1 and Pillar 2 methodology. The group has adopted the standardised approach to calculating its Pillar 1 credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both group and entity level.

At 31 December 2016 the group's regulatory capital resources, including retained earnings for 2016, were £174,192,000 (2015: £144,468,000). The increase in reserves during 2016 is due to the impact of the share placing, partially offset by a decrease in the group's retained earnings due to the loss on remeasurement of the defined benefit liabilities.

In addition to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecast on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions.

No breaches were reported to the PRA during the financial years ended 31 December 2015 and 2016.

33 Contingent liabilities and commitments

(a) Capital expenditure authorised and contracted for at 31 December 2016 but not provided in the financial statements amounted to £4,430,000 (2015: £534,000).

(b) The contractual amounts of the group's commitments to extend credit to its clients are as follows.

	2016 £'000	2015 £'000
Guarantees	**117**	–
Undrawn commitments to lend of 1 year or less	**25,661**	20,417
Undrawn commitments to lend of more than 1 year	**5,981**	–
	31,759	20,417

The fair value of the guarantees is £nil (2015: £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 2016 were £21,424,000, provides for an upward only rent review in 2018.

On 13 May 2016, the group entered into five 17 year leases at 8 Finsbury Circus, under which total payments over the lease term at 31 December 2016 were £75,946,000. The leases provide for rent reviews every five years.

Payments under non-cancellable operating leases	2016 £'000	2015 £'000
No later than 1 year	**6,011**	5,900
Later than 1 year and no later than 5 years	**39,336**	22,782
Later than 5 years	**69,148**	15,643
	114,495	44,325

(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 class and accrues levy costs for future levy years when the obligation arises.

34 Related party transactions

Transactions with key management personnel

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below. Further information about the remuneration of individual directors is provided in the audited part of the remuneration committee report on page 69.

	2016 £'000	2015 £'000
Short term employee benefits	**10,750**	10,659
Post-employment benefits	**330**	791
Other long term benefits	**1,581**	1,706
Share-based payments	**2,775**	2,878
	15,436	16,034

Dividends totalling £302,000 were paid in the year (2015: £108,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2016, the group had outstanding interest-free season ticket loans of £6,000 (2015: £6,000) issued to key management personnel.

34 Related party transactions Transactions with key management personnel continued

At 31 December 2016, key management personnel and their close family members had gross outstanding deposits of £5,464,000 (2015: £862,000) and gross outstanding banking loans of £959,000 (2015: £5,805,000), all of which (2015: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

Other related party transactions

The group's transactions with the pension funds are described in note 27. At 31 December 2016, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2015: £nil).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2016, the group managed 27 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2015: 22 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

The following transactions and balances relate to the group's interest in the collectives:

Year ended 31 December	2016 £'000	2015 £'000
Total management fees	**27,783**	23,061

As at 31 December	2016 £'000	2015 £'000
Management fees owed to the group	**2,557**	2,181
Holdings in unit trusts (note 17)	**1,864**	1,070
	4,421	3,251

Total management fees are included within 'fee and commission income' in the consolidated statement of comprehensive income.

Management fees owed to the group are included within 'accrued income' and holdings in unit trusts are classified as 'available for sale equity securities' in the consolidated balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received.

No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

35 Interest in unconsolidated structured entities

As described in note 34, at 31 December 2016, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £1,864,000 (2015: £1,070,000), representing 0.05% (2015: 0.03%) of the total value of the collectives managed by the group. These assets are held to hedge the group's exposure to deferred remuneration schemes for employees of Unit Trusts.

The group's primary risk associated with its interest in the unit trusts is from changes in fair value of its holdings in the funds.

The group is not judged to control, and therefore does not consolidate, the collectives. Although the fund trustees have limited rights to remove Rathbone Unit Trust Management as manager, the group is exposed to very low variability of returns from its management and share of ownership of the funds and is therefore judged to act as an agent rather than having control under IFRS 10.

36 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.

	2016 £'000	2015 £'000
Cash and balances at central banks (note 14)	**1,075,673**	583,156
Loans and advances to banks (note 15)	**83,844**	68,156
Available for sale investment securities (note 17)	**103,557**	52,316
	1,263,074	703,628

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:

	2016 £'000	2015 £'000
Share capital issued (note 28)	**128**	12
Share premium on shares issued (note 28)	**42,348**	4,656
Shares issued in relation to share-based schemes for which no cash consideration was received	**(1,631)**	(2,413)
Shares issued in relation to business combinations (note 28)	**(646)**	–
	40,199	2,255

37 Events after the balance sheet date

Member consultation on closing the pension scheme

On 20 October 2016, the group commenced a consultation with members of the schemes with a view to ceasing future accrual and breaking the link to final salary in both schemes. The consultation period ended on 31 January 2017. Following the consultation period, the group has confirmed to members its intention to close the Rathbone 1987 Scheme to future accrual and to break the link to final salary for both schemes, with effect from 1 July 2017. The impact of these changes, if they had been confirmed on 31 December 2016, would have been to reduce the reported defined benefit obligation by an estimated £6,100,000.

