Rathbone Brothers Plc
Report and accounts 2017

Progress and *delivery*

Rathbones
Look forward

Contents

Rathbone Brothers Plc, through its subsidiaries, is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services.

As at 31 December 2017, Rathbone Brothers Plc managed £39.1 billion of client funds, of which £33.8 billion were managed by our Investment Management segment.

2017 financial highlights

Profit before tax
£58.9m
(2016: £50.1m)

Underlying[1] profit before tax
£87.5m
(2016: £74.9m)

Basic earnings per share
92.7p
(2016: 78.9p)

Underlying[1] earnings per share
138.8p
(2016: 122.1p)

Dividends paid and proposed per share
61.0p
(2016: 57.0p)

Return on capital employed (ROCE)[2]
19.5%
(2016: 19.3%)

For a full five year record, please see page 188

1. A reconciliation between underlying profit before tax and profit before tax is shown on page 31
2. Underlying profit before tax as a percentage of average equity of each quarter end

Our investment case

Delivering through our strengths

A relationship-based approach

– A direct relationship-based approach which supports clients and advisers by providing the flexibility to meet their investment needs across different economic and lifestyle conditions
– Longevity of client and adviser relationships
– High service levels and reliable administrative resources

50,000
clients

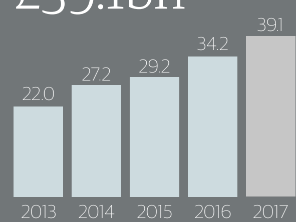
15
UK offices[1] and Jersey

Unique investment culture

– Significant participation by investment managers in a non-prescriptive investment process which uses a whole of market approach and accesses both direct and collective investments
– An active investment approach that allows teams to respond to market conditions and manage tax considerations
– An expanding in-house research team

Total funds under management (£bn)

£39.1bn



Leading margins

– An ongoing cost discipline that preserves underlying operating margins
– A balanced investment in technology to improve communication and manage investment team capacity
– Selective investment in initiatives that support organic and acquired growth

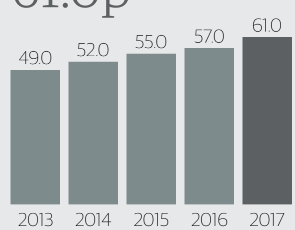
30.6%
underlying operating margin

Positive shareholder returns

– A progressive dividend policy
– The ability to identify accretive acquisitions that fit our culture
– A consistent return on capital employed

Dividends paid and proposed per share (p)

61.0p



1. Includes Vision Independent Financial Planning

Delivering our services

We employ over
1,100
people

We manage over
£39.1bn
for our clients

We operate from
15
UK locations[1]
and Jersey

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

1. Includes Vision Independent Financial Planning

Investment Management

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

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

Within Investment Management, we have several specialist capabilities including:

Charities

Our charities business manages £4.7 billion of funds and is the second largest investment management provider to the top 5,000 charities in the UK. The team is diverse, in both its expertise and experience, and aims to deliver a suitably tailored investment portfolio to meet the complex needs of charity clients and trustees.

Rathbone Greenbank Investments

As one of the pioneers in the field of ethically-focused investments, Rathbone Greenbank Investments manages over £1.1 billion in ethical and socially-responsible investment portfolios for private clients, charities and trusts. The team is highly proactive on ethical and sustainability issues, engaging directly with companies and government to improve business practices.

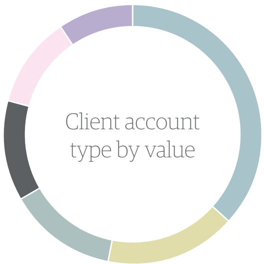
Rathbone Investment Management International

Our offshore discretionary investment services are headquartered in Jersey and are provided by Rathbone Investment Management International.

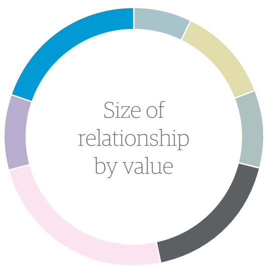
Rathbone Private Office

We have also recently established the Rathbone Private Office to help larger clients with more complex needs to protect, enhance and organise their wealth across multiple managers, asset classes and investment markets.

Investment Management funds under management have increased by 102.4% to £33.8bn over the past five years



Private clients	36.8%
ISAs	16.5%
Charities	13.4%
Pensions	12.5%
Trusts	11.4%
Other	9.4%



£0-£250k	7.3%
£250k-£500k	11.9%
£500k-£750k	9.7%
£750k-£1.5m	17.8%
£1.5m-£5.0m	24.3%
£5.0m-£10.0m	9.4%
£10m+	19.6%

Complementary services

Banking and loan services

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

Financial planning

We offer in-house financial planning, which provides whole of market advice to clients. Our in-house financial planners are experts at thinking ahead and have long-standing experience of advising individuals, couples and families, companies and trusts.

Unitised Portfolio Service

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

Managed Portfolio Service

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

We also operate the following additional entities:

Rathbone Trust Company

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

Vision Independent Financial Planning

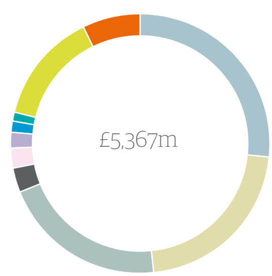
Vision Independent Financial Planning is an independent IFA network providing financial advisory solutions to UK private clients.

Unit Trusts

Rathbone Unit Trust Management is a leading UK fund manager with £5.3 billion of funds under management, 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 primarily through financial advisers in the UK.

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

Unit Trusts funds under management have increased by 307.7% to £5.3bn over the past five years



Rathbone Income Fund	£1,433m
Rathbone Global Opportunities Fund	£1,168m
Rathbone Ethical Bond Fund	£1,100m
Rathbone Active Income Fund for Charities	£173m
Rathbone Global Alpha Fund	£127m
Rathbone Strategic Bond Fund	£108m
Rathbone Blue Chip Income and Growth Fund	£78m
Rathbone UK Opportunities Fund	£61m
Rathbone Multi Asset Portfolio Funds	£736m
Other funds	£383m

Progress with *relationships*

We place individuality at the centre of our approach and are committed to continuing to offer our clients a personal service. During the year we have:

- upgraded our client management systems
- improved our communication programmes
- implemented a new way of capturing and evaluating our clients' attitude to investment risk.

Read more on our business model on page 8

Progress with *knowledge*

We use our intellectual capital to set us apart and continue to invest in new skills and capabilities. During the year we have:

- improved firm-wide access to research team outputs
- developed our portfolio monitoring processes and increased the use of asset allocation tools
- completed an extensive range of training and development courses.

Read more on our business model on page 8

Progress with *advisers*

We work with a wide range of financial and other professional advisers, helping them navigate changing markets and new regulations. During the year we have:

- established a stronger presence in the intermediary market
- continued growth in Vision Independent Financial Planning
- invested in infrastructure to support our own internal financial planning teams.

Read more on our business model on page 8

We maintain high standards of service delivery by adapting and evolving our processes. During the year we have:

- established the infrastructure necessary to support more efficient deployment of IT across the firm
- implemented the changes necessary to meet the requirements of MiFID II (Markets in Financial Instruments Directive)
- continued to improve our data management capabilities.

Read more on our business model on page 8

Progress with *quality*

Building value

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

A sound investment case

- A relationship-based approach
- A unique investment culture
- Leading margins

Scale and expertise

- 290 trained investment professionals
- £39.1 billion of funds under management
- A broad range of investment solutions

Brand and reputation

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

Independent ownership

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

How we do it

- Individual relationships with clients and advisers
- An informed investment process
- Working flexibly with advisers
- Supported by in-house operations

How we create long term value

- Our service is delivered directly through investment managers who make portfolio decisions
- Our aim is to build lasting and trusted relationships
- We access investments across the whole market, with no bias towards in-house funds
- Our online presence complements our service

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

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

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

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

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

For employees
- Responsibility for investment decisions
- Value-based remuneration
- Investment in training and development
- Graduate and apprenticeship programmes

A strong 2017

2017 was a good year for Rathbones and we produced some robust financial results. The executive team responded well to developments in a rapidly changing wealth management market, and our investment managers achieved good risk-adjusted returns for our clients in a time of great uncertainty and persistently low interest rates.

UK and global investment markets performed well in 2017, with some indices reaching record levels towards the end of the year. This outcome has been positive for both Rathbones and our clients, with the WMA Balanced Index up 7.2% in the year and our funds under management reaching £39.1 billion, up 14.3% in the year.

Profit before tax for 2017 increased 17.6% to £58.9 million after incurring the costs associated with the relocation of our London office and in pursuing strategic opportunities. These costs were partially offset by a plan amendment gain arising from the closure of our defined benefit pension schemes. Accordingly, basic earnings per share of 92.7p increased 17.5% from the 78.9p reported last year. A full analysis of all non-underlying items impacting profit before tax can be found on page 127.

Underlying profit before tax was £87.5 million for the year ended 31 December 2017, up 16.8% from the previous year, and we have continued to balance our need to continue strategic expenditure with maintaining good profitability, reporting an underlying profit margin of 30.6% (2016: 29.8%) for the year. Underlying earnings per share of 138.8p for 2017, increased 13.7% from 122.1p last year.

In line with our progressive dividend policy, the board is recommending a final dividend of 39.0p per share. This brings the total dividend for the year to 61.0p per share, an increase of 7.0% over last year.

We continually monitor opportunities to grow the business through smaller acquisitions, but during the year we discussed with an industry peer, Smith & Williamson, the benefits of combining our businesses. The benefits to both parties and our respective clients could have been considerable, but, following extensive discussions, we were unable to conclude a transaction that was in the best interests of both parties. Nevertheless, I believe that our measured approach to this opportunity served us well. We will continue to apply this discipline when we pursue other opportunities.

Continued momentum

In 2014, we set out a five-year strategy which had the ambition to reach £40 billion of funds under management by the end of 2018. Accepting that investment markets have been favourable, we are now well within sight of that goal with many of our strategic initiatives continuing to gain momentum.

Accordingly, over the next few months, the board and executive team will work to refresh our strategy to ensure our core business remains robust and that we can benefit from the changing landscape of our industry. I look forward to sharing the outcome of these discussions with our stakeholders at the appropriate time. We remain committed to ensuring that Rathbones remain well positioned for the future.

Governance, culture and the board

Last year, I wrote that one of my priorities was to ensure board oversight of the firm's culture and its development. This is now one of my specific responsibilities. Rathbones' culture (professionalism, putting clients first, a collegiate approach and integrity) has long been a competitive advantage. Despite growth, regulation and the pace of change in our industry, we have endeavoured to protect our culture and this remains a board priority.

As part of this initiative, both I and my non-executive director colleagues actively seek opportunities for direct engagement with employees, both formal and informal, across the firm. From our engagement this year, we have witnessed the challenging effects that an increased workload, driven by internal and external change, has placed on our teams. On the other hand, we have been reassured that our strong culture remains at the heart of the business. Preserving this culture is clearly fundamental to achieving the best results for clients and shareholders over the long term.

As part of our normal succession planning, the board continues to monitor our existing capabilities and assess what new skills are necessary to develop both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity. After a rigorous recruitment process, we were delighted to welcome Jim Pettigrew to the board in March 2017. Jim has extensive experience in financial services and was appointed senior independent director in August 2017 following the retirement of David Harrel.

In late 2017, we completed an externally-facilitated board effectiveness review, which has confirmed that the board continues to operate well. There are always areas to improve however, and, in particular, we will ensure that good communication and interaction between the board and the business remains a priority.

Responding to risks and regulation

The report from the chairman of the group risk committee, Kathryn Matthews, is set out on page 68. We continue to enhance our risk management processes, and, this year, have paid particular attention to identifying and monitoring emerging risks such as cybercrime, money laundering and data theft. We remain vigilant to the financial risks associated with sub-letting our existing space in Curzon Street and these risks are also reviewed at every board meeting. We also took action to reduce the risks associated with our defined benefit pension schemes. We believe that the other significant risks to our business are operational risks, which are increased by growth, and regulatory risks, which are increased by continual changes to regulations in our sector.

The past year has been a very demanding one from a regulatory perspective as we prepared for the changes brought about by MiFID II (Markets in Financial Instruments Directive), the General Data Protection Regulation, the FCA's Asset Management Market Report and PRIIPs (Packaged Retail and Insurance-based Investment Products). Maintaining our regulatory standards has always been a high priority for our senior management and we will continue to monitor the regulatory risks that arise from the changes to guidelines and standards in our sector.

Engaging with shareholders

During the year, we have had the opportunity to engage with shareholders through various channels including conferences, company-hosted events, group meetings and one-on-one discussions. We are fortunate to have a number of longstanding, committed institutional shareholders and will continue to maintain a regular and constructive dialogue with them to gather feedback on our progress.

In early 2018, we consulted with them on changes to our remuneration policy. As it has been three years since our last policy was approved, a revised remuneration policy will be laid before shareholders for approval at the annual general meeting in May 2018. Working with the company's advisers, the remuneration committee has reassessed our policy in the context of a changing external environment and the firm's own future aspirations. Although we have maintained the principal features of our existing policy, some changes have been proposed to align the interests of executives and investors more closely. These changes follow a number of consultation meetings with shareholders and governing bodies.

Listening to our employees

As a service business, our people are our greatest asset and we are committed to retaining the many high-calibre individuals we employ across the firm and creating a stimulating and supportive environment for them. I listen carefully to the views of my colleagues and I recognise that this year has been a challenging one for employees, given the pace and nature of change. I am very grateful for their continued perseverance and dedication.

Outlook

The UK wealth management industry continues to evolve, driven by client needs, regulation, demographics, technological innovation and a changing competitive landscape. Rathbones, as a leading UK discretionary wealth manager, remains well placed to respond to and capitalise on these evolving trends.

We remain committed to growing the business both organically, via disciplined investment, and inorganically, via acquisitions that not only fit our strategic and financial criteria, but also share our culture and values.

Notwithstanding some caution, which naturally emerges at a time of high investment markets and political uncertainty, we enter 2018 well positioned to provide long-term value for shareholders.

Mark Nicholls
Chairman

21 February 2018

The wealth management sector remains robust

The wealth management industry continues to be an exciting and rapidly changing place to do business. In 2017, the industry has not only had to navigate a particularly uncertain political climate, but has also had to respond to a considerable amount of new regulation.

Importantly, many positive drivers for long-term private wealth accumulation are still in place. The challenge the current climate brings is to secure the scale economies and operational efficiencies necessary to respond positively to demographic changes and technological advances, whilst reacting to a climate of increasing price pressure.

In this respect, Rathbones continues to be well positioned in the industry with our own funds under management reaching £39.1 billion at 31 December 2017, up 14.3% from £34.2 billion at the end of 2016. Total funds under management in our Investment Management business at 31 December 2017 were £33.8 billion, up 11.9% from £30.2 billion in 2016, whilst our Unit Trusts business reached a milestone of £5.3 billion, up 32.5% from last year.

Strong financial performance underpinned by a 30% operating margin

Despite investing in a number of areas across the business during the year, we maintained a leading operating margin of 30.6% (2016: 29.8%) through a combination of relatively supportive investment markets and continued net funds growth and cost discipline. Underlying profit before tax totalled £87.5 million (2016: £74.9 million), generating an underlying earnings per share of 138.8p, an increase of 13.7% from 122.1p in 2016.

In 2017, the group added £4.8 billion gross funds under management organically, split between £3.1 billion in our Investment Management business and £1.7 billion in our Unit Trusts business (2016: £2.3 billion and £1.3 billion respectively). Outflows from intergenerational wealth transfer, property purchases and other uses of funds to support lifestyle continue unabated in this low interest rate environment. Net organic growth in this business was 3.0% (2016: 2.9%), which represents a satisfactory result in an investment climate that was largely directionless until the end of the year. Net flows into our Unit Trusts business were very strong however, totalling £883 million in the year (2016: £554 million) and helping its total funds under management to reach a record £5.3 billion (2016: £4.0 billion) at 31 December 2017.

Profit before tax for the year of £58.9 million was 17.6% higher than the £50.1 million in 2016 and reflects the impact of a number of non-underlying items. A full analysis of these items can be found on page 31.

As reported on page 116, our balance sheet remains stable with a consolidated Common Equity Tier 1 ratio at 31 December 2017 of 20.7% compared with 17.7% at 31 December 2016. Our consolidated leverage ratio at 31 December 2017 was 7.8% compared with 6.6% at 31 December 2016. We remain a capital-efficient business, generating an underlying return on capital employed of 19.5% for the year compared to 19.3% a year ago. A detailed analysis of our regulatory capital position at 31 December 2017 can be found on page 38.

The journey to £40 billion has significantly improved our capabilities as a firm

Four years ago, I shared an ambition for the firm to reach £40 billion of funds under management by the end of 2018, and I am encouraged that this goal is within our reach. Since 2014, we have delivered a significantly improved investment platform to support our investment teams, built new distribution channels addressing both IFA networks and professional intermediaries, acquired Vision Independent Financial Planning, expanded our research and specialist investment capabilities, simplified our pricing structures and materially grown our Unit Trusts business. We have also delivered learning and development programmes to employees, strengthened our brand profile, improved our website and broadened our marketing capability.

Alongside this demanding programme, we have taken advantage of a number of opportunities to deliver inorganic growth through team hiring and bolt-on acquisitions. Our culture of 'professional autonomy with accountability' on which our investment managers thrive, remains very much at the heart of our business, but does place more demands on our ability to manage risk. Hand in hand with this considerable level of activity, we have ensured that we continue to operate a risk and control framework that allows us to adhere to our core philosophies of delivering an investment-led, highly personal, whole of market investment service to our clients.

Investing in the future

There are, of course, areas of the business that we must continue to develop to adapt to the changing needs of our clients. This year, we have been reviewing the processes we use to maintain and manage information about our clients, and have made a number of enhancements. In 2017, we embedded a new way of capturing and evaluating our clients' attitude to investment risk and significantly increased the usage of asset allocation tools across the firm, with over 97% of discretionary funds now linked to these tools.

In 2018, we will continue to keep abreast of evolving client suitability standards. We will also be looking to improve our account opening processes, making use of a material upgrade to our client relationship management systems and providing more administrative support to ensure that investment teams can continue to focus on serving our clients well.

The output from our research team has increased considerably over the last two years, as has access to this output, through the introduction of a research hub, which disseminates information to our growing community of investment managers. In 2018, we will continue to ensure that we attract the right level of investment skills to support and develop our investment process, but, just as importantly, ensure that the amount of external research we procure is right for us. MiFID II (Markets in Financial Instruments Directive) has made some significant changes to the way in which external research is priced, delivered and administered, and we will work hard to keep abreast of developments to secure value for money.

Building our presence in the intermediary market has remained a key priority, so a May 2017 report by Defaqto, which confirmed that the use of Rathbones as a discretionary fund management provider to advisers had more than doubled in the last year, was a good outcome. Vision Independent Financial Planning made strong progress during the year, growing funds under management to £1.4 billion (2016: £1.0 billion) and continuing to attract quality advisers. In addition, our specialist intermediary team continues to focus on a number of important strategic partnerships, and is now well established. We expect flows to improve from the £265 million introduced in 2017 to around £350 million as the proposition continues to gain momentum.

This year, we deliberately invested in establishing the right infrastructure to support our internal financial planning teams and further develop the proposition. We are now able to expand its footprint across more of our regional offices over the next year and expect to increase the number of professional staff in 2018. In total, we expect net costs to increase by up to £1.5 million as a result. The Rathbone Private Office became fully operational during 2017, with a marketing programme positioning the firm as a credible alternative for larger and more complex clients, and raising its profile within the intermediary community.

We remain mindful that current employee ownership in the business is culturally important and over recent years there has been a decline, primarily as a result of retirement. From 2018, we will seek to correct this by creating opportunities for more employees to build a larger element of equity ownership.

Finally, investment markets inevitably present an element of cyclicality to earnings and stock performance and we will continue to monitor this as we review and update our goals for the next five years.

Regulation and infrastructure continue to evolve

In 2017, we and the industry have had the task of implementing the significant regulatory changes that arise from the introduction of MiFID II and the General Data Protection Regulation (GDPR) in particular. Whilst MiFID II has been successfully delivered on time and work on GDPR is advanced, these new regimes will continue to require some significant changes to our core processes and systems, with costs continuing at similar levels into 2018.

MiFID II, in particular, will have an impact on our Unit Trusts business, which will bear the full cost of external research in 2018. Research costs borne by the funds in 2017 were £0.8 million. This is in addition to the expected ban on 'risk-free' box dealing profits (2017: £3.1 million) following the FCA's Asset Management Market Study. We will look to offset these impacts in profit terms by continuing to grow the business and build on the momentum the team has achieved.

Technology continues to be a significant entrant in our sector and I believe it will continue to play a disruptive role in the future if not wholly embraced. Whilst we are committed to our highly personal approach to providing investment and advisory services, we will continue to invest to capture the opportunities that these new technologies can offer to improve our services and operational efficiency while increasing the capacity of our investment teams.