Relocation of the London head office

The move to the 8 Finsbury Circus office concluded on 13 February 2017, which triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing lease (see note 9). The ultimate amount of the provision is dependent on the timing of any subletting agreement and the associated terms agreed with relevant third parties. Based on management's expectations of future costs for the premises and potential rental income, and timings thereof, a net charge to profit or loss of £10,000,000 was recognised on 13 February 2017.

38 Country-by-country reporting

Introduction

HM Treasury has transposed the requirements set out under Capital Requirements Directive IV (CRD IV) and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Rathbone Brothers Plc (together with its subsidiaries, 'the group') to publish certain additional information, on a consolidated basis, for the year ended 31 December 2016.

Basis of preparation

Country	In most cases, we have determined the country by reference to the country of tax residence. Where an entity is not subject to tax (e.g. a partnership) we have considered the location of management or the jurisdiction in which the revenues are generated. In these cases it is possible that tax is paid in a different country to the one in which profits are reported.
Nature of activities	The nature of activities within the United Kingdom are described within our services on pages 2 to 5. Discretionary investment management is the sole activity which occurs in Jersey.
Turnover	Turnover is defined as operating income. As the consolidated results are split by country, there is an element of double counting when inter-jurisdictional transactions (for example, the payment of dividends) occur. The entries to eliminate this double counting are included at the bottom of the table to enable the disclosed figures to agree to the published consolidated accounts of the group.
Profit/(loss) before taxation	These are accounting profits. As with turnover some double counting may arise and again this has been eliminated at the bottom of the table. The majority of the total relates to the elimination of inter-jurisdictional dividends which are reflected as profits in the United Kingdom.
Tax paid	This column reflects corporation tax actually paid in the year. Note that it is rare that tax paid in any given year relates directly to the profits earned in the same period.
Public subsidies received	The group received no public subsidies in the year.
Number of employees	The number of employees reported is the average number of full time employees who were permanently employed by the group, or one of its subsidiaries, during the year. Contractors are excluded.
Subsidiaries	A list of the subsidiaries of the group, including their main activity and country of incorporation, is shown within note 43.

Country	Turnover £'000	Profit/(loss) before taxation £'000	Tax paid £'000	Number of employees
United Kingdom	**245,355**	**48,720**	**11,884**	**1,051**
Jersey	**9,406**	**1,834**	**141**	**15**
Sub-total	**254,761**	**50,554**	**12,025**	**1,066**
Intergroup eliminations and other entries arising on consolidation	**(3,478)**	**(425)**	**–**	**–**
Total	**251,283**	**50,129**	**12,025**	**1,066**

Company statement of changes in equity

for the year ended 31 December 2016

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015		2,395	92,987	28	(5,531)	42,643	132,522
Profit for the year						42,853	42,853
Net remeasurement of defined benefit liability	49					6,524	6,524
Net gain on revaluation of available for sale investment securities	17			53			53
Deferred tax relating to components of other comprehensive income	46			(10)		(1,509)	(1,519)
Other comprehensive income net of tax		–	–	43	–	5,015	5,058
Dividends paid	42					(25,836)	(25,836)
Issue of share capital	50	12	4,656				4,668
Share-based payments:							
– value of employee services						1,022	1,022
– cost of own shares acquired	50				(2,413)		(2,413)
– cost of own shares vesting	50				1,767	(1,767)	–
– tax on share-based payments	46					51	51
At 1 January 2016		**2,407**	**97,643**	**71**	**(6,177)**	**63,981**	**157,925**
Profit for the year						**40,950**	**40,950**
Net remeasurement of defined benefit liability	49					**(37,318)**	**(37,318)**
Net gain on revaluation of available for sale investment securities	17			**93**			**93**
Deferred tax relating to components of other comprehensive income	46			**(14)**		**5,936**	**5,922**
Other comprehensive income net of tax		**–**	**–**	**79**	**–**	**(31,382)**	**(31,303)**
Dividends paid	42					**(26,479)**	**(26,479)**
Issue of share capital	50	**128**	**42,003**				**42,131**
Share-based payments:							
– value of employee services						**3,035**	**3,035**
– cost of own shares acquired	50				**(1,585)**		**(1,585)**
– cost of own shares vesting	50				**1,084**	**(1,084)**	**–**
– own shares sold	50		**345**		**435**		**780**
– tax on share-based payments	46					**(115)**	**(115)**
At 31 December 2016		**2,535**	**139,991**	**150**	**(6,243)**	**48,906**	**185,339**

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

Company balance sheet
as at 31 December 2016

	Note	2016 £'000	2015 £'000 (restated – note 39)
Non-current assets			
Investment in subsidiaries	43	**140,503**	130,607
Other investments	44	**11,864**	11,070
Deferred tax	46	**8,128**	2,564
		160,495	144,241
Current assets			
Trade and other receivables	45	**131,310**	77,890
Current tax asset		**92**	250
Cash and cash equivalents		**6,212**	5,972
		137,614	84,112
Total assets		**298,109**	228,353
Current liabilities			
Trade and other payables	47	**(59,264)**	(51,277)
Provisions for liabilities and charges	48	**(14,051)**	(14,650)
		(73,315)	(65,927)
Net current assets		**64,299**	18,185
Non-current liabilities			
Employee benefits	49	**(39,455)**	(4,501)
Total liabilities		**(112,770)**	(70,428)
Net assets		**185,339**	157,925
Equity			
Share capital	50	**2,535**	2,407
Share premium	50	**139,991**	97,643
Available for sale reserve		**150**	71
Own shares	50	**(6,243)**	(6,177)
Retained earnings		**48,906**	63,981
Equity shareholders' funds		**185,339**	157,925

The financial statements were approved by the board of directors and authorised for issue on 22 February 2017 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 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Profit before tax		**40,955**	43,178
Net interest and dividends receivable		**(48,772)**	(44,245)
Net charge for provisions	48	**964**	707
Loss on derivative financial instruments		**–**	1,030
Defined benefit pension scheme charges	49	**3,058**	4,217
Defined benefit pension scheme contributions paid	49	**(5,422)**	(6,902)
Share-based payment charges	50	**5,201**	4,629
		(4,016)	2,614
Changes in operating assets and liabilities:			
– net decrease in trade debtors		**–**	–
– net increase in prepayments, accrued income and other assets		**(52,946)**	(20,792)
– net increase in accruals, deferred income, provisions and other liabilities		**7,959**	1,832
Cash used in operations		**(49,003)**	(16,346)
Tax received		**397**	1,403
Net cash used in operating activities		**(48,606)**	(14,943)
Cash flows from investing activities			
Interest received		**94**	138
Interest paid		**(81)**	–
Intercompany dividends received		**48,800**	44,000
Other dividends received		**–**	107
Acquisition of subsidiaries		**(2,532)**	(5,000)
Investment in subsidiaries	43	**(11,725)**	–
Repayment of subordinated loans by group undertakings	43	**1,750**	–
Purchase of other investments		**(701)**	(503)
Net cash generated from investing activities		**35,605**	38,742
Cash flows from financing activities			
Issue of ordinary shares	50	**40,199**	2,255
Dividends paid	42	**(26,479)**	(25,836)
Net cash generated from/(used in) financing activities		**13,720**	(23,581)
Net increase in cash and cash equivalents		**719**	218
Cash and cash equivalents at the beginning of the year		**5,244**	5,026
Cash and cash equivalents at the end of the year	55	**5,963**	5,244

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

39 Significant accounting policies

Statement of compliance

The separate financial statements of the company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and IAS 27 'Separate Financial Statements'.

On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

Opening balance adjustment

In the current year, the company made payments to the previous owners of subsidiary undertakings acquired in the prior year, in respect of the net assets of the companies at the acquisition date (see note 8).

The payment was lower than was provided for at 31 December 2015 and, as such, the comparatives have been restated accordingly (note 1.4). As at 31 December 2015, the company's total assets have been increased by £237,000, and total liabilities have been increased by the same amount. There has been no impact on operating income, profit or equity shareholders' funds in the current or prior periods.

Developments in reporting standards and interpretations

Developments in reporting standards and interpretations are set out in note 1.3 to the consolidated financial statements.

Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are as set out below.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

Management charges

Intra-group management charges arise in relation to staff costs and other administrative expenses that are initially borne by the company and then recharged to other group companies, when incurred.

Accounting policies in relation to impairment, interest income, dividend income, operating leases, foreign currency, retirement benefit obligations, taxation, cash and cash equivalents and share-based payments are set out in note 1 to the consolidated financial statements.

40 Critical accounting judgments and key sources of estimation and uncertainty

The critical accounting judgment and key sources of estimation and uncertainty arise from the company's defined benefit pension schemes. This is described in note 2 to the consolidated financial statements.

41 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 2016 of £40,950,000 (2015: £42,853,000).

Auditor's remuneration for audit and other services to the company are set out in note 7 to the financial statements.

The average number of employees, on a full time equivalent basis, during the year was as follows.

	2016	2015
Investment Management:		
– investment management services	**681**	614
– advisory services	**82**	77
Unit Trusts	**27**	27
Shared services	**259**	249
	1,049	967

42 Dividends

Details of the company's dividends paid and proposed for approval at the AGM are set out in note 12 to the financial statements.