In 2017, we reorganised and upgraded the skills of our IT team, which over the medium term will improve our data management capabilities, enhance our client communications and introduce additional security measures to combat the ever-growing cyber threat. We expect that this expansion of our IT capability, together with more general cost inflation, will add approximately £2.5 million to our running costs.

Outlook

This year has presented many challenges and opportunities and I fully expect 2018 to do so in equal measure. Brexit continues to be a regular discussion topic within the investment community, but, as a predominantly UK-based firm, our own view is largely focused on the wider economic environment and any impact it may have on the investments we make for our clients.

I would like to take this opportunity to praise the efforts of our employees in this eventful last year. Notwithstanding the demands of our own change programme and a complicated market environment, they have kept the needs of our clients at the forefront of what we do and concentrated on providing an exemplary service.

We enter 2018 in a good position, with industry-leading operating margins and a strong balance sheet. We will continue to look for accretive acquisition opportunities and to invest in our future with discipline.

Philip Howell
Chief Executive

21 February 2018

Our strategy

Stability in a changing market

Increased regulatory pressures, greater IT demands and the prospect of lower new wealth generation in the UK all mean firms will need to be at the forefront of innovation to capture market share. Alongside these pressures, the UK population is ageing while state and corporate sectors shift the burden of retirement on to individuals and families. Favourable savings trends overall though, twinned with ever-increasing tax complexities, will continue to drive further demand for wealth management services over the longer term, placing Rathbones in a strong position to proactively respond to developments in the market and provide a quality service for clients.

Macro-economic conditions

Wider political and economic uncertainty remains as the UK economy begins the process of adjusting to a new relationship with the European Union. Demographics are also shifting and firms must respond to the evolving needs of clients in order to remain competitive.

The opportunities

- The need for advice is increasing given the complexities surrounding the UK economy, tax requirements and regulatory changes
- The persistence of a lower interest rate environment continues to accentuate the need for investment
- An ageing population with increased life expectancy increases the need to save for retirement and finance lifestyles over a longer period of time
- Increasing demands on clients' time encourages them towards a full service investment solution

The challenges

- The trends for intergenerational wealth transfer, property purchases and other uses of funds to support lifestyle continue unabated
- Demographic shifts will continue as millennials overtake baby boomers as the largest generation and bring evolving needs and requirements

Regulatory change

Increased regulatory pressures mean firms will need to invest to keep up with the pace of change and capture market share.

The opportunities

- Wealth management firms are well positioned to benefit from greater pension freedoms as declining levels of government and company pension support will encourage individuals to save
- The weight of regulation is likely to create higher barriers to entry and lead to further industry consolidation

The challenges

- More expenditure will be required to keep up with the pace of regulatory change
- Regulatory changes could place pressure on the time investment teams can devote to delivering key services

Continuing our strategy

Our strategy can be broken down into the three key objectives outlined below.

Industry developments

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

- Defining a sustainable service model and proposition that captures the market opportunity is critical
- Harnessing elements of technology to improve client communications and automate processes is essential to using investment manager time efficiently

- The industry will continue to face pricing pressures
- Increased IT expenditure will be required to adopt new technologies and remain competitive

Quality service

Page 18

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

Principal risks:
Performance and advice (see page 25)
Processing (see page 26)
Regulatory (see page 25)
Reputational (see page 25)

Earnings growth

Page 19

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

Principal risks:
Performance and advice (see page 25)
Processing (see page 26)
Regulatory (see page 25)

Employee value

Page 20

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

Principal risks:
Regulatory (see page 25)
Reputational (see page 25)

Each objective is considered carefully when setting executive remuneration targets and criteria. For more information on how these strategic objectives feed into our executive incentive plan, see page 87.

Quality service

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

Key initiatives

- Ongoing development of our investment process to support investment team decisions and drive positive portfolio outcomes
- Investment in technology to better evaluate client attitudes to risk, improve communication and manage investment team capacity and efficiency
- Selectively add complementary service offerings that support the core investment service

Progress in 2017

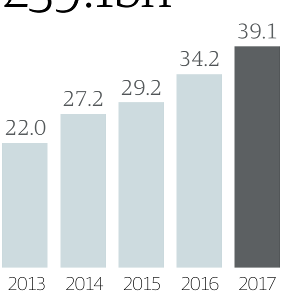
- Embedded a new way of capturing and evaluating our clients' attitude to investment risk
- Improved access to and availability of research team outputs
- Established a communication programme to engage clients, potential clients and advisers, comprising regular investment reports, market commentaries and digital and social media content
- Began a technology upgrade programme, which will improve data management capabilities and client communications and introduce additional security measures to combat the growing cyber threat over the medium term
- Improved infrastructure to support our internal financial planning teams and the Rathbone Private Office became fully operational
- Awarded Private Client Asset Manager of the Year by *Citywealth* in May and *Investment Week's* Gold Standard Award for Discretionary Portfolio Management in November and received both the *Citywealth* and *Charity Times* awards for Charity Investment Manager of the Year in May and September respectively

Priorities for 2018

- Develop a client relationship management system and improve account opening processes to ensure that investment teams can continue to focus on serving clients well while meeting regulatory demands
- Invest in client support resources to capture opportunities to improve service and enhance the operational efficiency of investment teams
- Continue to attract high-quality investment professionals to support and develop the investment process and proactively monitor the value of the external research we procure

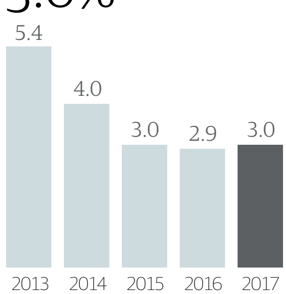
Total funds under management (£bn)

£39.1bn



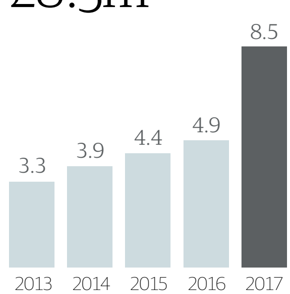
Investment Management net organic growth rates (%)

3.0%



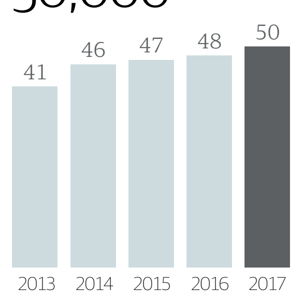
Capital expenditure excluding property (£m)

£8.5m



Number of Investment Management clients ('000)

50,000



Earnings growth

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

Key initiatives

- Increasing fee-based revenues to improve earnings quality
- Promoting ongoing cost discipline to preserve underlying operating margins and manage pension and property risks
- Selectively investing in initiatives that support organic and acquired growth

Progress in 2017

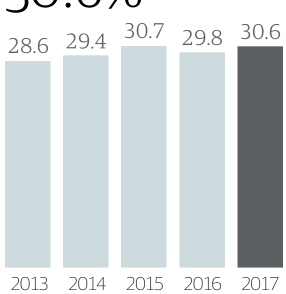
- Enhanced management information tools and realigned remuneration structures to improve support for commercial decision-making at investment team level in our private client business
- Generated net inflows of £261 million during 2017 from our now well-established specialist intermediary team, with increased recognition in the sector confirmed in a May 2017 Defaqto report
- The Vision Independent Financial Planning adviser network expanded to 115 advisers from 99 a year earlier, while funds under advice increased to £1.4 billion from £1.0 billion in 2016
- Continued momentum in our Unit Trusts business, which grew funds to a record £5.3 billion at 31 December 2017
- Successfully closed defined benefit pension schemes
- Evaluated a number of acquisition opportunities
- Increased fee income to 76.0% of total underlying operating income, up from 73.5% a year earlier

Priorities for 2018

- Continue to invest in growth with discipline, mindful of investment markets
- Support investment teams on a selective basis to ensure that they have the resources needed to grow
- Refresh medium-term strategy such that the business can continue to benefit from the changing landscape of the industry
- Continue to strengthen engagement with financial advisers, UK and international intermediaries and Vision Independent Financial Planning
- Sub-let 1 Curzon Street premises

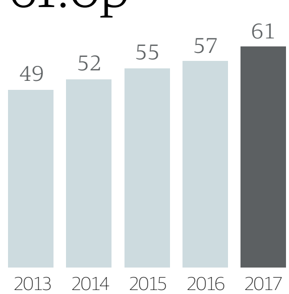
Underlying operating margin (%)

30.6%



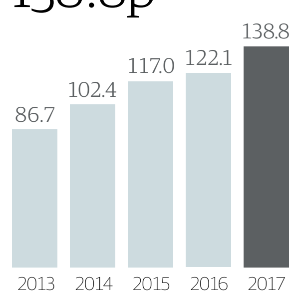
Dividend per share (p)

61.0p



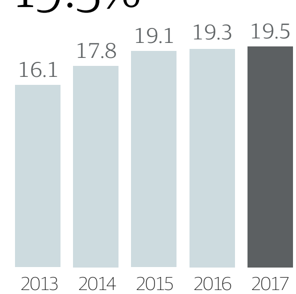
Underlying earnings per share (p)

138.8p



Return on capital employed (%)

19.5%



Employee value

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

Key initiatives

- Continue to monitor succession and development plans for critical roles and functions
- Promote a collaborative working environment that supports personal and professional development of staff
- Ensure remuneration alignment with business objectives

Progress in 2017

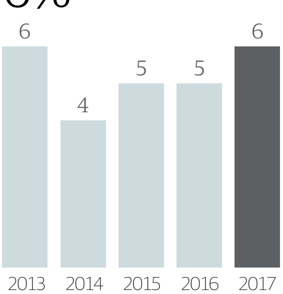
- Reviewed senior management succession plans
- Implemented performance-based enhancements to investment manager remuneration schemes
- Completed a board review on culture and developed a culture risk dashboard, with metrics for ongoing monitoring by the conduct risk committee
- Actively promoted both the graduate and apprenticeship schemes
- Increased average annual training investment per person to £783 (2016: £634) with particular focus on regulatory training and business development sessions
- Launched an online performance management tool to help better support both line managers and employees and improved the annual employee appraisal process to place more focus on feedback, performance, career development and succession planning
- Conducted a comprehensive review of family leave policies leading to significant improvements in maternity and paternity policies as well as additional support to employees in the form of group coaching for working parents
- Continued to increase employee participation in SIP and SAYE schemes, with SIP participants increasing to 1,089 employees from 1,010 employees, the number of outstanding SAYE share options increasing to 525,891 from 507,714 a year earlier and the number of employees with SIP partnership shares increasing from 844 to 946

Priorities for 2018

- Closely monitor investment team capacity and provide support as required to manage necessary regulatory change
- Roll out a training programme covering diversity, inclusion and unconscious bias to all managers across the firm, following completion by the executive committee in 2017
- Create opportunities for more employees to build a larger element of equity ownership

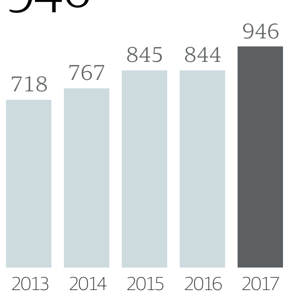
Staff turnover (%)

6%



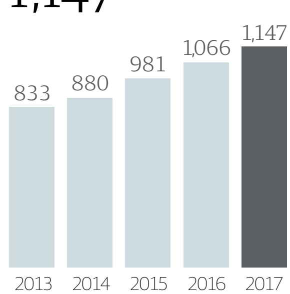
Number of participants with SIP partnership shares

946



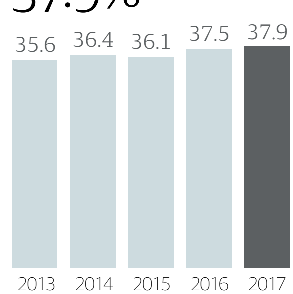
Average full time equivalent employees

1,147



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

37.9%



During 2017, we have continued to evolve our risk management approach in support of our 'three lines of defence' model. Our risk governance, risk processes and risk infrastructure have continued to mature to ensure our management of risk considers existing and emerging challenges. In 2018, we will maintain our approach and ensure that appropriate risk management is applied across the group to protect our stakeholders.

Risk culture

We believe that an appropriate risk culture enhances the effectiveness of risk management. The board is responsible for setting the right tone and, through our senior management team, encouraging characteristics and behaviours which support a strong risk culture. The consideration of risk is therefore accepted as being part of everyone's day-to-day responsibilities and activities. Risk management is linked to performance and development, as well as to the group's remuneration and reward schemes. The purpose 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 continue to apply a 'three lines of defence' model to support our risk management framework, with responsibility and accountability for risk management 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 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. Our risk appetite framework contains some overarching parameters, alongside specific primary and secondary measures for each principal risk. At least annually, the board, executive committee and group risk committee will formally review and approve the group's risk appetite statement and assess whether the firm has operated in accordance with the stated risk appetite measures during the year. Notwithstanding the continued expectations for business growth, along with a strategic and regulatory change programme for 2018, the board remains committed to having a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels. The board recognises that the business is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time-to-time, either as reductions in income or increases in operating costs.

Identification and profiling of principal risks

Our risks are classified using a hierarchical approach. The highest level (Level 1) comprises financial, conduct and operational risks. The next level (Level 2) contains 16 risk categories, each allocated to a Level 1 risk. Detailed risks (Level 3) are then identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register, which is the principal tool for monitoring risks. We recognise that some Level 2 and Level 3 risks have features which need to be considered under more than one Level 1 risk, and this is facilitated in our framework through a system of primary and secondary considerations. Our risk classification is regularly reviewed and takes a structured approach to the identification of all known material risks to the business and those emerging risks which may impact future performance.

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

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

We assess risks using a 1–4 scoring system. Each Level 3 risk is rated by assessing the inherent 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. The assessment of our control environment, carried out by senior management within the firm, includes contributions from first, second and third line data, monitoring and/or assurance activity.

Risk assessment process

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

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

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

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

Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 16 Level 2 risks and at Level 3 there are 44 risks, all of which form the basis of the group's risk register.

Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time.

The underlying risk profile and ratings for the majority of Level 2 risks have remained consistent during 2017. However, there have been some changes to risk ratings and the following table summarises the most important of these.

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group have been identified. These reflect the impact of strategic and regulatory change in the year including, for example, MiFID II (Markets in Financial Instruments Directive) and the General Data Protection Regulation (GDPR). The board remains vigilant to the risks associated with the pension schemes' deficit and the sub-letting 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 crystallising in the event it materialises. These assessments take into account the controls in place to mitigate the risks. However, as is always the case, should a risk materialise, a range of outcomes (both in scale and type) might be experienced. This is particularly relevant for firms such as Rathbones where the outcome of a risk event can be influenced by market conditions as well as internal control factors.

We have used ratings of high, medium and low in this risk assessment. We perceive as high-risk items those which have the potential to impact the delivery of strategic objectives, with medium- 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 legislative and regulatory change, have the potential to impact the group and its strategy. These risk factors are monitored through our watch list. During the year, the executive committee continued to recognise a number of emerging risks and threats to the financial services sector as a whole and to our business. We also recognise that the risk profile associated with outsourced activities can change over time and this will be an area of continued focus in 2018.

In addition to the group's view that we can reasonably expect current market conditions and uncertainties to remain throughout 2018, other developing risks include, for example, cyber threats, regulatory change and scenarios potentially arising from geopolitical developments, including Brexit.

We are monitoring the potential consequences of Brexit very closely. Our current assessment is that the direct impacts of Brexit are manageable given our largely UK based business model. However, we are conscious that the position might change and could raise unexpected challenges and also that second order effects might have broader impacts on the UK economy as a whole.

Ref	Risk	Description of change	Risk change in 2017
D	Pension	The schemes' valuation and funding deficit decreased materially due to the closure of the schemes during the year with a significant number of members transferring benefits out of the schemes. However, this still remains an important risk for the firm to manage.	▼
F	Performance and advice	Our forward-looking risk assessment increased during the year, largely reflecting regulatory drivers. In addition to changes delivered in 2017, we plan to improve our processes further in 2018, including how we take on clients and our approach to assessing suitability.	▲
G	Regulatory	Our risk assessment recognises the extent of regulatory change implemented in 2017, which continues into 2018, including, for example, MiFID II optimisation and GDPR.	▲
K	Data Integrity and security	We have increased our risk rating in this area based on our assessment of the increasing external threat profile, despite continuing investment in technology improvements.	▲
O	People	Although still regarded as a medium risk, our forward-looking risk assessment increased during the year, reflecting industry-wide trends. We also recognise the importance of addressing the drivers behind our gender pay gap over the coming years.	▲

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 ICAAP
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 ILAAP (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 the cost of funding our defined benefit pension schemes increases, or their 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 ICAAP

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		How the risk arises	Control environment
		I	L		
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 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 – Know your client (KYC) suitability processes – 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 existing, regulation	High	Med	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 policies and procedures – Staff training and development
H	**Reputational** The risk of reputational damage from financial and non-financial events or from failing to meet stakeholders' expectations	Med	Low	This risk can arise due to a variety of reasons, primarily within Rathbones. These could include the conduct of the company or its employees, or 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 in 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 sub-letting of some premises	– Executive and board oversight of material change programmes – Group project 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 or 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	Med	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
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

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 over regulated activities
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 – Documented 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 ILAAP work which form the basis for capital planning and regular discussion with the Prudential Regulation Authority (PRA).

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

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

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

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 both the principal risks facing the group, and stress tests and scenarios that would threaten the sustainability of its business model, future performance, solvency or liquidity.

The board considers five-year projections as part of its annual regulatory reporting cycle, which includes strategic and investment plans and its opinion of the likelihood of risks materialising. However, given the uncertainties associated with predicting the future impact of investment markets on the business over this longer period, the directors have determined that a three-year period to 31 December 2020 continues to constitute an appropriate period over which to provide its viability statement. This is more closely aligned to its detailed capital planning activity.

Stress testing analysis shows that under scenarios such as a 45% fall in FTSE 100 levels or a 0% interest rate environment, the group would remain profitable and is able to withstand the impact of such scenarios. An example of a mitigating action in such scenarios would be a reduction in dividend.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

Our performance

Paul Stockton
Finance Director

Table 1. Group's overall performance

	2017 £m (unless stated)	2016 £m (unless stated)
Underlying operating income	**286.0**	251.3
Underlying operating expenses	**(198.5)**	(176.4)
Underlying profit before tax[1]	**87.5**	74.9
Underlying operating margin[2]	**30.6%**	29.8%
Profit before tax	**58.9**	50.1
Effective tax rate	**20.5%**	23.8%
Taxation	**(12.1)**	(11.9)
Profit after tax	**46.8**	38.2
Underlying earnings per share	**138.8p**	122.1p
Earnings per share	**92.7p**	78.9p
Dividend per share[3]	**61.0p**	57.0p
Return on capital employed[4]	**19.5%**	19.3%

1. A reconciliation between underlying profit before tax and profit before tax is shown in table 2
2. Underlying profit before tax as a % of underlying operating income
3. The total interim and final dividend proposed for the financial year
4. Underlying profit after tax (note 13) as a % of average equity at each quarter end

Underlying operating income

Underlying operating income grew 13.8% in 2017, driven by higher investment markets and continued organic and acquired growth in all business areas.

Fee income of £217.5 million in 2017 increased 17.7% compared to £184.8 million in 2016, reflecting positive markets and growth in organic and acquired new business over the period. Fee income represented 76.0% of total underlying operating income in the year ended 31 December 2017 (2016: 73.5%), as our fee only tariff becomes more widely adopted, helping to support our move to higher quality fee-based income.

Net commission income of £38.7 million was broadly consistent with 2016, as the impact of higher trading volumes was offset by the greater number of accounts now operating on a fee only tariff.

Net interest income was unchanged at £11.6 million, as higher liquidity offset the impact of a lower interest rate environment for much of 2017.

A full reconciliation between underlying operating income and reported operating income is provided on page 128.

Underlying operating expenses

Underlying operating expenses increased by 12.5%, largely due to continuing investment in strategic initiatives and underlying growth in the business.

In line with our strategy, planned additions to headcount increased fixed staff costs by 10.0% to £87.8 million, with average headcount up 7.6% to 1,147.

Total variable staff costs increased by 18.4% to £53.3 million, principally driven by growth in profits and funds under management as well as the introduction of additional performance-based incentives for investment managers during the year. Variable staff costs in 2017 represented 18.6% of underlying operating income (2016: 17.9%) and 37.9% of underlying profit before variable staff costs and tax (2016: 37.5%).

Underlying operating expenses also included £5.1 million (2016: £4.0 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).

The adoption of IFRS 15 in 2018 requires us to change the accounting policy for these awards, which will result in more of these costs being capitalised and amortised over the life of the client relationship. The adoption of IFRS 9 is not expected to have a material impact on our financial performance. Further details can be found in note 1.3.

Outlook

Profitability

Staff costs in 2018, will reflect the full year impact of hiring activity in 2017 in addition to salary inflation of around 3.5%.

During 2018, we plan to continue the IT change programme started in 2017. This is expected to add approximately £2.5 million to our cost base in 2018. We also plan to expand the footprint of our financial planning service across more regional offices, which is expected to add up to £1.5 million to the cost base of this business, net of growth in associated revenues.

In addition, from 2018, the Unit Trusts business will no longer charge research costs to the funds and it is expected that managers' box dealing profits will no longer be retained. In 2017, research costs of £0.8 million were incurred by the funds and managers' box dealing profits totalled £3.1 million.

Capital expenditure

Overall, capital expenditure of £11.3 million in 2017 was down £3.8 million compared to 2016, a fall of 25.2%. As planned, expenditure on software increased by £4.2 million as we upgraded our client relationship management systems and embarked on an IT change programme. These activities are expected to continue into 2018 with a similar level of capital expenditure.

Premises related capital expenditure fell by £7.8 million, primarily due to the fit out of our new London Head Office, which was largely completed in 2016.

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 four categories explained below.

Underlying profit before tax grew by 16.8% to £87.5 million in 2017. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 30.6% for the year, in line with our target of 30% over the cycle (2016: 29.8%). Profit before tax increased by 17.6% to £58.9 million for the year.

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

	2017 £m	2016 £m
Underlying profit before tax	**87.5**	74.9
Gain on plan amendment of defined benefit pension schemes	**5.5**	–
Charges in relation to client relationships and goodwill	**(11.7)**	(11.8)
Acquisition-related costs	**(6.2)**	(6.0)
Head office relocation costs	**(16.2)**	(7.0)
Profit before tax	**58.9**	50.1

Gain on plan amendment of defined benefit pension schemes (note 27)

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

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 2017 were £11.7 million (2016: £11.8 million), reflecting historic acquisitions.

Acquisition-related costs (note 8)

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

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

Costs of £1.3 million (2016: £6.0 million) were incurred in relation to the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions, which were completed on 31 December 2015. These amounts include the cost of payments to vendors of the business who remain in employment with the group, as required by accounting standards. Further costs totalling £3.6 million will be charged to the income statement on a straight line basis over the deferral period ending in 2019.

Head office relocation costs (note 9)

During February 2017, we moved our London head office to the new premises following a nine-month fit-out period. Charges incurred in relation to the double running of both London premises and the relocation amounted to £16.2 million in 2017 (2016: £7.0 million).

As described in note 25, following the vacation of 1 Curzon Street, a provision has been recognised for the discounted value of the cost of the surplus property until the end of the existing lease, net of any expected rental income from sub-letting the space. As a result, net charges totalling £14.1 million were recognised in the income statement during 2017 in relation to the onerous lease provision.

Charges of £2.1 million were also incurred during the year for professional fees, accelerated depreciation and double running costs (2016: £7.0 million). These costs represent an investment to expand our operating capacity in a key location and are not expected to recur in the short to medium term; they have therefore been excluded from underlying results.

Taxation

The corporation tax charge for 2017 was £12.1 million (2016: £11.9 million) and represents an effective tax rate of 20.5% (2016: 23.8%). A full reconciliation of the income tax expense is provided in note 11 to the financial statements.

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

Basic earnings per share

Basic earnings per share for the year ended 31 December 2017 were 92.7p compared to 78.9p in 2016. This reflects the full impact of non-underlying income and charges and the issue of 0.6 million shares to satisfy share-based remuneration scheme awards. On an underlying basis, earnings per share increased by 13.7% to 138.8p in 2017 (see note 13 to the financial statements).

Dividends

We operate a generally progressive dividend policy, as set out in the directors' report on page 104.

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

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

At 31 December 2017, the company's distributable reserves were £63.9 million (2016: £42.8 million).

In light of the results for the year, the board has proposed a final dividend for 2017 of 39.0p. This results in a full year dividend of 61.0p, an increase of 4.0p on 2016 (7.0%). The proposed full year dividend is covered 1.5 times by basic earnings and 2.3 times by underlying earnings.

Return on capital employed

The board monitors the return on capital employed (ROCE) as a key performance measure, which forms part of the assessment of management's performance for remuneration purposes as described in the remuneration report on page 80. For monitoring purposes, ROCE is defined as underlying profit after tax expressed as a percentage of quarterly average total equity across the year.

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

In 2017, ROCE was 19.5% (2016: 19.3%).

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

Investment Management

The activities of the group are described in detail on pages 2 to 9. The Investment Management segment comprises those activities described under the headings 'Investment Management' and 'Complementary services' on pages 2 to 3.

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

	2017	2016
Funds under management at 31 December[1]	**£33.8bn**	£30.2bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**3.0%**	2.9%
Underlying rate of total net growth in Investment Management funds under management[1]	**3.9%**	4.5%
Average net operating basis point return[2]	**72.7 bps**	74.2 bps
Number of Investment Management clients	**50,000**	48,000
Number of investment managers	**277**	273

1. See table 4
2. See table 7

During 2017, 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 48,000 in 2016 to approximately 50,000 during the year. During 2017, the total number of investment managers increased to 277 at 31 December 2017 from 273 at the end of 2016.

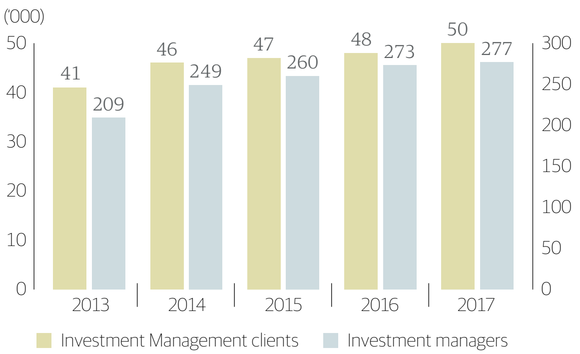
Chart 1. Investment Management – number of clients and investment managers

Investment Management clients ('000)

50,000

Investment managers

277



Funds under management

Investment Management funds under management increased by 11.9% to £33.8 billion at 31 December 2017 from £30.2 billion at the start of the year. This increase is analysed in table 4.

Table 4. Investment Management – funds under management

	2017 £bn	2016 £bn
As at 1 January	**30.2**	26.1
Inflows	**3.4**	2.7
– organic[1]	**3.1**	2.3
– acquired[2]	**0.3**	0.4
Outflows[1]	**(2.2)**	(1.5)
Market adjustment[3]	**2.4**	2.9
As at 31 December	**33.8**	30.2
Net organic new business[4]	**0.9**	0.8
Underlying rate of net organic growth[5]	**3.0%**	2.9%
Underlying rate of total net growth[6]	**3.9%**	4.5%

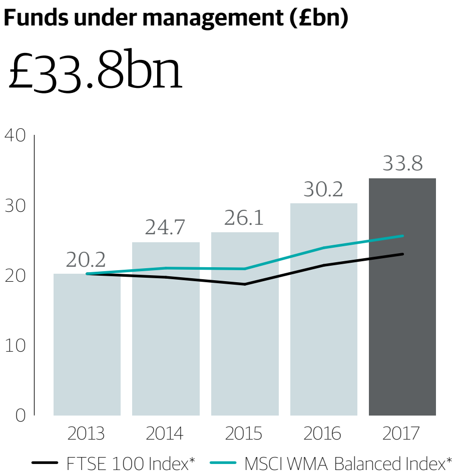
1. Value at the date of transfer in/(out)
2. Value at 31 December
3. Represents the impact of market movements and investment performance
4. Organic inflows less outflows
5. Net organic new business as a % of opening funds under management
6. Net organic new business and acquired inflows as a % of opening funds under management

Net organic growth in our Investment Management business was 3.0% (2016: 2.9%). This was below the 5% target we have set for ourselves, in large part due to an investment climate that was largely directionless until the end of the year. We saw outflows of approximately 7% of funds under management, as clients continued to transfer wealth to younger generations, purchase property and use capital to support income during the year.

Charity funds under management continued to grow strongly and reached £4.7 billion at 31 December 2017, up 14.6% from £4.1 billion at the start of the year.

We also retained our strategic focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers and provider panel relationships increased by £1.0 billion during 2017, ending the year at £7.7 billion.

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



* Index figures show how funds under management would have changed between 2013 and 2017 if they had tracked each index

In total, net organic and acquired growth added £1.2 billion to Investment Management funds under management in 2017 (2016: £1.2 billion), representing an underlying rate of total net growth of 3.9% (2016: 4.5%).

As at 31 December 2017, Vision Independent Financial Planning advised on client assets of £1.4 billion, up 35.9% from 2016.

Average investment returns across all Investment Management clients were positive and outperformed the MSCI WMA Balanced Index by 1.8%. This outperformance was generated across both UK and overseas equities as the global markets rallied on US President Trump's potential fiscal stimulus, stronger European economic data and the dollar trending lower throughout the year. Our overweight position in UK equities generated the greatest outperformance for 2017. 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

	2017 £m	2016 £m
Net Investment Management fee income[1]	**189.5**	163.3
Net commission income	**38.7**	38.9
Net interest income[2]	**11.6**	11.6
Fees from advisory services[3] and other income	**14.8**	12.5
Underlying operating income	**254.6**	226.3
Underlying operating expenses[4]	**(177.8)**	(160.1)
Underlying profit before tax	**76.8**	66.2
Underlying operating margin[5]	**30.2%**	29.3%

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 (including Vision)
4. See table 8
5. Underlying profit before tax as a percentage of underlying operating income

Net Investment Management fee income increased by 16.0% to £189.5 million in 2017, benefiting from positive markets as well as organic and acquired 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 2017 were £32.4 billion, up 14.9% from 2016 (see table 6).

Table 6. Investment Management – average funds under management

	2017 £bn	2016 £bn
Valuation dates for billing		
– 5 April	**31.5**	26.1
– 30 June	**32.0**	27.3
– 30 September	**32.5**	29.3
– 31 December	**33.8**	30.2
Average	**32.4**	28.2
Average FTSE 100 level[1]	**7426**	6659

1. Based on the corresponding valuation dates for billing

In 2017, net commission income of £38.7 million was broadly consistent with 2016. Higher trading volumes offset the impact of the greater number of accounts operating on a fee only tariff.

Net interest income of £11.6 million in the year was unchanged from 2016. The impact of lower base rates during much of 2017 was offset by a higher balance of cash in client portfolios over the course of the year. Cash held at the Bank of England grew from £1.1 billion at 31 December 2016 to £1.4 billion at the end of 2017.

The Investment Management loan book grew to £120.5 million by the end of the year and contributed £3.1 million to net interest income in 2017 (2016: £3.0 million). Also included in net interest income is £1.3 million (2016: £1.3 million) of interest payable on the Tier 2 notes which are callable in August 2020.

As shown in table 7, the average net operating basis point return on funds under management has fallen by 1.5 bps to 72.7 bps in 2017. This largely reflects the changes in business mix and the fee tiering impact of higher market levels.

Table 7. Investment Management – revenue margin

	2017 bps	2016 bps
Basis point return[1] from:		
– fee income	**58.4**	57.9
– commission	**11.9**	13.8
– interest	**2.4**	2.5
Basis point return on funds under management	**72.7**	74.2

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)

Fees from advisory services and other income increased 18.4% to £14.8 million. This largely reflects a higher level of advisory fees earned by Vision, following a slower period of activity last year as the business completed a comprehensive file review exercise, and growth in in-house financial planning revenues.

Underlying operating expenses in Investment Management for 2017 were £177.8 million, compared to £160.1 million in 2016, an increase of 11.1%. This is highlighted in table 8.

Table 8. Investment Management – underlying operating expenses

	2017 £m	2016 £m
Staff costs[1]		
– fixed	**59.5**	57.6
– variable	**40.2**	32.4
Total staff costs	**99.7**	90.0
Other operating expenses	**78.1**	70.1
Underlying operating expenses	**177.8**	160.1
Underlying cost/income ratio[2]	**69.8%**	70.7%

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 £59.5 million increased by 3.3% year-on-year, principally reflecting a 5.9% increase in average headcount and salary inflation.

As results improved, variable staff costs, also increased by 24.1% reflecting both the higher profitability in the period and an improved investment performance element for growth awards.

Other operating expenses of £78.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £8.0 million (11.4%) reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.

Unit Trusts

	2017 £m	2016 £m
Rathbone Income Fund	**1,433**	1,366
Rathbone Global Opportunities Fund	**1,168**	924
Rathbone Ethical Bond Fund	**1,100**	579
Rathbone Active Income Fund for Charities	**173**	116
Rathbone Global Alpha Fund	**127**	120
Rathbone Strategic Bond Fund	**108**	62
Rathbone Blue Chip Income and Growth Fund	**78**	71
Rathbone UK Opportunities Fund	**61**	78
Rathbone Multi Asset Portfolios	**736**	447
Other funds	**383**	291
	5,367	4,054

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

	2017	2016
Funds under management at 31 December[1]	**£5.3bn**	£4.0bn
Underlying rate of net growth in Unit Trusts funds under management[1]	**21.8%**	18.0%
Underlying profit before tax[2]	**£10.7m**	£8.7m

1. See table 10
2. See table 12

Funds under management

Net retail sales in the asset management industry of approximately £47 billion were up around £40 billion on 2016, as reported by the Investment Association (IA). The IA pointed specifically to substantial growth of inflows into ethical funds, with sustainable investment becoming an "increasing priority for today's investors". The industry funds under management total reached a record £1.2 trillion by the end of the year, up around 15% on the total at the end of 2016.

In total, the IA sectors in which we manage funds saw net inflows of £11.9 billion, compared to net outflows of £6.1 billion in 2016. Gross sales in those sectors were up 31.7% at £99.8 billion in 2017. In line with these trends, positive momentum in sales of our funds continued through 2017, with gross sales up 30.8% in the year to £1.7 billion. Redemptions also remained elevated in 2017 at £0.9 billion (2016: £0.7 billion), reflecting the increased levels of disinvestment seen across the industry. This level of net sales put us in the top 20 fund managers for 2017, according to the Pridham Report.

Net inflows of £0.9 billion (2016: £0.6 billion) continued to be spread across the range of funds, although the Ethical Bond Fund saw particularly strong net flows in the year, nearly doubling in size to £1.1 billion by the end of the year. As a result, Unit Trusts funds under management closed the year up 32.5% at £5.3 billion (see table 10).

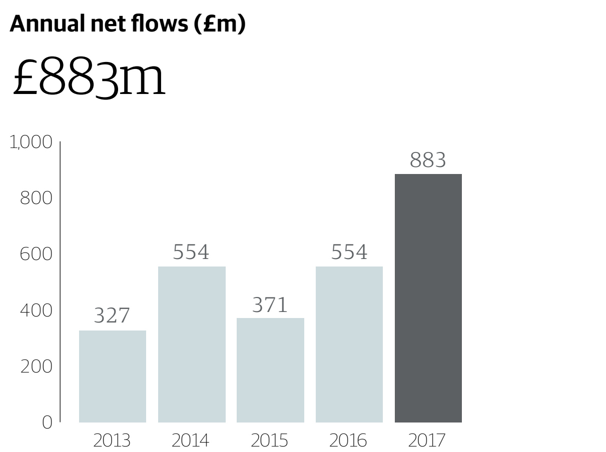
At 31 December 2017, we managed £428 million via the Luxembourg-based feeder funds, up 95.4% from £219 million at the end of 2016.

Table 10. Unit Trusts – funds under management

	2017 £bn	2016 £bn
As at 1 January	**4.0**	3.1
Net inflows	**0.9**	0.6
— inflows[1]	**1.7**	1.3
— outflows[1]	**(0.8)**	(0.7)
Market adjustments[2]	**0.4**	0.3
As at 31 December	**5.3**	4.0
Underlying rate of net growth[3]	**21.8%**	18.0%

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

Chart 3. Unit Trusts – annual net flows



During the year, the retail and multi asset funds delivered strong positive returns and a solid performance against their relevant benchmarks. The Global Opportunities Fund benefited from a high exposure to US equities and a substantial weighting to technology stocks. Both fixed income funds delivered excellent returns and effectively managed volatility, with the Ethical Bond Fund recording the best return of any fund in its sector. The UK Opportunities Fund's exposure to mid- and small-cap names contributed to a top quartile performance.

Whilst the Income and Blue Chip Funds generated positive returns over the year, both under-performed compared to other funds in the UK equity income sector due to the more defensive positioning of the portfolios and a small number of stock-specific issues. The multi asset range of funds outperformed their risk adjusted benchmarks and added value through their increased exposure to direct equities.

Table 11. Unit Trusts – performance[1,2]

2017/(2016) Quartile ranking[3] over	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	4 (3)	4 (2)	4 (2)
Rathbone Ethical Bond Fund	1 (4)	1 (2)	1 (1)
Rathbone Global Opportunities Fund	1 (4)	1 (2)	1 (1)
Rathbone Income Fund	4 (3)	3 (1)	3 (2)
Rathbone UK Opportunities Fund	1 (3)	1 (3)	2 (2)
Rathbone Strategic Bond Fund	2 (2)	2 (2)	2 (3)

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi asset funds, for which quartile rankings are prohibited by the IA, non-publicly marketed funds and segregated mandates. Funds included in the above table account for 74% of the total funds under management of the Unit Trusts business
3. Ranking of institutional share classes at 31 December 2017 and 2016 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)

As at 31 December 2017, 88% of holdings in Unit Trusts retail funds were in institutional units (31 December 2016: 85%).

During 2017, the total number of investment professionals in Unit Trusts decreased to 13 at 31 December 2017 from 14 at the end of 2016.

Financial performance

Unit Trusts income is primarily derived from:

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

Net annual management charges increased 30.2% to £28.0 million in 2017, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 60 bps (2016: 62 bps), reflecting the strong growth in the Ethical Bond Fund, which levies a lower rate of annual management charges.

Table 12. Unit Trusts – financial performance

	2017 £m	2016 £m
Net annual management charges	**28.0**	21.5
Net dealing profits	**3.1**	3.1
Interest and other income	**0.3**	0.4
Underlying operating income	**31.4**	25.0
Underlying operating expenses[1]	**(20.7)**	(16.3)
Underlying profit before tax	**10.7**	8.7
Underlying operating margin[2]	**34.1%**	34.8%

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

Net dealing profits of £3.1 million were unchanged compared with the previous year. We continue to expect that these revenues will be lost when the FCA publishes its final guidance following the Asset Management Market Study.

Underlying operating income as a percentage of average funds under management fell to 67 bps in 2017 from 72 bps in 2016.

Table 13. Unit Trusts – underlying operating expenses

	2017 £m	2016 £m
Staff costs:		
– fixed	**3.0**	3.0
– variable	**7.2**	5.3
Total staff costs	**10.2**	8.3
Other operating expenses	**10.5**	8.0
Underlying operating expenses	**20.7**	16.3
Underlying cost/income ratio[1]	**65.9%**	65.2%

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 2017 were unchanged from the £3.0 million recorded in 2016. In 2017, the cost of Unit Trusts compliance team was absorbed into the central compliance function and recharged as an inter-segment charge.

Variable staff costs of £7.2 million were 35.8% higher than the £5.3 million in 2016 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 31.3% to £10.5 million, reflecting an increase in third party administration costs in line with growth in the business and higher inter-segment charges for the central compliance and distribution teams.

Financial position

Table 14. Group's financial position

	2017 £m (unless stated)	2016 £m (unless stated)
Capital resources:		
– Common Equity Tier 1 ratio[1]	**20.7%**	17.7%
– total own funds ratio[2]	**22.2%**	19.5%
– total equity	**363.3**	324.8
– Tier 2 subordinated loan notes	**19.7**	19.6
– risk-weighted assets	**977.2**	892.7
– return on assets[3]	**1.8%**	1.8%
– leverage ratio[4]	**7.8%**	6.6%
Other resources:		
– total assets	**2,738.9**	2,404.0
– treasury assets[5]	**2,303.9**	1,995.2
– Investment Management loan book[6]	**120.5**	106.3
– intangible assets from acquired growth[7]	**151.7**	160.7
– tangible assets and software[8]	**26.7**	23.1
Liabilities:		
– due to customers[9]	**2,170.5**	1,888.9
– net defined benefit pension liability	**15.6**	39.5

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)

Capital resources

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

At 31 December 2017, the group's regulatory capital resources (including verified profits for the year) were £216.8 million (2016: £174.2 million).

Table 15. Regulatory capital resources

	2017 £m	2016 £m
Share capital and share premium	**145.7**	142.5
Reserves	**222.5**	188.5
Less:		
– own shares	**(4.9)**	(6.2)
– intangible assets[1]	**(161.3)**	(166.4)
Total Common Equity Tier 1 capital resources	**202.0**	158.4
Tier 2 capital resources	**14.8**	15.8
Total own funds	**216.8**	174.2

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 £43.6 million during 2017, largely due to the inclusion of verified profits for the 2017 financial year, net of dividends paid in the year, and post-tax actuarial gains of £14.4 million arising from the remeasurement of defined benefit pension schemes.