The company's dividend policy is described in the directors' report on page 90.

Reserves available for distribution as at 31 December were comprised as follows.

	2016 £'000	2015 £'000
Net assets	**185,339**	157,925
Less:		
– share capital	**(2,535)**	(2,407)
– share premium	**(139,991)**	(97,643)
Distributable reserves	**42,813**	57,875

Movements in reserves available for distribution were as follows.

	2016 £'000	2015 £'000
As at 1 January	**57,875**	37,140
Profit for the year	**40,950**	42,853
Net remeasurement of defined benefit liability	**(31,382)**	5,015
Net gain on revaluation of available for sale investment securities	**79**	43
Dividends paid	**(26,479)**	(25,836)
Other movements	**1,770**	(1,340)
As at 31 December	**42,813**	57,875

43 Investment in subsidiaries

	Equities £'000	Subordinated loans to group undertakings £'000	Total £'000
At 1 January 2015	118,733	1,750	120,483
Additions (restated – note 39)	10,124	–	10,124
At 1 January 2016 (restated – note 39)	**128,857**	**1,750**	**130,607**
Additions	**11,725**	**–**	**11,725**
Disposals	**(79)**	**(1,750)**	**(1,829)**
At 31 December 2016	**140,503**	**–**	**140,503**

Equities

On 11 March 2016, 135,000 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 31 October 2016, 4,000 ordinary shares of 5p each in Vision Independent Financial Planning were issued to the company at a price of £400 per share for cash consideration.

43 Investment in subsidiaries Equities continued

At 31 December 2016 the company's subsidiary undertakings were as follows.

Subsidiary undertaking	Activity and operation
Rathbone Investment Management Limited	Investment management and banking services
Rathbone Investment Management International Limited*	Investment management
Rathbone Trust Company Limited	Trust and tax services
Rathbone Unit Trust Management Limited*	Unit trust management
Arcticstar Limited	Introducer of private clients
Vision Independent Financial Planning Limited	Financial planning services
Castle Investment Solutions Limited	Investment support services
Laurence Keen Holdings Limited	Intermediate holding company
Rathbone Directors Limited*	Corporate director services
Rathbone Secretaries Limited*	Corporate secretarial services
Laurence Keen Nominees Limited*	Corporate nominee
Neilson Cobbold Client Nominees Limited*	Corporate nominee
Rathbone Nominees Limited*	Corporate nominee
Citywall Nominees Limited*	Corporate nominee
Penchart Nominees Limited*	Corporate nominee
Rathbone Pension & Advisory Services Limited	Non-trading
Rathbone Trust Legal Services Limited*	Non-trading
Rathbone Stockbrokers Limited*	Non-trading
Dean River Asset Management Limited*	Non-trading
R.M. Walkden & Co. Limited*	Non-trading

* Held by subsidiary undertaking

The registered office for all subsidiary undertakings is 8 Finsbury Circus, London, EC2M 7AZ except for the following:

Subsidiary undertaking	Registered office
Rathbone Investment Management Limited	Port of Liverpool Building, Pier Head, Liverpool L3 1NW
Rathbone Investment Management International Limited	26 Esplanade, St Helier, Jersey JE1 2RB
Vision Independent Financial Planning Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall TR11 4SZ
Castle Investment Solutions Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall TR11 4SZ

The company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiary undertakings.

Subordinated loans to group undertakings

The amounts subject to subordinated loan agreements are shown below.

Counterparty	2016 £'000	2015 £'000
Rathbone Pension & Advisory Services Limited	–	250
Rathbone Investment Management International Limited	–	1,500
	–	1,750

All subordinated loans accrued 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 repaid the subordinated loan during the year, following the satisfactory transfer of its continuing business to a fellow group company.

Rathbone Investment Management International repaid the subordinated loan during the year, having obtained permission from the Jersey Financial Services Commission to do so.

44 Other investments

Available for sale securities

	2016 £'000	2015 £'000
Equity securities – at fair value:		
– listed	**1,864**	1,070
Money market funds – at fair value:		
– unlisted	**10,000**	10,000
	11,864	11,070

45 Trade and other receivables

	2016 £'000	2015 £'000
Prepayments and other receivables	**3,836**	3,856
Amounts owed by group undertakings	**127,474**	74,034
	131,310	77,890
Current	**131,310**	77,890
Non-current	**–**	–
	131,310	77,890