The CET1 ratio has grown to 20.7% from 17.7% at the previous year end in line with the growth in CET1 resources. Our consolidated CET1 ratio is higher than the banking industry norm, reflecting the low risk nature of our banking activity.

The leverage ratio was 7.8% at 31 December 2017, up from 6.6% at 31 December 2016. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures.

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

The consolidated balance sheet remains healthy with total equity of £363.3 million at 31 December 2017, up 11.9% from £324.8 million at the end of 2016, primarily reflecting retained profits for the year and an improvement in the reported position of our defined benefit pension schemes.

Own funds and liquidity requirements

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

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

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 2017, the group's risk-weighted assets were £977.2 million (2016: £892.7 million).

Pillar 2 – supervisory review process

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

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

Our Pillar 2A own funds requirement was reviewed by the PRA during 2017 and we have agreed a revised requirement. This includes the incorporation of a higher Pillar 2A requirement in respect of pension risk.

Pension obligation risk

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

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer, 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 2017, the buffer rate was 1.25% of risk-weighted assets. On 1 January 2018, it increased to 1.875% of risk-weighted assets and it will finally increase to 2.5% of risk-weighted assets from 1 January 2019.

Countercyclical capital buffer (CCyB)

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

The buffer rate is currently set at 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 0.01% of risk-weighted assets for the group as at 31 December 2017. The FPC has announced the rate for UK exposures will increase to 0.5% with effect from June 2018 and to 1.0% with effect from November 2018.

PRA buffer

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

The group's own funds requirements were as follows:

Table 16. Group's own funds requirements[1]

	2017 £m	2016 £m
Credit risk requirement	**39.5**	36.9
Market risk requirement	**0.4**	0.4
Operational risk requirement	**38.4**	34.2
Pillar 1 own funds requirement	**78.3**	71.5
Pillar 2A own funds requirement	**46.1**	27.9
Total Pillar 1 and 2A own funds requirements	**124.4**	99.4
CRD IV buffers:		
– capital conservation buffer (CCB)	**18.3**	11.2
– countercyclical buffer (CCyB)	**0.1**	0.3
Total Pillar 1 and 2A own funds requirements and CRD IV buffers	**142.8**	110.9

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

The surplus of own funds (including verified profits for the full year) over total Pillar 1 and 2A own funds requirements and CRD IV buffers was £74.0 million, up from £63.3 million at the end of 2016.

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

- future volatility in pension scheme valuations which affect both the level of CET1 own funds and the value of the Pillar 2A requirement for pension risk
- the staged introduction of incremental CRD IV buffers over the next two 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 2017 were £2.7 billion (2016: £2.4 billion), of which £2.2 billion (2016: £1.9 billion) 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 £2.2 billion (2016: £1.9 billion) represented 6.4% of total investment management funds at 31 December 2017, compared to 6.3% at the end of 2016. Cash held in client money accounts was £4.5 million (2016: £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 £1.4 billion from £1.1 billion at 31 December 2016, reflecting the increase in the level of cash held in client portfolios over the period and a consistent appetite for credit risk.

Loans to clients

Loans are provided as a service to Investment Management clients who have short- to medium-term cash requirements. Such loans are normally made on a fully-secured basis against portfolios held in our nominee name, requiring two times cover, and are usually advanced for up to one year (see note 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 £120.5 million at the end of 2017 (2016: £106.3 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 2017, the total carrying value of intangible assets arising from acquired growth was £151.7 million (2016: £160.7 million). During the year, client relationship intangible assets of £2.7 million were capitalised (2016: £7.9 million). No goodwill was acquired during 2017 (2016: £nil).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2017, including the impact of any lost relationships, was £11.4 million (2016: £11.7 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 £0.3 million was recognised in relation to this element of goodwill (2016: £0.1 million). Further detail is provided in note 21 to the financial statements.

As described in note 1.3 to the financial statements, the adoption of IFRS 15 in 2018 requires us to change the accounting policy for these awards. Currently, the cost of awards for funds introduced by investment managers who have been in situ for more than 12 months are charged to profit or loss (2017: £5.1 million). Under the new accounting standard, these amounts will also be capitalised and amortised over the life of the client relationship.

Capital expenditure

During 2017, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £11.3 million (2016: £15.1 million). As noted above, capital expenditure in 2016 included £9.9 million for the fit out of the new London head office. Further costs of £2.8 million were incurred to complete this in 2017.

Investment in new systems accelerated in 2017 with the development of a new client relationship management (CRM) system. Total costs of £7.1 million for the purchase and development of software were incurred in 2017 (2016: £2.9 million).

Excluding the London office fit-out costs, new investment accounted for approximately 79% of capital expenditure in 2017 (2016: 67%), with the balance being maintenance and replacement of existing software and equipment. This is more weighted to new investment than in prior years due to the development of the CRM system and improvements relating to the introduction of MiFID II (Markets in Financial Instruments Directive) and the General Data Protection Regulation (GDPR).

Defined benefit pension schemes

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

The member consultation to close the scheme coincided with a period of historically exceptionally low yields on the government bonds that are used to derive cash equivalent transfer values (CETVs) for members wishing to exit the scheme, increasing the value of these CETVs markedly. This resulted in a significant increase in the number of members seeking to transfer their benefits out of the scheme by taking a cash lump sum and over the course of 2017, members transferred benefits with cumulative CETVs of £60.6 million out of the scheme. This reduced the accounting value of the liabilities of the Laurence Keen Scheme by 17% and the Rathbone 1987 Scheme by 29% compared to the position at 31 December 2016 and helped support an improvement in the schemes' deficit and funding levels.

As a result of the large value of transfers out, the accounting valuation of the schemes' liabilities has also fallen. At 31 December 2017 the combined schemes' liabilities, measured on an accounting basis, had fallen to £164.1 million, down 29.4% from £232.4 million at the end of 2016. Reflecting the performance of the schemes' assets over the course of the year, the reported position of the schemes at 31 December 2017 was a deficit of £15.6 million (2016: deficit of £39.5 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. During 2017, funding valuations of the schemes as at 31 December 2016 were being carried out. We have agreed with the trustees of the Rathbone 1987 Scheme to put in place a funding deficit reduction plan, which requires annual contributions of £2.75 million, so long as that scheme remains in deficit. The funding valuation for the Laurence Keen Scheme has not yet been finalised but we do not expect that it will result in a material funding deficit reduction plan.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

	2017 £m	2016 £m
Cash and cash equivalents at the end of the year	**1,567.8**	1,263.1
Net cash inflows from operating activities	**351.5**	567.3
Net change in cash and cash equivalents	**304.7**	559.5

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 ILAAP regime, which requires us to hold a suitable Liquid Assets Buffer to ensure that short-term liquidity requirements can be met under certain stressed scenarios. Liquidity risks are actively managed on a daily basis and depend on operational and investment transaction activity.

Cash and balances at central banks was £1.4 billion at 31 December 2017 (2016: £1.1 billion).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits, which had an original maturity of less than three months (see note 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 £282.6 million increase in banking client deposits (2016: £486.0 million increase) and a £16.6 million increase in the component of treasury assets placed in term deposits for more than three months (2016: £16.8 million decrease).

Offsetting this, cash flows included a net outflow of £4.0 million from the purchase of longer-dated certificates of deposit (2016: £7.0 million net inflow from the maturity 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.

- outflows relating to the payment of dividends of £29.4 million (2016: £26.5 million)
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £11.9 million (2016: £14.0 million)
- £4.2 million of capital expenditure on property, plant and equipment (2016: £12.2 million).

Chief executive's annual statement on corporate responsibility

Rathbones' corporate responsibility strategy aims to ensure that social, environmental and ethical considerations are taken into account throughout the business. With regard to environmental, social and governance (ESG) matters as they affect our business, the board believes that the social and environmental committee (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 environment and communities in which we work and our clients live. This report provides an overview of our activities – more information can be found on our website.

As reported in last year's report, 2017 marked the firm's ten-year anniversary for reporting on carbon footprint and a review was conducted to align our environmental and sustainability objectives with the broader commercial goals of the business. The objective of this review was to set the framework for the firm's corporate social responsibility (CSR) strategy for the long term and develop key initiatives to ensure the sustainability of the firm. You will find further details below.

Responsible investing

The concept of stewardship and responsible investment (SRI) 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 2017, we reviewed and updated our policies in this area and are pleased to report on our progress below. Also, we remain a constituent company of the FTSE4Good Index series and a signatory to the UN-backed Principles for Responsible Investment (PRI).

Our employees

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

Charities and communities

The Rathbone Brothers Foundations have continued to support small local charities where 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 to 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.

In 2017, Rathbones was lead sponsor of the FIL Rathbones Women's Lacrosse World Cup, the largest international women's sporting event in the UK that year. As well as supporting and highlighting the importance of women's sport, we used the opportunity to encourage young women in particular to get involved in sport through the tournament's legacy programme and our ongoing partnerships with English Lacrosse and Lacrosse Scotland. Through our sponsorship of the Rathbones Folio Prize, we were also involved in the establishment of a mentoring programme for young writers.

Environmental reporting

Despite the continued growth in our business, total carbon emissions were reduced to 2,553 tCO_2e ('tonnes carbon dioxide equivalent'), 9% lower than reported in 2016 and 10% lower than our baseline. Emissions from buildings energy consumption fell by 14% due to reduced energy use and the continued decarbonisation of the UK grid. Following a 17% increase in headcount, our business travel emissions increased slightly by 2%, despite a 7% reduction in emissions from flights. For further details of our carbon footprint, please read the environmental impact section of this report.

This year also marks the 10-year anniversary of Rathbones reporting on its environmental impacts. In recognition of this milestone, we completed several initiatives in 2017 to improve our performance and further enhance our knowledge and management of environmental issues. We conducted an in-depth review of our wider sustainability strategy, improved our environmental management and reporting processes and completed our move to an award-winning, energy-efficient head office building at Finsbury Circus.

Philip Howell
Chief Executive and Chairman of the SEC

21 February 2018

Our approach

Rathbones' corporate responsibility approach can be summarised as follows:

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

Responsible investment

Rathbones specialises in discretionary private client investment management. We manage assets for clients based on their goals. Central processes provide guidance on equity analysis and strategic asset allocation advice and are shared by the group. 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 framework is provided whilst maintaining investment flexibility for investment managers.

Nonetheless, we are long-term investors and ESG factors form a key part of our equity analysis. To this end, in 2016, we formalised our approach to the long-term stewardship of our clients' assets with the approval of a group stewardship policy, which was approved by the board in 2017. The concept of our stewardship policy means taking a client first, active approach to the ownership of securities. Implementing effective stewardship is integral to our investment process as a means of protecting and enhancing value for clients. The core principles that we follow are:

1. Materiality
   We recognise that governance and stewardship risks can be material to the performance and valuation of companies.
2. Active voting
   We actively consider proxy votes for client holdings.
3. Engagement
   Active engagement with companies on governance issues is an important adjunct to voting activities.
4. Transparency
   We report annually on our stewardship activities.

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

Through Rathbone Greenbank Investments and Rathbone Unit Trust Management's 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 2017, Rathbone Greenbank Investments had £1.1 billion of funds under management, equivalent to 2.52% of Rathbone Investment Management's funds under management. The Rathbone Ethical Bond Fund had £1.1 billion of funds under management.

Affiliations

The firm has the following affiliations and accreditations:

- CDP (Carbon Disclosure Project) as well as being a signatory to the CDP sister programmes on water disclosure and forests
- UN-backed PRI. We also play an active role in the PRI Collaboration Platform. Out of over 1,800 members of this leading initiative, Rathbones was named as one of the top 20 most active and influential members of the PRI Collaboration Platform in 2015 and 2016, a significant achievement given our size relative to other PRI members. In 2017, we launched our stewardship policy and moved into the 'A' band in the Strategy & Governance module of the UN PRI's annual reporting framework
- UK Sustainable and Investment Finance Association (UKSIF) and the Ecumenical Council for Corporate Responsibility. Rathbone Greenbank Investments is also a leading member of the Institutional Investors Group on Climate Change (IIGCC)

Voting

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

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

Rathbone Unit Trust Management, as an institutional investor, meets its obligations as a signatory to the Stewardship Code and was classified as a Tier 2 signatory by the FRC in 2016. In addition to expanding the scope of proxy voting in 2015 and now employing 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 managers and investment managers. During 2017, the committee oversaw active proxy voting on 5,046 resolutions at 398 company meetings. Voting on these resolutions includes consideration of such issues as executive remuneration, auditor independence, appointment of directors and non-financial reporting.

Case study – Smith & Nephew

Our major issues with variable pay come when the experience of management and shareholders becomes misaligned. It is vital that remuneration policies be designed in such a way that investors can have confidence that exceptional variable pay will only come under certain prescribed circumstances, meeting performance conditions which are unambiguous and easily understood. However, most companies equip their remuneration committees with discretion to make awards even where performance conditions have not been met. In the year in question, the remuneration committee at the company exercised discretion to provide for elements of a Long Term Incentive Plan to vest despite targets on Total Shareholder Return not being met.

We wrote to the company expressing our concern over the use of discretion and the lack of convincing rationale for doing so. The performance targets were set by the remuneration committee, with full knowledge of the market conditions, and we consider it a matter of sound precedent that the company should be prepared to accept the outcome of the structure and incentives that it has chosen. Given the company's relative size and standing, we viewed the use of discretion in such a manner to fall short of best practice.

We are committed to transparency in this area and regularly report on our activities via our corporate website. A more detailed assessment of our votes against management can be found in our review of Stewardship and Proxy Voting which can be found on our website.

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. In 2017, we joined the steering committee for the PRI-coordinated engagement on cyber security.

Employees

Our approach

We are firmly committed to evolving our people policies and practices and having continued high levels of employee engagement in line with our corporate values. Our goal continues to be the delivery of the highest possible quality of service to our clients through talented and professional employees. Rathbones has over 1,100 staff in 16 locations in the UK and Jersey. We promote a culture where we recruit and retain individuals whose values match those of the business. To promote engagement with our values, we actively encourage employees to become involved in the financial performance of the group through our all employee SIPs (UK Share Incentive Plan and International Share Incentive Plan) and SAYE (Save As You Earn share option plan).

We also encourage our employees to become financially aware and offer discounted independent financial advice. We have offered share ownership plans to our employees since 1996 and now have 55% in our SAYE and 87% in our SIP plans.

Employee statistics

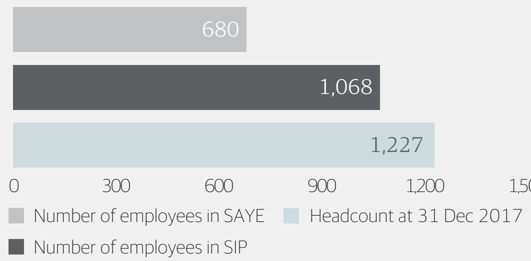
% of female employees	48.7%
% of employees working part-time	10.6%
% resignation rate	4.7%

Learning

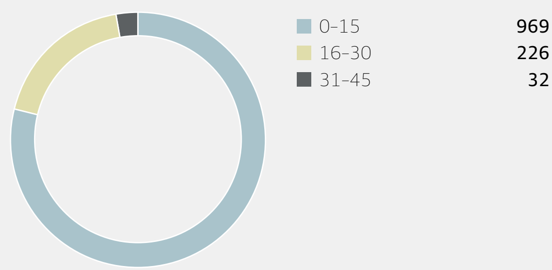
We continue to support the development of all our employees and have maintained our average investment per person at a significant level of £783 (2016:£634) and an average of two days' training per year. These figures are a very conservative estimate because there is much more employee development that has no direct cost and is conducted at the desk.

Our aim when delivering high-quality programmes is to ensure that employees have the best opportunity to put their learning into practice. We do this by engaging with line managers and other stakeholders in the business to ensure that the opportunity and support 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 the development they need for their current and possible future roles.

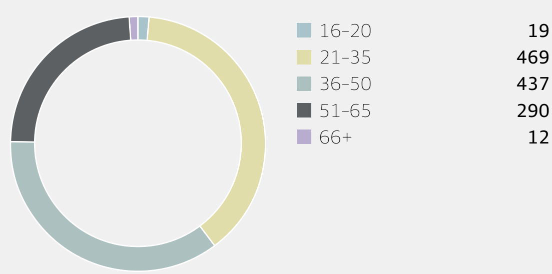
Employees



Number of employees by length of service



Number of employees by age range



Leadership and management development

We have developed a comprehensive suite of management and leadership courses. These are 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 5 qualification awarded by the Chartered Management Institute. This included a module on managing operational risk which was tailored to the specific issues in Rathbones. We will continue to support this type of development where the formal recognition of learning is appropriate.

Continuing professional development (CPD)

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

Talent development

Rathbones is keen to develop a pipeline of high-calibre talent to ensure appropriate skills and succession planning for the future. Our third apprenticeship programme is well underway with 11 participants and, in light of the ongoing success of this programme, a further group will be recruited in 2018. Our continued commitment to developing younger talent means that the existing graduate development programme will be completed in March 2018 and a new programme started in September. The programme sees the trainees participate in a variety of placements around the firm to gain a broad range of experience.

Career development and performance management

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. A leadership framework has been developed that we intend to incorporate into our management training and promotion processes in 2018.

The performance management process is reviewed on an ongoing basis and, in 2017, we have launched an online performance management tool to help us better support both line managers and employees.

Diversity and inclusion

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

We have two female directors out of seven and have thus achieved our commitment to meet Lord Davies' target of 25% female board representation. We are working towards achieving the adjusted target of 33% of female board representation for FTSE 350 companies by 2020 and are developing a policy aligned to the recommendations published in the Hampton-Alexander review in November 2017.

Historically, women have been less well represented in the investment management industry and addressing this imbalance is a key priority. We are working hard to 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.

We continue to target the progression and development of existing female employees with opportunities for leadership and management programmes. After engaging with our recently returned maternity leavers in 2016, we undertook a comprehensive review of our family leave policies. In 2017, we implemented significant improvements to our maternity, adoption and paternity policies. We also introduced group coaching and online support for working parents.

We have started a training programme covering diversity, inclusion and unconscious bias. Our executive committee were amongst the first to participate and are actively supporting the roll-out to all managers across the firm.

Rathbones prides itself on being a 'real Living Wage' employer and pays Living Wage Foundation rates of pay to sub-contractor staff and internal employees.

Modern slavery

Rathbones is committed to maintaining and improving our practices to tackle slavery and human trafficking violations with respect to our own operations, our supply chain and our services. We welcomed the introduction of the Modern Slavery Act in 2015 and used this as an opportunity to build on our existing policies and develop a focused approach to addressing the risk of modern slavery. Rathbones already has a range of relevant policies in place such as our policy on stewardship, being a living wage employer, equal opportunities and whistle blowing. To further develop our approach, we set ourselves a set of objectives over the next three years. These include: carrying out a third-party risk assessment, developing prioritised actions based on the results, introducing a modern slavery screening process, training our staff and communicating what we are doing.

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

- Construction - refurbishment of our buildings
- Paper - the stationery that we buy
- Chemicals - cleaning chemicals that we purchase

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

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

Anti-bribery policy

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

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

Gender pay reporting

The firm will be preparing and submitting its data on gender pay to the government and will ensure it's available on the website ahead of the deadline of 4 April 2018.

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 2017, we concluded a consultation with members of the company defined benefit pension scheme and this resulted in closure of the Rathbones 1987 defined benefit pension scheme to future accrual in June 2017. Going forward, we have provided members of this scheme with access to the same pension benefits provided to all of 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 share-matching within the SIP, free shares and SAYE schemes.

We have a continued focus on employee wellbeing. Employees have access to an employee assistance programme (EAP) offering confidential advice and support to them and their families. We have rolled out a number of training and drop-in sessions on wellbeing-related topics.

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 them on matters affecting them and on the issues that have an impact on the performance of the group and actively seek their feedback on these matters. After the success of the engagement survey run in 2016, we will be running a second employee survey in 2018 in order to assess employee engagement.

Rathbones recognises the importance of an appropriate work-life balance, both to the health and welfare of employees and to the business. Holiday entitlement begins at 25 days per annum for all employees, increasing to 30 days after five years' service, with the opportunity to buy up to five additional days of flexible leave each year.

Communities

Donations and fundraising

During the year, the group made total charitable donations of £378,000, representing 0.70% of group pre-tax profits (2016: £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 2017, Rathbones' employees made payments totalling £225,000 (2016: £196,000) 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 2017, donated £161,000 (2016: £164,000) to causes chosen by employees through this method.

During 2017, the Rathbone Brothers Foundations across the country considered many requests for assistance and met a number of charities. Significant donations were made to and volunteering activities organised for the following organisations:

- The Rathbones Winchester office staff chose to do their annual volunteering week at Shepherd's Down school. The team helped improve the outdoor environment of the school that provides care and education to children with special needs
- Enabling Enterprise is an award-winning not-for-profit social enterprise, set up by a team of teachers in 2009. Their mission is to equip young people with the skills, experiences and aspirations they need to succeed in life. The Liverpool team hosted children from Blessed Sacrament Primary School. Guided by Rathbones employees, the children took part in a fun activity where they played the role of stock market traders who had to evaluate potential investments and make decisions on behalf of their clients. The London office hosted children from years four and six of Holly Park Primary School and St Francis de Sales. The same challenge applied and gave the kids a great opportunity to use their imaginations, work in teams and give a presentation at the end of the day
- 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. The London Rathbone Brothers Foundation has donated money for the past three years
- The Teapot Trust is a children's charity which uses art therapy as a way of helping young people cope with long-term medical conditions. The Edinburgh office supported the charity through its annual in-house art exhibition. Over 200 Rathbones guests attended the exhibition, which was held across two evenings in November, showcasing local artists
- The Cambridge office supports two local charities: the Cambridge Central Aid Society, which offers rapid financial help to individuals and families in Cambridge who are in need; and the Connections Bus Project, a charity providing youth work services across Cambridgeshire, delivering youth clubs, training courses and consultations and support for smaller community youth projects.

Investing in brighter futures

The FIL Rathbones Women's Lacrosse World Cup was the largest women's international sporting event in the UK in 2017. As lead sponsor of the tournament, Rathbones put on and supported many activities throughout the year to highlight the importance, and encourage the advancement, of women's sport.

Rathbones has been a strong supporter of lacrosse in the UK since 2011 through our partnerships with English Lacrosse and Lacrosse Scotland. Our focus for these programmes has been on encouraging girls to play sport, as we acknowledge the value of sport in the lives of young people in teaching key life skills.

The Rathbones Financial Awareness programme is another significant element of our investment in young people. Investment managers deliver presentations to 16–25-year-olds within our offices and at schools around the UK. The programme aims to equip those attending with the necessary information to take ownership of their finances at a young age. In 2017, the programme was delivered to nearly 2,000 young people.

Rathbones also supports the arts through the Rathbones Folio programme. The pinnacle of the programme is the Rathbones Folio Prize, a prize awarded to the best English language book across all genres. However, just as important are the other parts of the programme, which include the Rathbones Folio Mentorship for aspiring young writers and the Rathbones Folio Sessions, which encourage thought and stimulate debate at literary festivals throughout the country.

Environmental impact

This year marks the tenth year in which Rathbones has reported its carbon footprint. As a responsible investor, Rathbones leads by example in our approach to environmental matters, striving to understand the environmental impacts of our business activities and, wherever possible, act to reduce them. In 2017, we enhanced our environmental monitoring and reporting process, thereby improving our performance management capabilities. Key benefits of the revised approach include the alignment of our carbon footprint reporting with Rathbones' financial year[1] and an improved ability to assess and influence environmental performance throughout the year.

Our 2017 carbon footprint

We are pleased to report a 9% reduction in our overall emissions to 2,553 tCO2e, down from 2,798 tCO2e in 2016. Furthermore, our emissions intensity has also reduced by over 20% following continued growth in both headcount and funds under management.

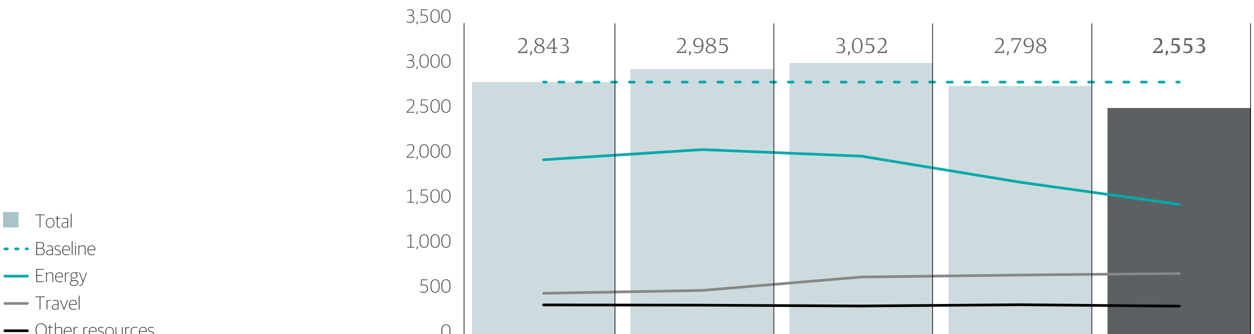
These reductions are primarily attributable to reduced energy consumption across our offices, reduced emissions from flights, paper and waste, and the continued decarbonisation of the UK's electricity supply. Notably, our new head office building in Finsbury Circus has proved significantly less energy intensive than our previous Curzon Street location.

Building energy emissions arising from energy consumption at our offices and data centres were 1,484 tCO_2e in 2017, down 14% from 1,730 tCO_2e in 2016.

Business travel emissions increased to 716 tCO_2e, up 2% from 699 tCO_2e last year, despite a reported 7% reduction in emissions from flights. Our travel emissions rose largely due to a 17% increase in headcount and increased use of employee-owned cars for business purposes.

Emissions from other resources, namely paper, waste and refrigerants, were 353 tCO_2e, down 4% from 369 tCO_2e in 2016, following reductions in paper and waste emissions.

Total emissions (tCO_2e) since baseline year



Operational indicators	2013	2014	2015	2016	**2017**
Staff (FTE)	829	867	965	1,045	**1,227**
Net internal area of offices / m^2	14,430	14,430	14,518	15,369	**22,924**
Operating income / £m	176.4	209.3	230.1	243.8	**291.6**
Funds under management / £bn	22	27.2	29.2	33.2	**39.1**

Carbon intensity / tCO2e[1]					
Staff (FTE)	3.4	3.4	3.2	2.7	**2.1**
Net internal area of offices / m^2	0.2	0.21	0.21	0.18	**0.11**
Operating income / £m	16.1	14.3	13.3	11.5	**8.8**
Funds under management / £bn	129.2	109.8	104.5	84.3	**65.3**

1. Aligning our carbon reporting with the financial year required a rebaselining of emissions back to 2013 and resulted in some minor variations to previously reported annual emissions. Further information on rebaselining is provided below

Key achievements in 2017

Rathbones completed several important initiatives in 2017 to mark the tenth anniversary of our reporting on environmental impacts.

Our new head office

In February 2017, we completed our move to 8 Finsbury Circus, a building which has achieved a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating in recognition of its performance and facilities across a range of environmental criteria. Although our new head office provides over 50% more floor area, it used 20% less energy in 2017 than Curzon Street in the previous year. Furthermore, it enables Rathbones to reduce environmental impacts through the provision of 160 cycle spaces, photovoltaics, and a green roof grey water recycling system.

Improved performance management and reporting

Having reported Rathbones' environmental impacts on an annual basis over the last 10 years, in 2017 we increased the focus and frequency of this process to provide quarterly performance updates, analysis and trending information throughout the year.

This has delivered the following key benefits to management:

– More timely provision of environment data, enabling the alignment of carbon footprint reporting with Rathbones' financial year

– Improved data quality and accuracy, reducing the number of estimations required due to unavailable or incomplete data

– Intra-year visibility of environmental performance, thereby creating capacity for the management team to identify actions during the year that will influence year-end performance.

Compliance with regulations

Rathbones complies with the regulations for reporting greenhouse gas emissions. Following an operational control approach to defining our organisational boundary, our 2017 greenhouse gas emissions from business activities amounted to:

– 321 tCO_2e resulting from the combustion of fuel and the operation of any facilities (classified as Scope 1 in this report)

– 851 tCO_2e from the purchase of electricity by the company for its own use (classified as Scope 2 in this report).

In February 2017, we moved to our new head office location in Finsbury Circus, which increased our reporting boundary. It was not possible to obtain consumption data during the fit-out period in 2016 and so these emissions were excluded from last year's report. This data has now been obtained and included within our rebaselining of 2016 data. 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 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.

Rebaselining

Rathbones' reporting period for greenhouse gas emissions is now 1 January to 31 December, aligned to our financial year. The reporting period was previously offset by three months to allow additional time for data collation. To ensure comparability of 2017 performance against previous years, we have rebaselined emissions back to 2013. Variations in seasonal consumption and emissions factors produced several minor variations as detailed below.

	Rebaseline 2016[1]	Original 15/16	Rebaseline 2015	Original 14/15	Rebaseline 2014	Original 13/14	Rebaseline 2013	Original 12/13
Scope 1	404	357	317	303	310	311	306	304
Scope 2	947	1,009	1,282	1,332	1,443	1,450	1,424	1,463
Scope 3	1,447	1,449	1,453	1,446	1,232	1,145	1,113	1,114
Total	**2,798**	**2,814**	**3,052**	**3,081**	**2,985**	**2,907**	**2,843**	**2,882**
Variance	-0.6%		-0.9%		+2.7%		-1.4%	

1. Last year's report of 2015/16 emissions excluded 28 tCO_2e of Scope 1 and 2 emissions linked to the fit out of our new Finsbury Circus head office due to unavailable data. These emissions have been included in the above rebaseline

Carbon footprint by scope (tCO_2e)

Location-based emissions[1]	2017	2016	2015	2014	2013 (baseline)
Scope 1	**321**	**404**	**317**	**310**	306
Natural gas	**296**	404	315	272	276
Refrigerant	**25**	–	2	39	30
Company cars	**–**	–	0.02	0.01	
Scope 2	**851**	**947**	**1,282**	**1,443**	1,424
Purchased electricity	**851**	947	1,282	1,443	1,424
Scope 3	**1,383**	**1,447**	**1,453**	**1,232**	1,113
Data centres[2]	**257**	294	317	252	150
Business travel	**716**	699	677	528	496
Paper	**319**	342	328	310	328
Waste	**9**	27	26	15	9
Electricity T&D[3]	**82**	86	106	126	130
Total location-based	**2,553**	**2,798**	**3,052**	**2,985**	2,843

Market-based emissions	2017	2016	2015
Purchased electricity	**909**	1,061	1,282
Data centres	**285**	317	317

1. In accordance with best practice introduced in 2015, we report two numbers to reflect emissions from electricity. Location-based emissions based on average emissions intensity of the UK grid and market-based emissions to reflect emissions from our specific suppliers and tariffs
2. Data centre emissions are reported as Scope 3, as per the Greenhouse Gas Protocol. However, where figures are stated in this report for overall buildings electricity consumption, we have included data centres to ensure transparency of electricity use
3. Emissions from line losses associated with electricity transmission and distribution

Carbon intensity

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

	Operational indicators					Carbon intensity (tCO_2e)[1]				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
Staff (FTE)	**1,227**	1,045	965	867	829	**2.1**	2.7	3.2	3.4	3.4
Net internal area of offices (m^2)	**22,924**	15,369	14,518	14,430	14,430	**0.11**	0.18	0.21	0.20	0.20
Operating income (£m)	**291.6**	243.8	230.1	209.3	176.4	**8.8**	11.54	13.39	13.89	16.34
Funds under management (£bn)	**39.1**	33.2	29.2	27.2	22.0	**64.4**	84.3	104.5	109.8	129.2

1. Carbon intensity is the total all scopes tCO_2e per: FTE; m^2; £m of operating income; £bn of funds under management

Carbon Smart opinion statement

This statement provides Rathbones and its stakeholders with a third-party assessment of the quality and reliability of Rathbones' carbon footprint data for the reporting period 1 January 2017 to 31 December 2017. It does not represent an independent third-party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbones for the tenth consecutive year to calculate Rathbones' carbon footprint for all offices for its 2017 annual report. Through this engagement, Carbon Smart has assured Rathbones that the reported carbon footprint is representative of the business and that the data presented is credible and compliant with the appropriate standards and industry practices. Data has been collected and calculated following the ISO 14064 – part 1 standard and verified against the WRI GHG Protocol principles of completeness, consistency and accuracy. Carbon Smart's work has included interviews with key Rathbones personnel, a review of internal and external documentation, 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 define its organisational boundary. Rathbones calculates total direct Scope 1, 2 and major Scope 3 emissions. Reported environmental data covers all employees and all entities that meet the criteria of being subject to control or significant influence of the reporting organisation.

Consistency

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

Transparency

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

Accuracy

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

10 years of corporate social responsibility at Rathbones

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

- CDP respondent since 2006
- Over £2.3 million in charitable donations since 2007
- UN PRI Signatory since 2009
- PwC Building Public Trust Award 2011: Best People Reporting in a FTSE 250
- 2013 FTSE4Good ranking: 98th percentile
- 2014 ICSA Excellence in Governance Award: Best sustainability and stakeholder disclosure in a FTSE 250
- CDP investor member since 2015
- One of the top 20 most active and influential members of the UN PRI Collaboration Platform (2015 and 2016)
- Over 5,000 16- to 24-year-olds engaged in Rathbones Financial Awareness Programme
- Moved head office to award-winning BREEAM 'Excellent' rated building in 2017

CSR strategy review

During 2017, Rathbones undertook an in-depth review of CSR with the aim of developing a framework for promoting sustainability across the business and ensuring good corporate citizenship. Through consultation with key stakeholders, we considered material sustainability issues alongside key drivers for our business. This review was an important first step towards the definition of a longer-term roadmap to sustainability and identified the following four 'pillars' as most relevant to our business.

Employees

Rathbones began life as a family business. Many of our employees are also shareholders and the success of our business is intrinsically linked to our people. We recognise that every person around the world deserves to be treated with dignity and equality and our responsibility to respect the human rights of our direct employees and those within our supply chain.

Governance and stewardship

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

Environment

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

Social and community

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

Four pillars of sustainability

High level sustainability drivers, themes and stakeholders

Key drivers

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

Themes

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

Governance and stewardship
- Responsible investment
- Anti-corruption practices
- Remuneration
- Management structure

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

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

Stakeholders

- Clients
- Employees
- Communities
- Suppliers

Looking forward

Rathbones' continued action on CSR is driven by the following considerations. Firstly, it is our longstanding and collective desire to be a good corporate citizen. We recognise that acting on sustainability issues is the right thing to do. Over the next 10 years, we fully expect the importance of acting sustainably to increase for our business and its stakeholders - the clients we serve, our employees, the local and global communities within which we operate and our suppliers and delivery partners.

Secondly, we recognise this increasing focus on sustainability issues as one of several leading trends that will impact and define businesses in every sector the over the coming years. Already we see a growth in related regulation and the need for transparency on social and environmental issues. The advent of millennials as employees and customers of our business will serve to accelerate interest both in acting responsibly as a business and in responsible investment opportunities.

For these reasons, Rathbones will continue to increase its focus on sustainability issues. In 2018, we will further develop our programme of action across the four pillars identified above and, by 2020, we will produce a dedicated, standalone report on our CSR performance.

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 56 constitute the strategic report, which was approved by the board and signed on its behalf by:

Philip Howell
Chief Executive

Paul Stockton
Finance Director

21 February 2018

Governance

Governance

I am pleased to introduce the corporate governance report for 2017, which includes commentaries from me and the other committee chairmen. The report explains how we applied the principles of good governance including the provisions of the 2016 edition of the Financial Reporting Council's (FRC) UK Corporate Governance Code ('the Code')[1].

The board recognises and champions the benefits of good governance across the firm. We understand that a good governance framework creates a solid foundation which enables us to act in the best interests of our clients, shareholders and other stakeholders.

Culture

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

In order to assess the firm's culture, a fundamental review was conducted in 2016 and the findings were discussed at length by the board and executive committee. A number of metrics were agreed, with ongoing monitoring by the conduct risk committee and quarterly board updates. In addition, a culture dashboard relating to clients, colleagues and other stakeholders has been developed which enables the group risk committee and the board to review and monitor key metrics. To provide helpful colour to this data, an additional paper is prepared giving illustrative examples of good and poor conduct in the firm. My non-executive director colleagues and I have also continued during the year to assess the firm's culture through direct engagement, both formal and informal, with investment managers and other employees throughout the business.

The biggest challenges to our culture include the increase in the size of our business and the plethora of new regulation. This brings with it the need for greater formalities in processes and for more detailed data on clients and their changing circumstances.

Board and executive succession

After a rigorous recruitment process, we were delighted to welcome Jim Pettigrew to the board in March 2017. A comprehensive and tailored induction programme was arranged for Jim to introduce him to the business and provide industry context. Additional detail of the induction programme is provided later in the report. Jim was appointed senior independent director in May 2017 following the retirement of David Harrel.

The board recognises the importance of planning for the future and ensuring that succession plans are in place and embedded throughout the firm. Kathryn Matthews is due to stand down by the end of 2018, having served nine years as a director. We have engaged independent search consultants to find someone with the experience and skills to replace Kathryn as chairman of the group risk committee. Following a skills audit, which was initiated by the nomination committee and presented to the board, consideration is being given to recruiting an additional non-executive director with the aim of bringing new skills to the board, taking account of the existing balance of knowledge, experience and diversity.

In addition, the board has discussed and approved the recommendations from the nomination committee to strengthen and formalise executive succession planning and talent management processes throughout the firm.

1. The Code can be found at: www.frc.org.uk

Board meetings

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

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

Board effectiveness

As it had been three years since our last external board evaluation, Independent Audit were appointed during 2017 to conduct a review of the board. Their report provided a helpful analysis of the board's strengths and weaknesses and overall was both positive and constructive. Further details can be found later in the report.

Remuneration policy

We are due to present our remuneration policy for approval at the 2018 annual general meeting (AGM), as it has been three years since our policy was last approved in 2015. The remuneration committee has assessed our policy in the context of a changing external environment and the firm's own requirements. While maintaining the principal features of our existing policy, a number of small changes have been proposed to align the interests of executives and investors more closely. The chairman of the remuneration committee, Sarah Gentleman, carried out an extensive consultation exercise with our largest shareholders before finalising the new policy. Further details about the changes to our policy can be found in the remuneration report on page 80.

Looking forward

The nomination committee continues to take into consideration the recommendations of the Davies report and the McGregor-Smith initial review on board diversity. Currently, our two female directors represent 29% of the total board membership. As a board, we acknowledge the importance of board diversity and, looking forward, regard will be given to female representation targets during the recruitment process. The firm will ensure that there are no barriers to women succeeding at the highest levels.

Mark Nicholls
Chairman

21 February 2018

Governance at a glance

Our governance framework

An overview of the firm's governance structure and respective roles are provided below.

Chairman

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

Non-executive Directors

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

Board of directors

Chaired by Mark Nicholls

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

Chief Executive Officer

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

Company Secretary

- Develops board and committee agendas and distributes board packs
- Ensures board procedures are observed
- Advises on corporate governance matters
- Available to all directors

Senior Independent Director

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

Board committees

Remuneration committee

Chaired by Sarah Gentleman

- Determines and sets the firm's remuneration philosophy, ensuring it is aligned with the business plan and risk appetite
- Approves the remuneration policy for executive directors for final approval by shareholders and makes remuneration decisions within the policy
- Approves total annual remuneration for executive directors based on achievements against objectives set by the committee
- Reviews total annual remuneration for executive committee members and material risk takers

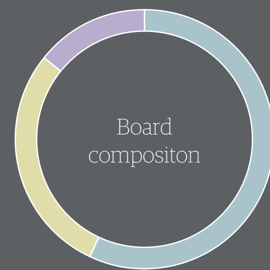
Board activities in 2017

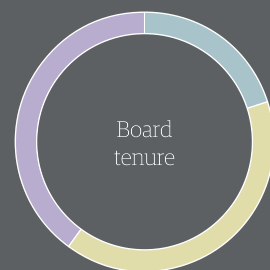
Strategy
- Held strategy day with group executive to review and discuss progress
- Reviewed and analysed strategic acquisition opportunities
- Focused on delivery of organic growth initiatives

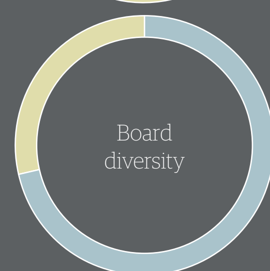
Performance review
- Oversight of the financial performance of the group
- Reviewed and approved capital requirements of the firm
- Approved 2018 budget

Risk management
- Monitored the firm's principal risks and compliance programme
- Received detailed report on significant regulatory risks
- Reviewed the implications of Brexit on the organisation

Governance
- Conducted an external board evaluation
- Appointed senior independent director
- Approved the firm's Modern Slavery Act statement
- Assessed and oversaw the firm's culture







Group risk committee
Chaired by Kathryn Matthews
- Reviews the effectiveness of the risk management framework
- Reviews the firm's risk appetite
- Assesses the firm's compliance and anti-money laundering policies
- Reviews key regulatory submissions

Audit committee
Chaired by James Dean
- Reviews the integrity of the firm's financial reporting and financial statements
- Assesses the performance and independence of the external auditor
- Approves the annual internal audit plan
- Reviews the effectiveness of the internal audit function and management's response to their findings

Nomination committee
Chaired by Mark Nicholls
- Reviews the structure, size and composition of the board and committees
- Assesses and nominates suitable candidates to be appointed to the board
- Considers talent and succession planning for directors and senior management

Executive committee
Chaired by Philip Howell
- Implements the agreed strategy and the day-to-day management of the firm
- Reviews and discusses the annual business plan and budget
- Implements investment process and client proposition

Our leadership

Chairman

Mark Nicholls
Chairman

Appointment: 01/12/2010
Age: 68
Board committees: Re, **N**

Background and career

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

Current external non-executive director roles

Northern Investors Company PLC
West Bromwich Building Society

Executive directors

Philip Howell
Chief Executive

Appointment: 01/12/2013
Age: 62
Board committees: **E**

Background and career

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

Current external non-executive director roles

None

Paul Stockton
Finance Director

Appointment: 24/09/2008
Age: 52
Board committees: E

Background and career

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

Current external non-executive director roles

None

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

Jim Pettigrew
Non-executive Director and Senior Independent Director

Appointment: 06/03/2017
Age: 59
Board committees: A, Re, N, Ri

Background and career

Jim was appointed as a non-executive director at our 2017 AGM and was appointed as senior independent director in May 2017. He is a chartered accountant and was formerly president of ICAS and Chief Executive Officer of CMC Markets plc, Chief Operating Officer of Ashmore Group plc and Group Finance Director of ICAP plc. He was previously non-executive director of Aberdeen Asset Management plc, AON UK Ltd, Hermes Fund Managers Ltd, Crest Nicholson Plc and Edinburgh Investment Trust Plc.