46 Deferred tax

The Finance Bill 2016, which included a provision for the UK corporation tax rate to be reduced to 17.0% in April 2020, received royal assent in September 2016, and the reduction is therefore judged to be substantively enacted. Deferred tax balances have been calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
As at 1 January 2016	**853**	**1,690**	**37**	**(16)**	**2,564**
Recognised in profit or loss in respect of:					
– current year	**(473)**	**(182)**	**137**	**–**	**(518)**
– prior year	**–**	**–**	**44**	**–**	**44**
– change in rate	**389**	**(129)**	**(29)**	**–**	**231**
Total recognised in profit or loss	**(84)**	**(311)**	**152**	**–**	**(243)**
Recognised in other comprehensive income in respect of:					
– current year	**7,464**	**–**	**–**	**(18)**	**7,446**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**(1,528)**	**–**	**–**	**4**	**(1,524)**
Total recognised in other comprehensive income	**5,936**	**–**	**–**	**(14)**	**5,922**
Recognised in equity in respect of:					
– current year	**–**	**(99)**	**–**	**–**	**(99)**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**(16)**	**–**	**–**	**(16)**
Total recognised in equity	**–**	**(115)**	**–**	**–**	**(115)**
As at 31 December 2016	**6,705**	**1,264**	**189**	**(30)**	**8,128**

46 Deferred tax continued

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	**6,705**	**1,264**	**189**	**–**	**8,158**
Deferred tax liabilities	**–**	**–**	**–**	**(30)**	**(30)**
As at 31 December 2016	**6,705**	**1,264**	**189**	**(30)**	**8,128**

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
As at 1 January 2015	2,740	2,054	30	(6)	4,818
Recognised in profit or loss in respect of:					
– current year	(544)	(343)	(42)	–	(929)
– prior year	–	–	53	–	53
– change in rate	166	(72)	(4)	–	90
Total recognised in profit or loss	(378)	(415)	7	–	(786)
Recognised in other comprehensive income in respect of:					
– current year	(1,321)	–	–	(11)	(1,332)
– prior year	–	–	–	–	–
– change in rate	(188)	–	–	1	(187)
Total recognised in other comprehensive income	(1,509)	–	–	(10)	(1,519)
Recognised in equity in respect of:					
– current year	–	70	–	–	70
– prior year	–	(4)	–	–	(4)
– change in rate	–	(15)	–	–	(15)
Total recognised in equity	–	51	–	–	51
As at 31 December 2015	853	1,690	37	(16)	2,564

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	853	1,690	37	–	2,580
Deferred tax liabilities	–	–	–	(16)	(16)
As at 31 December 2016	853	1,690	37	(16)	2,564

47 Trade and other payables

	2016 £'000	2015 £'000
Accruals, deferred income and other creditors	**53,909**	45,443
Other taxes and social security costs	**5,355**	5,834
	59,264	51,277

The fair value of trade and other payables is not materially different from their carrying amount.

48 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Property-related £'000	Total £'000
As at 1 January 2015	7,960	–	1,034	8,994
Charged to profit or loss	–	–	707	707
Business combinations (restated – note 39)	–	3,908	–	3,908
Other movements	11,305	–	–	11,305
Utilised/paid during the year	(10,264)	–	–	(10,264)
As at 31 December 2015 (restated – note 39)	**9,001**	**3,908**	**1,741**	**14,650**
Charged to profit or loss	**–**	**–**	**964**	**964**
Other movements	**7,820**	**3**	**–**	**7,823**
Utilised/paid during the year	**(6,611)**	**(2,775)**	**–**	**(9,386)**
As at 31 December 2016	**10,210**	**1,136**	**2,705**	**14,051**
Payable within 1 year	**1,833**	**–**	**1,292**	**3,125**
Payable after 1 year	**8,377**	**1,136**	**1,413**	**10,926**
	10,210	**1,136**	**2,705**	**14,051**

Deferred, variable costs to acquire client relationship intangibles of £7,820,000 arose during the year, in relation to deferred payments to investment managers and third parties linked to the value of client funds introduced (2015: £11,305,000).

Deferred and contingent consideration of £1,136,000 (2015 (restated – note 39): £3,908,000) is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision and Castle (see note 8).

Following the agreement of the net asset value of the acquired businesses, a net asset value payment of £1,563,000 was made in March 2016. Further payments of £695,000 and £517,000 were made in June 2016 and December 2016 respectively, following the achievement of operational and financial targets.

Property-related provisions consist of £2,705,000 in relation to dilapidation provisions expected to arise on leasehold premises held by the company (2015: £1,741,000). Dilapidation provisions are calculated using a discounted cash flow model. During the year, provisions have increased by £964,000 due to the creation of a provision for our new London office at 8 Finsbury Circus (see note 9).

Provisions payable after one year are expected to be settled within three years of the balance sheet date (2015: four years), except for the property-related provisions of £1,413,000 (2015: £1,729,000). These are expected to be settled within 20 years of the balance sheet date (2015: 21 years).

49 Employee benefits

Details of the defined benefit pension schemes operated by the company are provided in note 27 to the financial statements.

50 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 28 and 29 to the financial statements. Details of options on the company's shares and share-based payments are set out in note 30 to the financial statements.