Current external non-executive director roles

CYBG Plc
RBC Europe Limited
Miton Group Plc
Scottish Financial Enterprise

James Dean
Non-executive Director (Independent)

Appointment: 01/11/2013
Age: 60
Board committees: **A**, Re, N, Ri

Background and career

James was appointed as a non-executive director in 2013 and is chairman of our audit committee. He is a chartered accountant with over 30 years' experience working in financial services. He has worked in a variety of roles at Ernst & Young over a period of 14 years, including holding the position of managing partner for the UK Financial Services Audit Practice for four years.

Current external non-executive director roles

Liverpool Victoria Friendly Society
The Stafford Railway Building Society

Sarah Gentleman
Non-executive Director (Independent)

Appointment: 21/01/2015
Age: 47
Board committees: A, **Re**, N, Ri

Background and career

Sarah was appointed as a non-executive director in 2015 and is chairman of our remuneration committee. She 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.

Current external non-executive director roles

None

Kathryn Matthews
Non-executive Director (Independent)

Appointment: 06/01/2010
Age: 58
Board committees: A, Re, N, **Ri**

Background and career

Kathryn was appointed as a non-executive director in 2010 and is chairman of the risk committee. She has spent her entire career in investment management, including her time 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.

Current external non-executive director roles

Aperam S.A.
J P Morgan Chinese Investment Trust Plc
BT Investment Management Limited
Barclays Bank UK Plc

The role of the board

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

Board meetings

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

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

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

- Reviewed and assessed strategic initiatives
- Scrutinised the benefits of, and monitored progress on, the proposed merger with Smith & Williamson
- Approved the firm's risk framework and appetite
- Reviewed the firm's risk management and internal controls systems
- Oversaw financial performance against plan and market expectations
- Focused on management's delivery of organic growth initiatives
- Assessed and approved the firm's capital adequacy annual budget
- Monitored and assessed the firm's culture
- Approved interim and full year financial statements, interim dividend and recommended final dividend
- Approved the firm's viability statement and going concern disclosure for the year ended 31 December 2016
- Approved the 2016 report and accounts to shareholders against the fair, balanced and understandable criteria.

Operations of the board

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

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

Board attendance

Director	Meetings attended (eligible to attend)
M P Nicholls (chairman)	7(7)
J W Dean	7(7)
S F Gentleman	7(7)
J N Pettigrew[1]	6(6)
P L Howell	7(7)
K A Matthews	7(7)
R P Stockton	7(7)

Former directors	
D T D Harrel[2]	2(3)

1. Jim Pettigrew joined the board on 6 March 2017
2. David Harrel stepped down as a director on 10 May 2017

Independence

The board, on the recommendation of the nomination committee, considers that all of the non-executive directors are independent. All board members are required to disclose any external positions or interests which may conflict with their directorship of Rathbones prior to their appointment so that any potential conflict can be properly assessed. The board has regard to the fact the experienced non-executive directors in financial firms are a valuable resource and may sit on several boards. Conflicts of interest can generally be managed by due process and common sense. In this regard, the board carefully analysed the regulatory and governance risks attached to the appointment of Jim Pettigrew since he is chairman of Miton Group. After consulting with Jim, and assessing his time commitments, the board approved the appointment, but put in place procedures and requirements, which need to be observed by Jim. The board also considered carefully the risks attached to the proposed appointment of Kathryn Matthews to the board of Barclays Bank UK Plc. After consulting with Kathryn, and assessing her time commitments, the board approved the appointment, but put in place procedures and requirements, which Kathryn must observe.

Board induction

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

Business review

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

Performance and market positioning

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

Regulatory environment

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

People, culture and values

- Discussion of key business principles and the firm's culture
- Key people and succession plans

Board procedures and governance framework

- Board structure, processes and relationships
- Board interaction with key business areas
- Overview of listed company obligations, reporting and governance framework
- Directors' duties and responsibilities

Board development

The firm is committed to the training and development of all staff to ensure professional standards are maintained and enhanced. All directors are encouraged to update their skills and any training needs are assessed as part of the board evaluation process. Their knowledge and the non-executive directors' familiarity with the firm is facilitated by access to senior management and visits to teams in London and offices across the country. The company secretary assists with professional development requirements of the board. In addition, the board receives mandatory annual training on the following areas:

- CASS
- SEC obligations
- ICAAP and ILAAP

During the year, the board received presentations on the impact of the General Data Protection Regulation (GDPR) and MiFID II (Markets in Financial Instruments Directive) on the firm, including the associated change programmes that will be involved. Finally, committee members also receive regular updates on technical developments at scheduled meetings.

Governance of the company

In relation to compliance with the Code, this report, together with the directors' report, states the position at 21 February 2018. The Code was updated in April 2016 by the FRC and applies to the company's 2017 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 diversity policy

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

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

The gender balance of the board is also taken into consideration when recruiting a new non-executive director. This is reflected by the current composition of the board.

Board and board committee evaluation

The board's effectiveness, composition and operation are reviewed and assessed on an annual basis. Every three years, the evaluation is undertaken externally. Accordingly, in 2017, Independent Audit Limited were selected to evaluate the board. Independent Audit have no connection to the firm.

This evaluation involved observing a board meeting, reviewing board papers and conducting interviews with all board members, members of the executive committee who attend board meetings and the company secretary. The review covered a number of topics, including succession planning, board operations and dynamics, governance and composition. The evaluation also looked at the board committees and how they operated.

The review concluded that all directors enjoy serving on the board and are proud to be associated with Rathbones. The review identified a number of strengths but also areas for further improvement. All the interviewees described the very high degree of integrity shared by all directors, matched by a strong commitment to Rathbones and a universal desire to see it flourish. The key themes identified in the report were as follows.

Strengths of the board

- Board dynamics: the board is not only functioning well but also has the capacity and will to improve. Interactions have a balance between efficiency and amicability, although there is still a need to work on building a more collegiate atmosphere and sense of common purpose
- Risk control: there have been significant improvements in this area in recent years. It was widely felt that risks are correctly identified and that mechanisms for controlling and mitigating them are effective
- Internal audit: praise for the way audit issues are managed at board level
- Board committees: the board committees were found to be operating effectively and were well run. There was timely and effective reporting to the board

Areas for improvement

- Communication: communication from top management could be improved. This is an area where relatively minor changes could deliver significant improvement
- Succession planning: the board should have clearer timelines generally and greater visibility of the executive succession planning process, including increasing the non-executive exposure to senior management below executive committee level
- Board diversity: a need to review the composition of the board to ensure that diversity in its broadest sense (age, outlook, skills and ethnicity) is considered

Overall, the conclusion from the board evaluation and appraisal process was positive, with all directors contributing actively to the effective performance of the board and the board committees of which he or she is a member. The new non-executive director had settled in well and felt he had received a comprehensive and useful induction. The review confirmed the strengths that had been identified in 2014 and identified a number of areas of focus for further improvement. The board is committed to making improvements in these areas.

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 a separate consultation with the chief executive. The senior independent director subsequently provided feedback to the chairman on his appraisal, which confirmed his effectiveness.

Succession planning

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

Board committees

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

Accountability

The statement of directors' responsibility for preparing the annual report and accounts is set out at the end of this governance section. Within this, the directors have included a statement that the annual report and accounts present a fair, balanced and understandable assessment of the group's position and prospects. To help the board discharge its responsibilities in this area, the board consulted the audit committee, which advised on the key considerations to comply with best practice and the Code's requirements. Following the committee's advice, the board considered and concluded that:

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

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

Risk management

In accordance with the Code, the board is required to monitor the firm's risk management and internal controls systems on an ongoing basis. They carry out a review of their effectiveness and report on this review to shareholders. Details of the company's ongoing process for identifying, assessing and managing the principal risks faced by the firm are contained in the risk management section on pages 21 to 27, together with details of those principal risks and their related mitigating factors. Whilst the board retains overall responsibility for the firm's risk management and internal controls systems, it has delegated oversight to the audit and risk committees.

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

The board receives regular reports from the chairman of the risk committee and chief risk officer on the key risks facing the firm that may impact on operational and financial objectives. This assessment is completed together with assurance that the level of risk retained is consistent with and is being managed in accordance with the board's risk appetite. These reports include current and forward-looking assessments of capital and liquidity adequacy and a summary 'risk dashboard' is presented. Also, during the year, the board reviewed and approved the operational risk assessment process for the 2017 ICAAP document, which includes a capital assessment of financial, conduct and operational risks.

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

A one-year risk-based approach drives internal audit coverage and, over the course of the year, review work by the function covers all material controls across the firm including, compliance, operations and financial. The observations arising from this work form the basis for the annual internal audit opinion.

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

Relations with shareholders

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

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

Investor relations activity in 2017 included the following:

- 2016 year-end results: UK investor roadshow and analyst presentations
- Q1 trading update: analyst call
- Annual general meeting: all directors available for questions
- 2017 interim results: UK investor roadshow and analyst presentations.

On the initiative of the chairman of the remuneration committee, shareholder consultation letters were issued to our 15 largest shareholders on our proposed new remuneration policy and meetings held with those interested to discuss the proposed changes. We will also continue to engage with ISS (Institutional Shareholder Services) and the Institutional Voting Information Service (IVIS) of the Investment Association and Pensions & Investment Research Consultants Ltd (PIRC) before the AGM.

During 2017, the key areas which the chief executive and finance director have discussed with investors included:

- progress on strategic initiatives
- the proposed merger with Smith & Williamson
- industry trends including consolidation and the increased use of technology
- upcoming changes to regulation including MiFID II, the FCA Asset Management Review and GDPR
- the closure of our defined benefit pension schemes
- the London office move to Finsbury Circus and progress on the letting of our Curzon Street premises.

Shareholder meetings

We welcome shareholders to our AGM in May each year. At every AGM, our shareholders are given an overview of the progress of the business and outlook for the year. This is followed by the opportunity for shareholders to ask questions about the resolutions before the meeting and about the business more generally. We look forward to meeting shareholders and providing a further business update at our 2018 AGM in May this year.

Membership and attendance

Director	Meetings attended (eligible to attend)
K A Matthews (chairman)	4(4)
J W Dean	4(4)
S F Gentleman	4(4)
J N Pettigrew[1]	2(3)

Former director	
D T D Harrel[2]	1(1)

1. Jim Pettigrew joined the committee on 6 March 2017
2. David Harrel retired from the committee on 10 May 2017

Roles and responsibilities

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

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

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

Group risk committee chairman's annual statement

The group risk committee plays a vital part in helping support the firm's governance structure and the ongoing monitoring of the firm's risk management framework.

During the year, the economic challenges and heavy regulatory agenda, coupled with firm-specific risks, have kept the committee fully occupied. There have been ongoing enhancements to our risk management and risk appetite frameworks and we are satisfied that we have the skills and talent across the group to meet the challenges and opportunities that lie ahead.

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. Details of management risk mitigation plans are well understood and appropriate resource is provided. The committee saw further improvement in the quality of the management information that it receives.

During the year, I met with the Prudential Regulatory Authority (PRA) to keep them apprised of our key risks and mitigating factors and the impact of the regulatory agenda on the firm.

Committee meetings

Our current members are the independent non-executive directors, who met on four occasions in 2017 (2016: four). Jim Pettigrew was appointed to the committee following David Harrel's retirement as a director in May 2017.

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

I regularly meet with the chief risk officer 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.

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

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

Finally, the committee conducted 'deep dive' reviews on key risks such as the General Data Protection Regulation (GDPR), internal investment processes and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Committee effectiveness

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

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

Committee activity in 2017

Further enhancements were made to the group's risk management framework in 2017, including the continued evolution of the 'three lines of defence' model to ensure that it remains aligned to industry and regulatory standards. The committee also reviewed the risk assessment on the firm's various strategic initiatives.

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

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

February 2017
- Review of investment risk report
- Annual review of the firm's risk appetite
- Review of the compliance report
- Approval of ICAAP operational risk factors
- Approval of the firm's risk assessment plan
- Review of risk register and emerging risks

June 2017
- Approval of ICAAP and reverse stress testing
- Approval of ILAAP and liquidity contingency plan
- Approval of recovery and resolution plan
- Review of the firm's culture dashboard
- Review of risk profile for business continuity
- Approval of the money laundering reporting officer's (MLRO) annual report
- Review of risk register and emerging risks
- Review of terms of reference

September 2017
- Assessment of key risks of GDPR and investment process
- Review of risk register and emerging risks

December 2017
- Approval of risk management policy statement
- Review of remuneration policy and associated risks with executive remuneration
- Review of risk register and emerging risks
- Approval of 2018 ICAAP and ILAAP stress testing proposals

Looking ahead to 2018

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

- Preparation and continued risk assessment of recent and upcoming regulatory changes such as GDPR
- Effective risk management framework for external and internal emerging risks
- Continued assessment of the firm's risk culture against its core values
- Risk assessment on the impact of technology, Know Your Client (KYC) and suitability requirements.

We are committed to the continuing development of our approach to risk management across the three lines of defence. In the first line, we expect to see delivery of a number of projects currently underway that should strengthen further the sustainability of good client outcomes. We have recently agreed several 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 21 to 27.

Kathryn Matthews
Chairman of the group risk committee

21 February 2018

Membership and attendance

Director	Meetings attended (eligible to attend)
J W Dean (chairman)	6(6)
S F Gentleman	6(6)
K A Matthews	6(6)
J N Pettigrew[1]	4(5)

Former director	
D T D Harrel[2]	4(4)

1. Jim Pettigrew joined the committee on 6 March 2017
2. David Harrel retired from the committee on 10 May 2017

Roles and responsibilities

The key activities of the committee are as follows:

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

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

Audit committee chairman's annual statement

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

During 2017, 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 of accounting judgments taken during the preparation of the financial statements
- review of the firm's client assets sourcebook (CASS) audit and submissions
- impact of the reporting standards relating to IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'.

In addition, the Financial Reporting Council (FRC) informed the company that it had reviewed the presentation of investment performance in the annual report for the year ended 31 December 2016. The FRC stated that the disclosure on investment performance metrics for asset managers should be expanded to provide additional information on the quartile rankings for fund performance. The firm submitted a response to the FRC, which included the information requested and consideration of potential disclosure in the future. The FRC confirmed in October 2017 that this matter was closed.

Committee meetings

Our current members are the independent non-executive directors who met on six occasions in 2017 (2016: six).

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.

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

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

Following the publication of the 2016 UK Corporate Governance Code ('the Code') and revised FRC Guidance for Audit Committees, the committee's terms of reference were updated. The changes formalise the committee's oversight of internal and external audit arrangements.

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

Committee effectiveness

A formal and rigorous evaluation of the committee's effectiveness was undertaken during the year as part of the external board effectiveness review. The review found that the committee was well run and performed at a high standard. For further information, please refer to the corporate governance report.

Committee activity in 2017

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

January 2017

- Review of the report and accounts
- Review of key judgements for the annual report
- Assessment of going concern and the viability statement
- Review of 2016 internal audit plan and 2017 internal audit cycle

February 2017

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

May 2017

- Annual review of external audit firm processes
- Review and approval of the Q1 interim management statement
- Review and approval of the external auditor's letter of engagement and audit fee
- Review of internal audit plan for 2017 and completed assessments across the firm
- Annual review of the whistleblowing reports for 2016

July 2017

- Approval of half year report for 2017
- Assessment of the firm's statement of going concern
- External auditor's half year review
- Review and approval of representation letter
- Review of external auditor's letter of independence
- Proposed audit plan for the year end
- Review of non-audit services fees for the year
- Review of internal audit plan for 2017 and completed assessments across the firm
- Approval of committee's terms of reference

October 2017

- Review and approval of the Q3 interim management statement
- Review of internal audit plan for 2017 and completed assessments across the firm
- Review planning of internal audit plan for 2018
- Approval of the firm's non-audit service policy

December 2017

- Review of key judgements and provisioning for the year end
- Review of audit and non-audit fees for the year
- Assessment of reporting standard changes relating to IFRS 9, 15 and 16
- Review of internal audit plan for 2017 and approval of the 2018 internal audit plan

Financial reporting

Accounting judgements

As part of the committee's role of monitoring the integrity of the firm's financial information contained in the interim and annual financial statements, a review of key accounting judgements and policies that were adopted by management was conducted and assessed. Following discussion with management and the external auditors, the committee concluded that these judgements were appropriate and proportionate for the firm. Details of these key significant judgements can be found in note 2 of the financial statements on page 126.

Fair, balanced and understandable statement

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

Viability and going concern

The committee considered the requirements contained in the Code regarding the company's viability statement, including the proposed three-year assessment period. After significant discussion, and having considered the firm's current position and impact of potential risks, the committee concluded that the three-year assessment period continued to be appropriate and recommended the draft viability statement (as set out on page 28) to the board for approval. The committee also reviewed the going concern disclosure (as set out on page 105) and concluded that the firm had adequate resources to continue in operational existence for the foreseeable future and confirmed to the board that it was appropriate for the firm's financial statements to be prepared on a going concern basis.

The carrying value of assets

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

The valuation of defined benefit pension obligations

We reviewed the key assumptions supporting the valuation of defined benefit pension obligations, particularly salary increases, investment returns, inflation and the discount rate, which are disclosed in note 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 external auditors. We satisfied ourselves that the assumptions used were reasonable.

Provisions and contingent liabilities

The committee discussed provisions totalling £23.7 million, which have been summarised in note 25 to the financial statements. The main areas of provisions relate to the recognition of the onerous lease relating to 1 Curzon Street, deferred payment for acquired business and property dilapidation liabilities.

New accounting standards

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

i) IFRS 9

Following a review of this standard internally and having received external advice, the committee ensured that the firm's accounting policies and working models were updated to reflect the changes from this standard. It was noted that no material changes to the financial statements are anticipated as result of adopting this new standard.

ii) *IFRS 15*

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

iii) IFRS 16

A review of the firm's future lease payments was conducted during the year to establish the potential financial liability that will need to be recognised on the balance sheet. The firm's most significant property lease contracts were examined and may lead to the firm being required to hold additional capital from the inception of the standard from (1 January 2019).

For further information, please refer to note 1.3 to the financial statements on page 118.

Internal audit

Internal audit plan

The 2017 internal audit plan was approved by the committee ahead of the start of the year with a greater focus on thematic work. The internal audit plan is subject to an annual risk-based appraisal. In setting audit scope, the internal audit function will take into account business strategy and form an independent view of whether the key risks to the organisation have been identified, including emerging and systematic risks, and assess how effectively these risks are being managed. The status of scheduled work, and the follow-up of agreed actions arising from reviews is reviewed at each meeting, to ensure that agreed recommendations are acted upon promptly and regularly reported to the committee.

At each meeting, the committee reviewed the internal audit reports presented by the head of internal audit and monitored progress against the 2017 plan. In response to feedback from the committee, a number of changes were made to the format of the committee report to strengthen the focus on any significant issues identified in the audits and highlight any overdue items. Whilst no significant weaknesses were identified in any of the internal audit reports, a number of improvements to certain processes and controls were implemented in response to the recommendations put forward.

Internal audit function

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

The committee reviewed the effectiveness of the internal audit function during the year to assess whether the function continued to meet key stakeholder objectives. The outcome of this review indicated that the internal audit function continued to be effective, operating in line with professional standards and well supported by Deloitte.

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

External audit

Audit work 2017

KPMG present their audit plan to the committee for review each year. The committee reviewed and challenged reports from KPMG, which outlined their risk assessments and audit plans for 2017 (including their proposed materiality level for the performance of the annual audit), the status of their audit work and issues arising from it. Particular focus was given to their testing of internal controls, their work on the key judgement areas and possible audit adjustments. We can confirm that there are no such material items remaining unadjusted in the financial statements.

External audit effectiveness and reappointment

We place great importance on the quality, effectiveness and independence of the external audit process. In order to review the external audit process, including the performance of the external auditors, feedback is gathered from both committee members and management. This process was undertaken by internal audit. We also reviewed the annual FRC Audit Quality Inspection report prepared on our external auditor and discussed this report with the audit partner. 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 2018 annual general meeting (AGM). There are no contractual or similar obligations restricting the firm's choice of external auditors.

External audit review

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 in 2009. We plan to undertake an audit services contract tender process and planning will commence during 2018. 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.

Auditor independence and non-audit services

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

Non-audit fees, excluding services required by national legislation, payable to the auditor in 2017 were £274,000. This represents 71% of the three-year average statutory audit fee of £385,000. Other non-audit work undertaken by the auditor in 2017 was largely in relation to the potential corporate transaction, pensions advisory work and the annual ISAE3402 internal controls report. We recognise that, given KPMG's knowledge of the business, there are often advantages in using the external auditor to provide certain non-audit services and we are satisfied that their independence has not been impaired by providing these services. This was the case in respect of the work relating to the proposed corporate transaction during the year, which resulted in fees slightly exceeding the 70% target cap on non-audit services.

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

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

We agreed the external auditor's fees (which are shown in note 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 firm's whistleblowing policy, approve any changes to the document and receive details of any reports made.

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

Overview of priorities for 2018

As well as considering the standing items of business, the committee will also focus on the following areas during 2018:

- Initiation of the external audit tender process
- Assessment and implementation of new accounting standards

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

21 February 2018

Membership and attendance

Director	Meetings attended (eligible to attend)
Mark Nicholls (chairman)	3(3)
S F Gentleman	3(3)
J W Dean	3(3)
K A Matthews	3(3)
J N Pettigrew	3(3)

Former directors	
D T D Harrel	1(1)

Roles and responsibilities

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

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

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

Nomination committee chairman's annual statement

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

In April 2017, the committee agreed to recommend to the board that Jim Pettigrew be appointed senior independent director following the annual general meeting (AGM). In the following months, a number of informal discussions were held about the appropriate composition of the board in the event of a merger with Smith & Williamson. Following termination of these merger discussions, the committee approved the appointment of Independent Audit Limited to carry out an external board effectiveness review. This generally positive review was discussed at the November nomination committee meeting prior to being presented to the board in December.

A draft skills matrix was presented to the committee in November in the context of a wider discussion about strategy and succession planning. As Kathryn Matthews, chairman of the group risk committee, will be close to the end of her nine year tenure as a director by the end of 2018, a job description for an experienced replacement non-executive director was approved in November and an independent search consultant, Zygos (now part of Russell Reynolds), was chosen to undertake the search. It was agreed that a second non-executive appointment would be made if an appropriate candidate is identified.

During 2017, a number of discussions have taken place in the committee about identifying and developing future leaders within the firm. There has historically been a reluctance among investment managers to take on management responsibilities. The firm is addressing this by developing a broader management structure within investment management together, with a remuneration structure that encourages investment managers to take on management responsibilities.

Succession planning and talent development

As mentioned above, a key responsibility of the committee is to ensure that the board maintains a balance of skills, knowledge and experience appropriate to the operation of the business and required to deliver the strategy. During 2017, the committee reviewed the composition of the board and considered (a) the core skills and experience of each director, (b) the independence of each director and (c) the diversity, including age and gender, of the board as a whole. This was used to develop a skills matrix which will underpin the evolution of the board.

Following this review the committee was satisfied that the board continues to have an appropriate mix of skills, knowledge and experience to operate effectively. In addition to their professional skills, the directors have collectively many years of experience gained in a wide range of businesses and excellent track records in a range of sectors. During this process, the committee assessed areas which require further development or skills and experience that could be addressed through the recruitment of a new non-executive director.

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

Independence and conflicts of interest

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

All non-executive directors will be standing for re-election at the 2018 AGM.

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 43 to 56.

Board effectiveness review

Full details of the process and outcome of this review are set out on page 66.

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

21 February 2018

Membership and attendance

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

Roles and responsibilities

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

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

Executive committee chairman's annual statement

Please see the chief executive's review on pages 12 to 14. Biographies for the executive committee members are available on our website.

Committee meetings

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

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

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

What we have done

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

Items of particular focus in 2017 were as follows:

- Implementation of the strategic initiatives relating to Rathbone Financial Planning
- Development of intermediary distribution channel
- The move to new London premises
- Implementation of an IT transformational programme
- Implementation of regulatory changes relating to the General Data Protection Regulation (GDPR) and MiFID II (Markets in Financial Instruments Directive)
- Review of investment processes and development of the client journey
- Review and assessment of annual budget

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

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

Overview of priorities for 2018

As well as considering the standing items of business, the committee will also focus on the following areas during 2018:

– Implementation of planned enhancements to our investment process
– Implementation of our IT transformation programme
– Implementation of new regulatory regimes including MiFID II and GDPR
– Delivery of our strategic growth projects
– Formulation of the next five-year strategic plan
– Sub-let of our former Curzon Street premises

Philip Howell
Chairman of the executive committee

21 February 2018

Executive committee members

Our current members are below.

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 Darnley
Head of Specialist and Charity Business

Andrew Morris
Head of Investment Management outside London

Sarah Owen-Jones
Chief Risk Officer

Richard Smeeton
Head of Investment Management Special Projects and Recruitment

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

Membership and attendance

Director	Meetings attended (eligible to attend)
S F Gentleman (chairman)	4(4)
J W Dean	4(4)
K A Matthews	4(4)
M P Nicholls	4(4)
J N Pettigrew[1]	3(3)

Former director	
D T D Harrel[2]	2(2)

1. Jim Pettigrew joined the committee on 6 March 2017
2. David Harrel stepped down as chairman of the committee on 11 May 2017

Roles and responsibilities

The committee's responsibilities are

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

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

Remuneration committee chairman's annual statement

On behalf of the board, I am pleased to present my first directors' remuneration report as chairman, having been appointed following the 2017 annual general meeting (AGM). I would like to thank my predecessor, David Harrel, for his contribution to the committee and support throughout my transition to this role.

2017 has been a busy year for the remuneration committee. In addition to the committee's usual activities, we have undertaken an extensive review of the remuneration policy, which applies to executive directors in order to ensure that it remains fit for purpose, aligned to our business strategy and supportive of the interests of shareholders and clients. We have also ensured that the key principles of the remuneration policy are consistently applied to executive committee members.

As part of this process, I had the opportunity to meet with a number of our larger shareholders to discuss our proposed revisions to our remuneration policy that will apply for the next three years. I would personally like to thank them all for their valuable and considered input into this process. Their feedback has been very helpful in informing the committee's view.

2017 performance and remuneration outcomes

Our remuneration framework is closely aligned with the financial performance of the group, which has been strong in 2017 as continued growth and robust investment markets helped funds under management reach £39.1 billion at 31 December 2017. This performance is reflected in the 17.6% growth in 2017 profit before tax to £58.9 million and an underlying operating margin of 30.6%.

Consequently, these financial outcomes are directly reflected in the respective elements of the Executive Incentive Plan (EIP), which delivered above target performance in respect of three-year return on capital employed (ROCE), annual profit before tax and underlying operating margin. Due largely to the non-underlying costs associated with the relocation of our London office, threshold performance in respect of earnings per share (EPS) was not achieved. Similarly, whilst the total net organic growth of our Investment Management and Unit Trusts businesses in 2017 was 5.2%, this was not enough to meet the 5.5% threshold.

Positive progress was made during the year on the non-financial objectives which cover critical project performance, stakeholder measures and client experience. We have set out in more detail the EIP results for 2017 on page 95.

A new remuneration policy for 2018

In line with our now established three-year cycle, a new remuneration policy is being put forward to our shareholders for approval at our AGM in May 2018. In setting this policy, the priorities for the committee have been to ensure that remuneration structures and performance measures:

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

A summary of the proposed changes to our policy is set out below, with further details presented on pages 86 and 87.

1. **There are no material changes to the EIP structure, but we have increased the level of disclosure**

   We operate one single incentive plan for executive directors, the EIP (which combines both short and long term metrics) and recognise that it is atypical in the market. We believe, however, that it continues to work well in incentivising positive business and financial performance and aligning the interests of executive directors with our shareholders and clients. We therefore propose to retain the EIP structure in its current form.

   The committee has, however, recognised that market practice has moved on since the policy was last approved. From a shareholder perspective, the key difference in our approach when compared with a more traditional annual bonus and long-term incentive construct, is the additional disclosure of long-term performance metrics that accompany separate long-term incentive schemes. This year, therefore, we will disclose, on a forward-looking basis, the long-term performance ranges against which we will be assessing performance. This aims to improve transparency for shareholders as to the performance ranges that will apply to the long-term elements of our plan. The long-term targets for the 2018-2020 cycle are disclosed on page 87 of this report.

2. **Increase the maximum opportunity under the EIP from 200% to 300% of salary and retained holding restrictions**

   Our existing remuneration policy was introduced at a time when there was significant regulatory uncertainty as to whether smaller banks would be required to comply with new bonus capping requirements introduced under the Capital Requirements Directive.

   In response to this uncertainty, and anticipating that this would be likely to become required practice across the sector, a maximum 200% cap was included in our remuneration policy (which was approved in advance of any clarification from the regulator regarding its expectation). Our approach, however, reserved the firm's position regarding fixed salaries until the regulations became clearer.

   The UK regulator has since confirmed that it does not expect smaller banks, including Rathbones, to comply with this capping requirement. In reviewing our remuneration policy, the committee has concluded that this cap has reduced total remuneration levels to an uncompetitive level when compared to peers, who, as non-banks, did not (and were not required to) apply the cap in a similar way.

The committee discussed at length the appropriateness of increasing the maximum opportunity of the EIP in the current environment, recognising the wider sensitivities and market focus on executive pay and the award quantum at this time. We placed considerable emphasis on the importance to shareholders and stakeholders of ensuring that the remuneration arrangements we have in place were sufficiently competitive and appropriate both for current and any future executives.

In order to increase alignment with performance, it was determined that any increase should be applied to the incentive element of the plan (as opposed to fixed pay). In setting the quantum of the award, the committee observed that the proposed package for the executive directors was consistent with the lower quartile of our competitive market. This reflected the committee's desire to balance the need for an award increase with any concerns on pay ratcheting and/or excessive focus on benchmarking. The committee reaffirmed the current five-year holding and vesting provisions associated with all deferred share awards to ensure that executive director interests were aligned for the longer term.

Recognising the wider sensitivities to increasing quantum, the committee was very keen to test the proposal with shareholders as part of a consultation process before finalising its decision. The committee gained a high level of confidence from this process as a significant majority of the shareholders consulted (which covered 50% of our register) understood the changes and were very supportive, noting the context of current relatively modest salary levels and lower leverage compared to other listed peers.

3. Increase in the weighting of performance metrics linked to both the long-term and financial performance, whilst removing personal objectives

In the consultation process, some shareholders did highlight a desire for a greater proportion of the EIP to be based on financial metrics only, to ensure that only a similar proportion of the total EIP award as a percentage of base salary could be earned from the non-financial components. We have accordingly amended the weightings of our performance measures to reduce the non-financial weighting and have removed the personal component altogether.

The personal objective element (20%) has been replaced with a 5% increase in the strategic element, a 5% increase to the short-term financial metrics and a 10% increase to the long-term financial metrics. Overall, this means the EIP will be 80% weighted towards financial metrics, of which 50% are weighted to long-term. This, combined with the five-year deferral and full restriction on share sales over this period, means a significant portion of this plan is measured over eight years. In removing the personal element, the committee noted the tension between investors' desire for less subjectivity and the desire of UK regulators to align conduct with remuneration.

Our policy requires that a minimum of 70% of the EIP will be based on financial performance measures. This is to ensure that the committee has maximum flexibility to change the weightings of these different elements as appropriate. This is important, recognising that we are coming towards the end of our current five-year strategy planning period and require an incentive structure which can support any refinements of our strategy in 2019. We would consult with shareholders before making any changes to the weightings as they have been implemented for 2018.

4. Other changes

In order to align to best practice and the expectations of our shareholders, the current shareholding requirements applied to our executive directors will increase to 200% from the current 100% of base salary. In addition, new post-cessation holding requirements will also apply, requiring our executive directors to continue to meet the shareholding requirements in full for at least one year post-cessation, and to continue to meet 50% of the shareholding requirements for the second year post-cessation.

In light of other changes, the committee felt it appropriate to reduce the maximum policy level of pension contributions for the executive directors from 14% of base salary to 12%. This change aligns more closely to the maximum level of pension contributions of the majority of our wider workforce.

Our new remuneration policy will have immediate effect, subject to approval from our shareholders.

Further detail on the new remuneration policy and more detail on these changes can be found on pages 86 and 91, respectively.

Fees and salaries

The 2018 budget for salary increases across the company is set at around 3.5%. In setting directors' remuneration, the committee takes into account the pay and employment conditions of all our employees, the performance of the firm and the views of shareholders and their representatives. Remuneration arrangements at other firms of similar size and complexity are also reviewed for guidance. The committee will continue to use a number of reference points to determine future pay structure, quantum and peer group positioning for executive directors and members of the executive committee.

Conclusion

I hope that you find the information in this letter and sections of the directors remuneration report clear and useful. The remuneration landscape continues to be the subject of many political and regulatory policy changes and, as these evolve, the committee will ensure that our policy and practices change to be compliant, balancing the need to remain performance-driven and competitive. I welcome any feedback you may have during the year and hope to receive your support for the approval of the remuneration policy.

Sarah Gentleman
Chairman of the remuneration committee

21 February 2018

Where to find relevant information

Governance

Remuneration outcomes for 2017

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.

Overview of our 2017 remuneration framework

Key features

Salary

- The core, fixed component of the package is designed to enable the recruitment and retention of high-calibre individuals (no increase for the last three years for the executive directors)

Pensions and benefits

- Defined contribution benefit or a fixed maximum pension allowance

Shareholding requirement

- Executive directors and executive committee members are required to build and maintain a shareholding of at least 100% of base salary

EIP

- One variable pay plan with annual and long-term measures
- Balanced scorecard approach linked to strategic and financial targets
- Aligns the interests of shareholders and directors with long-term value creation
- Five year deferral period for each award
- Malus and clawback provisions

To read about our remuneration policy, please see page 88

EIP performance targets

One-year financial (25% of award)
– 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

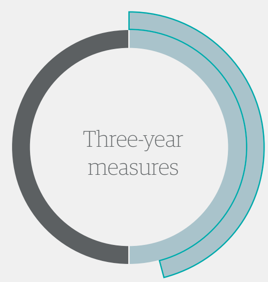
Three-year financial (40% of award)
– Compound annual growth in EPS over three years
– Average ROCE over three years

Non-financial metrics (15% of award)
– Performance relating to delivery of strategic objectives
– Assessed and approved by remuneration committee

Personal performance metrics (20% of award)
– Personal performance against annual objectives
– Approved by remuneration committee

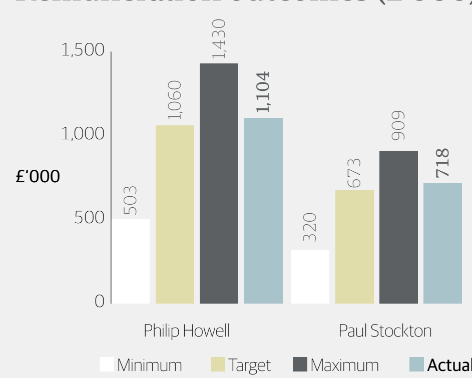
EIP achievement summary 2017

	% of salary	Achieved
Annual profit before tax	8.34%	8.34%
Total net organic growth	8.33%	–
Underlying profit margin	8.33%	8.33%
Non-financial strategic measures	15.00%	11.00%



		Achieved
Underlying ROCE average	20%	18.4%
EPS growth	20%	0%

Remuneration outcomes (£'000)



Our new remuneration policy

A summary of the proposed changes to our policy is provided below.

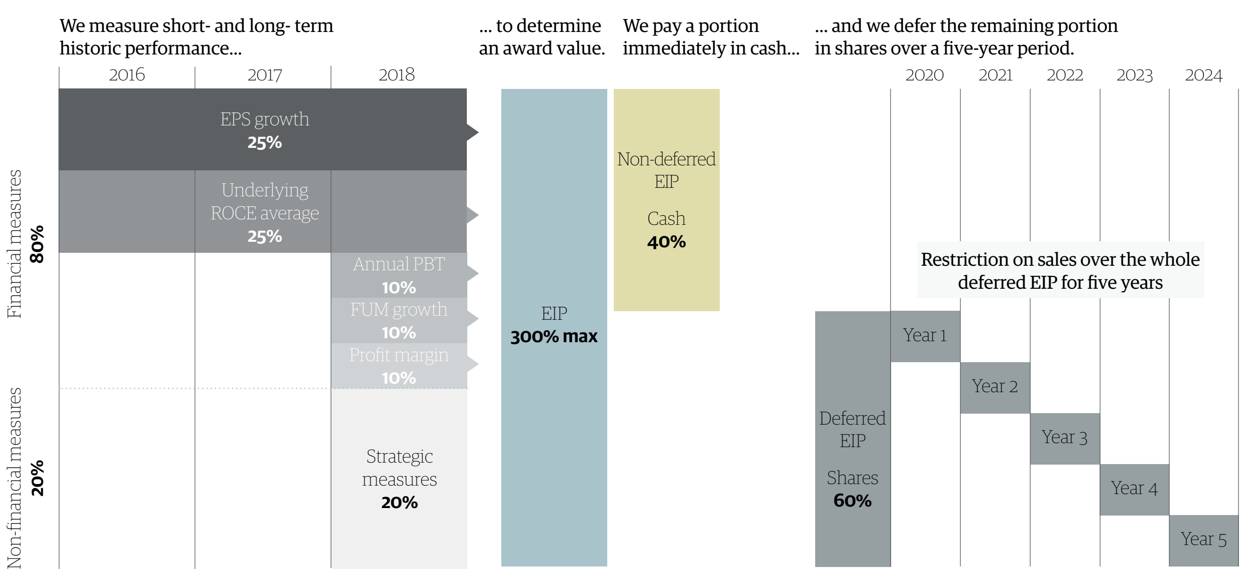
	Current policy	Proposed policy
Fixed remuneration		
Salary	Reviewed annually on 1 January. % increases are normally in line with wider workforce.	No change.
Benefits	Additional benefits set by the committee and make up a small percentage of total remuneration costs.	No change.
Pension	Maximum 14% of base salary.	Maximum reduced to 12% of base salary.
Variable remuneration		
Maximum opportunity	200% of base salary.	Maximum increased to 300% of base salary.
Deferral	60% deferred into Rathbones shares for five years.	No change.
Retention period	Vested deferred shares cannot be sold until five years post-award.	No change.
Performance measures	The level of EIP awarded depends on a robust assessment of performance, weighted as follows: 25% - 1-year financial measures 40% - 3-year rolling financial measures 15% - non-financial strategic measures 20% - personal performance measures.	Changes in weightings are as follows: – no less than 70% based on financial measures. The remainder will be based on non-financial performance measures – at least 50% based on long-term financial performance – removal of personal performance objectives.
Malus/clawback	Applied in certain circumstances.	No change.
Other		
Shareholding requirements	100% of base salary within five years of appointment. No post-cessation holding.	Increased to 200% of base salary within five years of appointment. Retain 200% of base salary in the first year post-cessation and 100% of base salary in the second year post-cessation.
Disclosure	In line with regulatory requirements.	Will prospectively disclose the range of performance that will give rise to threshold and maximum vesting.

How the implementation of our new policy in 2018 supports our strategic priorities

EIP measures	Strategic target	Weighting
Financial – 1 year Annual profit before tax Total net organic growth in funds under management (FUM) Underlying operating margin	Earnings growth	30%
Financial – 3 year EPS growth Underlying ROCE average	Earnings growth	50%
Non-financial strategic	Quality service, Earnings growth, Employee value	20%

Quality service See page 18
Earnings growth See page 19
Employee value See page 20

How does the EIP work and how will performance be assessed for 2018?



Directors' remuneration policy

The directors' remuneration policy ('Policy') outlined below includes the proposed changes set out in the remuneration committee chairman's annual statement, and describes the policies, principles and structures that guide the remuneration committee's decisions on executive remuneration. If approved at the AGM in May 2018, it will apply for a period of three years from the date of the 2018 AGM unless a revised Policy is put to shareholders before then.

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 a competitive 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 is significantly below market median and is being brought into line.	Not applicable.	Not applicable.