51 Financial instruments

The company's risk management policies and procedures are integrated with the 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 27 to the financial statements.

The sections below outline the group risk appetite, as applicable to the company, and explain how the company defines and manages each category of financial risk.

The company's financial risk management policies are designed to identify and analyse the financial risks that the company faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in the business and the wider industry.

The company's overall strategy and policies for monitoring and management of financial risk are set by the board of directors. The board 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.

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.

No impairment losses arose during the year or in 2015.

Maximum exposure to credit risk

	2016 £'000	2015 £'000
Other investments:		
– money market funds	**10,000**	10,000
Trade and other receivables:		
– amounts owed by group undertakings	**127,474**	75,784
– other financial assets	**1,112**	1,013
Balances at banks	**6,212**	5,972
	144,798	92,769

The above table represents the gross credit risk exposure of the company at 31 December 2016 and 2015, without taking account of any collateral held or other credit enhancements attached.

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.

	2016 £'000	2015 £'000
Neither past due nor impaired	**127,474**	75,784
Impaired	**–**	–
Gross carrying value	**127,474**	75,784
Less: allowance for impairment	**–**	–
Net carrying value	**127,474**	75,784

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.

	2016 £'000	2015 £'000
A	**6,194**	5,468
Other*	**18**	504
	6,212	5,972

* 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 2016, based on Fitch or Moody's long term rating designation.

	2016		2015	
	Money market funds £'000	Total £'000	Money market funds £'000	Total £'000
AAA	**10,000**	**10,000**	10,000	10,000

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 includes the placement of funds with a range of high-quality financial institutions.

51 Financial instruments i. Credit risk continued

(a) Geographical sectors

The following table analyses the company's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2016	United Kingdom £'000	Rest of the World £'000	Total £'000
Other investments:			
– money market funds	**10,000**	**–**	**10,000**
Trade and other receivables:			
– amounts owed by group undertakings	**127,236**	**238**	**127,474**
– other financial assets	**658**	**443**	**1,101**
Balances at banks	**6,212**	**–**	**6,212**
	144,106	**681**	**144,787**

At 31 December 2015	United Kingdom £'000	Rest of the World £'000	Total £'000
Other investments:			
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	75,674	110	75,784
– other financial assets	611	385	996
Balances at banks	5,972	–	5,972
	92,257	495	92,752

At 31 December 2016, all Rest of the World exposures were to counterparties based in Jersey and the United States of America (2015: Jersey and the United States of America). At 31 December 2016, the company had no exposure to sovereign debt (2015: none).

(b) Industry sectors

The company's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2016	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
– money market funds	**10,000**	**–**	**10,000**
Trade and other receivables:			
– amounts owed by group undertakings	**103,126**	**24,348**	**127,474**
– other financial assets	**2**	**1,099**	**1,101**
Balances at banks	**6,212**	**–**	**6,212**
	119,340	**25,447**	**144,787**

At 31 December 2015	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	54,741	21,043	75,784
– other financial assets	4	992	996
Balances at banks	5,972	–	5,972
	70,717	22,035	92,752

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 (2015: £nil) and does not rely on external funding for its activities.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the company on its non-derivative financial assets and liabilities by remaining contractual maturities at the balance sheet date.

At 31 December 2016	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	**10,002**	**–**	**–**	**–**	**–**	**–**	**10,002**
Trade and other receivables:							
– amounts owed by group undertakings	**127,474**	**–**	**–**	**–**	**–**	**–**	**127,474**
– other financial assets	**5**	**429**	**335**	**343**	**–**	**–**	**1,112**
Balances at banks	**5,971**	**–**	**226**	**18**	**–**	**–**	**6,215**
Cash flows arising from financial assets	**143,452**	**429**	**561**	**361**	**–**	**–**	**144,803**
Trade and other payables:							
– other financial liabilities	**226**	**29,794**	**3,722**	**26,718**	**3,364**	**–**	**63,824**
Cash flows arising from financial liabilities	**226**	**29,794**	**3,722**	**26,718**	**3,364**	**–**	**63,824**
Net liquidity gap	**143,226**	**(29,365)**	**(3,161)**	**(26,357)**	**(3,364)**	**–**	**80,979**
Cumulative net liquidity gap	**143,226**	**113,861**	**110,700**	**84,343**	**80,979**	**80,979**	

At 31 December 2015	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	10,004	–	–	–	–	–	10,004
Trade and other receivables:							
– amounts owed by group undertakings	74,034	261	34	1,545	–	–	75,874
– other financial assets	5	386	336	286	–	–	1,013
Balances at banks	5,251	–	491	230	–	–	5,972
Cash flows arising from financial assets	89,294	647	861	2,061	–	–	92,863
Trade and other payables:							
– other financial liabilities	217	25,927	6,499	23,819	1,164	–	57,626
Cash flows arising from financial liabilities	217	25,927	6,499	23,819	1,164	–	57,626
Net liquidity gap	89,077	(25,280)	(5,638)	(21,758)	(1,164)	–	35,237
Cumulative net liquidity gap	89,077	63,797	58,159	36,401	35,237	35,237	

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 £1,864,000 of equity investments (2015: £1,070,000) 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.

51 Financial instruments ii. Liquidity risk continued

Off-balance sheet items

Cash flows arising from the company's off-balance sheet financial liabilities arise solely from operating leases (note 53) and are summarised in the table below. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates.

Operating lease commitments	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
At 31 December 2016	**1,426**	**4,362**	**38,487**	**68,681**	**112,956**
At 31 December 2015	1,404	4,276	21,935	14,969	42,584

Total liquidity requirement

At 31 December 2016	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
Cash flows arising from financial liabilities	**226**	**29,794**	**3,722**	**26,718**	**3,364**	**63,824**
Total off-balance sheet items	**–**	**1,426**	**4,362**	**38,487**	**68,681**	**112,956**
Total liquidity requirement	**226**	**31,220**	**8,084**	**65,205**	**72,045**	**176,780**

At 31 December 2015	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
Cash flows arising from financial liabilities	217	25,927	6,499	23,819	1,164	57,626
Total off-balance sheet items	–	1,404	4,276	21,935	14,969	42,584
Total liquidity requirement	217	27,331	10,775	45,754	16,133	100,210

iii. Market risk

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities.

The table below shows the repricing profile of the company's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2016	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Other investments:							
– equity securities	**–**	**–**	**–**	**–**	**–**	**1,864**	**1,864**
– money market funds	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
Trade and other receivables:							
– amounts owed by group undertakings	**–**	**–**	**–**	**–**	**–**	**127,474**	**127,474**
– other financial assets	**–**	**–**	**–**	**–**	**–**	**1,101**	**1,101**
Balances at banks	**6,206**	**–**	**–**	**–**	**–**	**6**	**6,212**
Total financial assets	**16,206**	**–**	**–**	**–**	**–**	**130,445**	**146,651**
Liabilities							
Trade and other payables:							
– other financial liabilities	**–**	**–**	**–**	**–**	**–**	**54,224**	**54,224**
Total financial liabilities	**–**	**–**	**–**	**–**	**–**	**54,224**	**54,224**
Interest rate repricing gap	**16,206**	**–**	**–**	**–**	**–**	**76,221**	**92,427**

At 31 December 2015	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Other investments:							
– equity securities	–	–	–	–	–	1,070	1,070
– money market funds	10,000	–	–	–	–	–	10,000
Trade and other receivables:							
– amounts owed by group undertakings	1,750	–	–	–	–	74,034	75,784
– other financial assets	–	–	–	–	–	996	996
Balances at banks	5,966	–	–	–	–	6	5,972
Total financial assets	17,716	–	–	–	–	76,106	93,822
Liabilities							
Trade and other payables:							
– other financial liabilities	–	–	–	–	–	49,426	49,426
Total financial liabilities	–	–	–	–	–	49,426	49,426
Interest rate repricing gap	17,716	–	–	–	–	26,680	44,396

A 1% parallel increase/decrease in the sterling yield curve would have no impact on profit after tax or equity (2015: £36,000 increase/decrease).

51 Financial instruments iii. Market risk continued

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 2016. Included in the table are the company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2016	Sterling £'000	US dollar £'000	Total £'000
Assets			
Other investments:			
– equity securities	**1,864**	**–**	**1,864**
– money market funds	**10,000**	**–**	**10,000**
Trade and other receivables:			
– amounts owed by group undertakings	**127,474**	**–**	**127,474**
– other financial assets	**841**	**260**	**1,101**
Balances at banks	**6,212**	**–**	**6,212**
Total financial assets	**146,391**	**260**	**146,651**
Liabilities			
Trade and other payables:			
– other financial liabilities	**54,224**	**–**	**54,224**
Total financial liabilities	**54,224**	**–**	**54,224**
Net on-balance sheet position	**92,167**	**260**	**92,427**

At 31 December 2015	Sterling £'000	US dollar £'000	Total £'000
Assets			
Other investments:			
– equity securities	1,070	–	1,070
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	75,784	–	75,784
– other financial assets	788	208	996
Balances at banks	5,972	–	5,972
Total financial assets	93,614	208	93,822
Liabilities			
Trade and other payables:			
– other financial liabilities	49,426	–	49,426
Total financial liabilities	49,426	–	49,426
Net on-balance sheet position	44,188	208	44,396

A 10% weakening of the US dollar against sterling, occurring on 31 December 2016, would have reduced equity and profit after tax by £21,000 (2015: £17,000). A 10% strengthening of the US dollar would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

Price risk

The group's exposure to price risk, all of which is through the company's holdings of equity investment securities, is described in note 31.

Fair values

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**1,864**	**–**	**–**	**1,864**
– money market funds	**–**	**10,000**	**–**	**10,000**
	1,864	**10,000**	**–**	**11,864**

At 31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	1,070	–	–	1,070
– money market funds	–	10,000	–	10,000
	1,070	10,000	–	11,070

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 (2015: 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 31 to the consolidated financial statements.

In the current year, there were no gains or losses arising from changes in the fair value of financial instruments categorised as Level 3 within the fair value hierarchy. In 2015, a loss of £1,030,000 was recognised in profit or loss in relation to derivative financial instruments.

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 43).

52 Capital management

The company's objectives when managing capital are to:

- safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and
- maintain a strong capital base to support the development of its business.

For monitoring purposes, the company defines capital as distributable reserves (see note 42). The company monitors the level of distributable reserves on a monthly basis and compares this to forecast dividends. Capital is distributed to the company from operating subsidiaries on a timely basis to ensure sufficient capital is maintained. The board of directors considers the level of capital held in relation to forecast performance, dividend payments and wider plans for the business, although formal quantitative targets are not set.

There were no changes in the company's approach to capital management during the year.

53 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 2016 were £21,424,000, provides for an upward only rent review in 2018.

On 13 May 2016, the group entered into five 17 year leases at 8 Finsbury Circus, under which total payments over the lease term at 31 December 2016 were £75,946,000. The leases provide for rent reviews every five years.

Payments under non-cancellable operating leases	2016 £'000	2015 £'000
No later than 1 year	**5,788**	5,680
Later than 1 year and no later than 5 years	**38,487**	21,935
Later than 5 years	**68,681**	14,969
	112,956	42,584

54 Related party transactions

Transactions with key management personnel

The remuneration of the key management personnel of the company, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the company, is set out below.

	2016 £'000	2015 £'000
Short term employee benefits	**1,727**	1,981
Post-employment benefits	**12**	43
Other long term benefits	**–**	67
Share-based payments	**847**	1,098
	2,586	3,189

Dividends totalling £302,000 were paid in the year (2015: £108,000) in respect of ordinary shares held by key management personnel and their close family members.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Other related party transactions

During the year, the company entered into the following transactions with its subsidiaries.

	2016		2015	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Interest	**34**	**–**	53	–
Charges for management services	**139,954**	**–**	125,453	–
Dividends received	**48,800**	**–**	44,000	–
	188,788	**–**	169,506	–

The company's balances with fellow group companies at 31 December 2016 are set out in notes 43, 45 and 47.

The company's transactions with the pension funds are described in note 49. At 31 December 2016, no amounts were due to or from the pension schemes (2015: £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.

55 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.

	2016 £'000	2015 £'000
Cash at bank (excluding amounts held at employee benefit trust)	**5,963**	5,244

56 Events after the balance sheet date

Details of events occurring after the balance sheet date of the company are provided in note 37 to the consolidated financial statements.

Further information

Five year record

	2016 £'000 (unless stated)	2015 £'000 (unless stated)	2014 £'000 (unless stated)	2013 £'000 (unless stated)	2012 £'000 (unless stated)
Underlying operating income	**251,283**	229,178	200,803	176,409	155,581
Underlying profit before tax	**74,880**	70,365	61,556	50,510	44,829
Profit before tax	**50,129**	58,632	45,710	44,204	38,504
Profit after tax	**38,157**	46,371	35,678	34,751	28,983
Equity dividends paid and proposed	**27,764**	26,305	24,863	22,645	21,220
Basic earnings per share	**78.9p**	97.4p	76.0p	76.1p	66.5p
Diluted earnings per share	**78.2p**	96.6p	75.4p	75.6p	65.9p
Underlying earnings per share	**122.1p**	117.0p	102.4p	86.7p	77.4p
Dividends per ordinary share	**57.0p**	55.0p	52.0p	49.0p	47.0p
Equity shareholders' funds	**324,813**	300,192	271,271	251,000	229,493
Total funds under management	**£34.2bn**	£29.2bn	£27.2bn	£22.0bn	£18.0bn

Corporate information

	Investment Management	Unit Trusts
Principal trading names	Rathbone Investment Management Rathbone Investment Management International Rathbone Greenbank Investments Rathbone Trust Company Vision Independent Financial Planning Castle Investment Solutions	Rathbone Unit Trust Management
Direct employees	780	27
Offices	16	1
Websites	www.rathbones.com www.rathboneimi.com www.rathbonegreenbank.com	www.rathbones.com www.rutm.com

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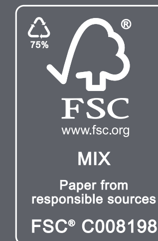

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Rathbones
Look forward

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