Benefits

Purpose and link to strategy	Operation	Opportunity	Applicable performance measures	Recovery
Benefits are typically provided to directors to be generally consistent with other employees and to complement the remuneration package to ensure that it is sufficiently competitive.	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 committee has the discretion to make changes to its EIP policy where required under regulations.	The maximum EIP award is 300% of base salary. Target performance is 60% of maximum. Threshold performance is 25% of maximum. Actual awards for performance above or below target performance are calculated on a straight-line basis between threshold and maximum.	The EIP is based on the remuneration committee's assessment of financial and non-financial performance against a balanced scorecard of measures, which are aligned to the company's strategy. No less than 70% of the EIP will be based on financial measures. The remainder will be based on non-financial performance measured against strategic objectives. At least 50% of the EIP will be based on long-term financial performance. 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. **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.	All unvested awards will normally lapse on termination of office unless the termination was as a 'good leaver'. A good leaver is a director who leaves on retirement, due to injury or disability, on the sale of the business or in any other circumstances where the committee determines good leaver treatment is appropriate in relation to the malus/clawback there is a slight misalignment between the policy and the provisions of the rules. The rules provide that malus/clawback can be applied at any time up to 7 years from the date of grant in the case of share awards and 7 years from the payment of cash on cash awards. The vesting schedule for the share awards is 20% p.a. over 5 years. The policy provides that clawback can be applied up to 3 years from vesting. In all but the 5th tranche of share awards, the rules grant the power to effect the clawback in line with the terms of the policy (the rules actually give more power but the remuneration committee could choose not to exercise it if to do so would be more onerous than the policy). The last tranche of the share awards could, in theory (under the policy), be clawed back up to 8 years from the date of award. This is wider than the power given under the rules so it would be necessary to change the rules to ensure that the policy could be complied with. As this would be a detrimental change to participants, it could be made without shareholder approval being required.

Directors' remuneration policy continued

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 pension arrangement such as a self-invested personal pension (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 12% of salary. This is in line with the maximum personal pension or allowance payment for the majority of other employees.	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 1 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.

Key changes to the remuneration policy

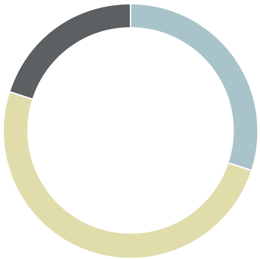
The new Policy for which approval is being sought at the AGM in May 2018 is similar in structure to the Policy that was previously approved by shareholders at the 2015 AGM. As such, we propose to maintain the structure of our variable award, but as amended by the changes set out in the table below.

Remuneration elements	Aspect	Overview of changes	Rationale
Executive Incentive Plan	Maximum opportunity	Increase from 200% to 300%	To ensure that maximum opportunity levels of the current executive directors remain competitive following the clarification of UK bank regulations.
Executive Incentive Plan	Nature of performance measures Weightings of performance measures	Removal of the personal performance element, to be replaced with a 5% increase to the strategic element, a 5% increase to the short-term financial metrics and a 10% increase to the long-term financial metrics Performance weightings are now 80% derived from financial outcomes (was 65%), with the remaining 20% assessed against strategic objectives.	To orientate awards more objectively towards financial performance overall with now a 50% weighting linked to the longer term.
Pension contributions	Maximum opportunity	Reduction from 14% to 12%	To align the Policy more closely with the majority of other employees.
Shareholding requirements	Level of shareholding	Increased from 100% to 200%	To align to emerging best practice and to increase alignment with shareholder interests.
Shareholding requirements	Post-cessation holding	Introduced for the first time. A requirement for executive directors to retain 200% of base salary in the first year post-cessation in shares and 100% of base salary in the second year post-cessation.	To align to emerging best practice and to increase alignment with shareholder interests.

Definition of performance metrics

The EIP performance metrics chosen by the committee are key indicators of performance used by the business and shareholders which are detailed below.

Executive Incentive Plan weighting



One-year financial	30%
Three-year financial	50%
Non-financial metrics	20%

a) One-year financial measures: incentivises the delivery of strong financial performance for our shareholders in the relevant financial year
b) Three-year financial measures: aligns the delivery of strong, sustainable financial performance for our shareholders over the longer term
c) Non-financial measures: links executive performance to the delivery of key strategic initiatives and projects that support the firm's business plan

The committee reviews the specific choice of performance metrics for the EIP on an annual basis at the beginning of each financial year to ensure that the nature and weighting of these remain appropriate to ensure alignment between the interests of our executive directors, our business strategy and the interests of our clients and shareholders. Further detail on how the specific choice of measures for the 2018 EIP links to our strategic goals is provided on page 87.

The targets for these measures are considered annually by the committee and are set to encourage stretching levels of performance without inadvertently motivating inappropriate behavior. Rathbones will prospectively disclose the target ranges for three-year financial measures, but will not disclose any of the one-year measures on a prospective basis as these are considered commercially sensitive (however actual performance against these will be retrospectively disclosed).

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 adjust retrospectively 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 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 awards of variable remuneration and, in relation to an award over shares, the associated terms agreed at the time the award is granted.

Consultation

The company consulted extensively with major shareholders and their representative bodies on remuneration issues, including in the development of this new directors' remuneration Policy. While we did not consult explicitly with employees on this new Policy, the committee took account of remuneration policies elsewhere in the group.

Appointment of new directors

For new executive and non-executive directors, the structure of the package offered will mirror that provided to current directors under the new directors' remuneration Policy. 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. Any future variable award will be made within the 300% maximum (subject to shareholder approval).

The company may pay compensation to new directors for remuneration the individual has forfeited in order to take up the role with Rathbones. Rathbones will ensure that these awards are no more generous in either amount or terms than the awards they replace. These awards may be structured differently from awards made under our standard directors' remuneration Policy in order to best reflect the remuneration being forfeited.

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 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. 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 and these are available for inspection at the AGM. 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.

Payments for loss of office

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.

Any entitlement to EIP awards will depend on whether the individual is treated as a good or bad leaver, in line with the table below.

Status	Definition	Treatment
Good leaver	Leave for reasons including retirement, ill health, sale of the business and any other reason as the committee determines.	All unvested awards will be delivered in line with the existing vesting schedule. Awards in the year of departure will be made at the discretion of the committee depending on the circumstances at the time and, if made, will be reduced to reflect time served
Bad leaver	Leave for other reasons unless the committee determines otherwise.	All unvested awards will normally lapse.

Other directorships

The board believes that the firm can benefit from experience gained when executive directors hold non-executive directorships. Executive directors are permitted to hold external appointments and to receive payments, provided such appointments are agreed by the board in advance, there no conflicts of interests and the appointment does not lead to deterioration in the executive's performance.

Consideration of remuneration across the firm

The committee provides oversight of remuneration structures across the firm, including members of the group executive committee, material risk takers and the risk and compliance teams. In addition, the committee reviews on an annual basis total remuneration costs across the firm in light of its short- and longer-term financial targets and ongoing sustainability.

The committee is well aware of the remuneration structures across the firm and takes these into consideration when taking decisions on remuneration for executive directors.

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 unwinding 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 committee members are eligible to benefit from membership of an EIP.

Annual report on remuneration

This part of the directors' remuneration report explains how we have implemented our remuneration policy during the year in line with the remuneration policy that was approved by shareholders at the 2015 AGM. This annual report on remuneration will be subject to an advisory vote at the 2018 AGM. The financial information in this part of the directors' remuneration report has been audited where indicated.

Role of remuneration committee

The role of the committee is to set the overarching principles of the remuneration Policy and provide oversight on remuneration across the firm. Details of the committee's responsibilities and composition are detailed above. At the invitation of the committee chairman, the chief executive, finance director and the head of strategy and organisation development attend some or all of each meeting. The chief risk officer also advises the committee on matters relating to remuneration and attends meetings as required. The company secretary acts as secretary and, with the chairman, agrees the agenda for each meeting.

At the end of each meeting, there is an opportunity for private discussion between committee members without the presence of management. No committee member or attendee is present when matters relating to his or her own remuneration are discussed.

Committee activity in 2017/18

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

February 2017

- Review annual risk report on variable pay targets to ensure alignment with the firm's risk appetite
- Assess and approve 2016 EIP award for executive directors and members of the executive committee
- Review and approve EIP performance measures for 2017
- Assess and approve Long Term Incentive Plan award for 2016
- Review and approve the directors' remuneration report for shareholder approval

May 2017

- Annual review of remuneration for material risk takers across the firm
- Review and discuss shareholder and proxy agency feedback on the directors' remuneration report
- Review executive directors and members of the executive committee's shareholding requirement levels against market practice
- Review regulatory developments on remuneration and their implications on the firm

October 2017

- Review remuneration landscape and implications on executive remuneration
- Review progress against financial and non-financial EIP targets for the current year
- Review and debate potential changes to the remuneration policy and structures
- Appointment of new remuneration consultants

December 2017

- Review and approve executive director salaries for 2018
- Review progress against financial and non-financial EIP targets for 2017
- Agree remuneration policy ahead of shareholder consultation
- Approval of the committee's terms of reference

January 2018

- Consultation with major shareholders and representative bodies on new remuneration policy
- Finalise remuneration policy following shareholder feedback
- Review annual risk report on variable pay targets to ensure alignment with the firm's risk appetite
- Assess and approve 2017 EIP award for executive directors and members of the executive committee, and approve EIP performance measures for 2018
- Review and approve the directors' remuneration report for shareholder approval

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

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 December 2017 and the prior year:

	Salary £'000	Taxable benefits and allowances £'000	EIP award for the year – cash £'000	EIP award for the year – unvested deferred shares £'000	Historic LTIP awards £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
P L Howell									
2017	**464**	**2**	**238**	**356**	**–**	**40**	**4**	**–**	**1,104**
2016	464	2	244	365	279	40	4	–	1,398
R P Stockton									
2017	**295**	**13**	**151**	**226**	**–**	**25**	**5**	**3**	**718**
2016	295	13	155	232	177	25	4	1	902

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

Executive directors' salaries

Salaries have not been increased since 1 January 2015.

Taxable benefits

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

Executive Incentive Plan (EIP) (audited)

The EIP was approved by shareholders at the 2015 AGM, replacing both an annual bonus scheme and a Long Term Incentive Plan which fully vested in 2017. The overall maximum award level achievable under the existing Policy is 200% of base salary, with 60% of awards made in deferred shares, which must be held for a minimum period of five years.

Executive Incentive Plan award 2017

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 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%	41.3	45.9	50.5	**58.9**	**16.68%**
Total net organic growth in funds under management (%)	16.66%	5.6	6.2	6.8	**5.2**	**0.00%**
Underlying operating margin (%)	16.66%	25.5	27.0	28.5	**30.6**	**16.66%**
	50.00%					**33.34%**

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

Annual report on remuneration continued

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%	6.0	9.0	12.0	**0.9**	**0.00%**
ROCE average (%)	40.00%	16.6	18.1	19.6	**19.3**	**36.80%**
	80.00%					**36.80%**
Total	130.00%					**70.14%**

3) Non-financial strategic

The non-financial strategic measures are designed to drive strategic goals. Details of the performance measures, assessment and outcomes are detailed below:

Strategic objective	Objective	Performance in 2017	Extent to which objective has been met
Quality service	– Develop the investment process to support investment team decisions and drive positive portfolio outcomes – Deliver key projects, to better evaluate client attitudes to risk, improve communication and manage investment team capacity and efficiency – Selectively add complementary service offerings that can help support and grow the core investment service	– Enhancements to suitability processes were supported by the migration of our client relationship management system and delivery of a client risk assessment tool – Plans for a new client relationship management system are well progressed – Output from the research team improved as did performance monitoring processes – 33 projects were completed during the year. Complex MiFID II (Markets in Financial Instruments Directive) changes delivered on time and progress on IT infrastructure plans was demonstrated – The internal financial planning proposition was launched with adviser recruitment as planned – Rathbone Private Office infrastructure was put in place	A lot has been achieved in 2017 but technology and process design delays impaired the timing of delivery of some client suitability process enhancements

Earnings growth	– In addition to the financial targets set for 2017:
	  – Achieve budgeted funds under management inflows for Vision, Unit Trusts, Charities/Greenbank and the intermediary distribution teams
	  – Establish Rathbone Private Office revenues
	  – Sub-let available space in Curzon Street
		– Charities and Greenbank funds under management grew to £4.7 billion and £1.2 billion respectively
		– Unit Trusts performance continued to be strong
		– Vision funds under management grew higher than expectations to £1.4 billion and other budget growth targets were exceeded
		– Rathbone Private Office sales activity was positive but with lower than expected outcomes
		– Substantial efforts were made to secure prospective tenants in Curzon Street and activity continues into 2018
			Strong financial performance, but recognising that progress on sub-letting and Rathbone Private Office was less than expected

Employee value	– Launch performance based remuneration for investment teams to support efficiency – Deliver on 2017 learning and development plans – Ensure that the London head office move maintains a positive working environment	– Changes to team remuneration schemes have resulted in positive changes within the business – Learning and development plans were delivered – The London head office move to Finsbury Circus was completed with minimal disruption with extensive client use of the new facilities	Fully achieved
Risk conduct and compliance	– Maintain a proactive and effective relationship with regulators committing to maintain high standards in managing conduct and prudential matters	– Engagement with regulators was positive during the year, providing comprehensive responses to three FCA questionnaires with positive engagement on PRA evaluation processes – No material issues have been identified by the risk or audit committees during 2017 – Investment coverage by the research team has been enhanced – A Risk Culture dashboard is in place and was formally presented twice to the board during 2017 – Client complaints were promptly investigated and continue to be very small	Fully achieved

The committee concluded that an overall score for this element of the EIP of 11% out of a maximum of 15% of base salary is merited.

4) Personal performance

Personal performance has been assessed against objectives set at the beginning of 2017 that are appropriate to the directors' roles and responsibilities. The outcomes of this assessment are shown below for each executive director.

Philip Howell

2017 objectives	Assessment
Oversee the delivery of growth initiative targets for Investment Management, Unit Trusts, Vision and other services within risk appetite	●
Enhance the quality of research output and portfolio monitoring capabilities	●
Continually review and assess the progress on key business projects, particularly ensuring that regulatory project deadlines are met	◕
Maintain a robust risk conduct culture fostering effective relationships with PRA and FCA	●
Sponsor the development of senior management team and oversee the delivery of people development plans	●
Total achieved	**18%**

The committee's assessment of the 2017 overall performance for Philip Howell was that he had performed well and largely achieved his objectives, but some adjustment was necessary to reflect technology and process design delays in delivery of some important process enhancements. A summary of Philip Howell's total award for 2017 is presented below:

Target	Weighting	Award achieved
Financial – 1 year total	25%	16.67%
Financial – 3 year trailing	40%	18. 40%
Non-financial strategic measures	15%	11.00%
Personal performance	20%	18.00%
Total award		**64.07%**

Assessment key

- ● Achieved
- ◕ Largely achieved
- ◑ Partially achieved
- ○ Not achieved

Paul Stockton

2017 objectives	Assessment
Respond to changes in financial and regulatory reporting standards to ensure that external and internal financial outputs remain insightful, accurate and timely	●
Ensure that the financial outcomes of key 2017 projects are monitored carefully to ensure that underlying operating margin targets are met	◕
Upgrade financial performance systems to improve efficiency and transparency and support remuneration changes	●
Ensure that the banking and treasury function operates within risk appetite whilst taking advantage of opportunities to grow the amount lent to clients	●
Closely manage the capital impacts associated with the closure of defined benefit schemes	●
Total achieved	**18%**

The committee's assessment was that Paul Stockton's performance had largely met his objectives in 2017, but some adjustment was necessary for the technology and process design delays in the delivery of some important process enhancements. A summary of Paul Stockton's total award for 2017 is presented below:

Target	Weighting	Award achieved
Financial – 1 year total	25%	16.67%
Financial – 3 year trailing	40%	18.40%
Non-financial strategic measures	15%	11.00%
Personal performance	20%	18.00%
Total award		**64.07%**

Annual report on remuneration continued

Pensions

Philip Howell and Paul Stockton are paid a cash allowance of 8.62% of salary and neither are in receipt of a defined benefit pension.

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

Share Incentive Plan (SIP)

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

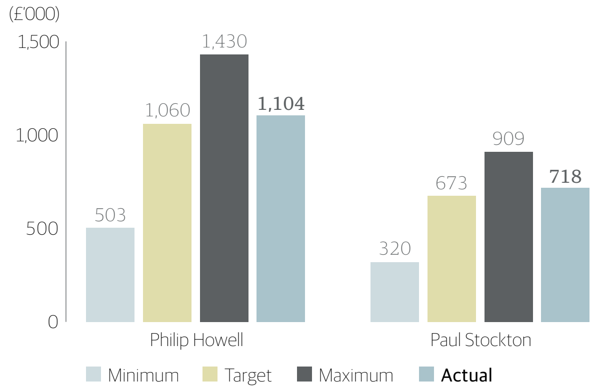
Save As You Earn (SAYE)

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

Remuneration outcomes under different performance scenarios

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

Value of package (£'000)



Directors' interests in shares (audited)

The table below sets out details of the directors' shareholdings and outstanding share awards that are subject to vesting conditions:

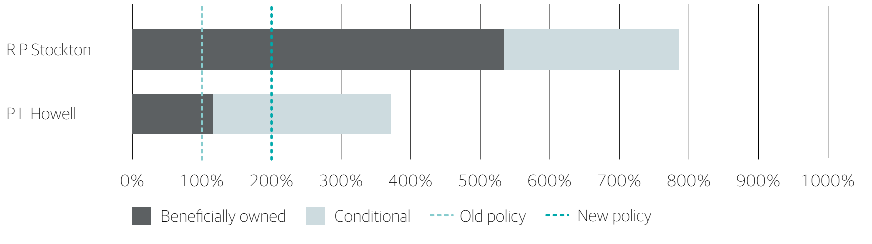
	Beneficially owned shares			Subject to relevant holding period				
Executive directors	Private shares	SIP[1]	Total	EIP	Deferred profit scheme	SIP (not yet beneficially owned)[1]	SAYE	Total
P L Howell	20,399	511	20,910	31,490	12,434	438	2,299	46,661
R P Stockton	59,188	2,480	61,668	19,886	7,478	595	983	28,942
	79,587	**2,991**	**82,578**	**51,376**	**19,912**	**1,033**	**3,282**	**75,603**

1. SIP matching and free shares held for less than three years may be forfeited in certain circumstances and so are not considered to be beneficially owned

Shareholding guidelines

In order to align the interests of executive directors and shareholders, with effect from 1 January 2018, the executive directors are required to acquire and retain a holding in shares or rights to shares equivalent to the value of 200% of basic salary within five years of the date of appointment, or the date of adoption of the policy. Shares that count towards these guidelines include shares that are owned outright, vested and not exercised EIP and SIP awards. Philip Howell and Paul Stockton have both achieved this target. The chart below compares the values of each executive director's shareholding for this purpose as at 31 December 2017 with the shareholding required:

Share ownership versus policy



Executive Incentive Plan

Executive directors	Grant date	Type of security	Face value of award at grant[1] £	At 1 January 2017: Number of unvested securities	During 2017: Securities granted[2]	During 2017: Vested but unexercised (subject to sales restriction period)	At 31 December 2017: Unvested securities	At 31 December 2017: Vested but unexercised (subject to sales restriction period)	Normal exercise date (end of sales restriction period)[3]
P L Howell									
	22/03/2016	Nil paid options	434,670	**19,491**	**–**	**3,898**	**15,593**	**3,898**	**22/03/2021**
	22/03/2017	Conditional shares	365,201	**–**	**15,897**	**–**	**15,897**	**–**	**21/03/2022**
R P Stockton									
	22/03/2016	Nil paid options	272,722	**12,229**	**–**	**2,446**	**9,783**	**2,446**	**22/03/2021**
	22/03/2017	Conditional shares	232,105	**–**	**10,103**	**–**	**10,103**	**–**	**21/03/2022**

1. Exercise price is nil
2. The number of shares awarded is calculated based on the 20 day average share price on the day prior to grant. Share price on award was £22.97
3. Awards vest in five equal tranches (1, 2, 3, 4 and 5 years from grant). All shares must be held until the fifth anniversary of the grant (the normal exercise date). There are no further performance conditions on these shares

Long Term Incentive Plan

Executive directors	Plan cycle	Grant date	Market value of shares at date of grant	Performance period end date	Vesting date	Number of shares: At 1 January 2017	Number of shares: Dividend adjustment on vesting	Number of shares: Exercised in 2017	Number of shares: Lapsed in 2017	Number of shares: At 31 December 2017
P L Howell										
	2014/16	25/03/14	£17.37	31/12/16	25/03/17	**19,436**	**1,568**	**14,072**	**6,932**	**–**
R P Stockton										
	2014/16	25/03/14	£17.37	31/12/16	25/03/17	**12,352**	**994**	**8,941**	**4,405**	**–**
Total						**31,788**	**2,562**	**23,013**	**11,337**	**–**

Governance

Annual report on remuneration continued

Deferred profit share scheme

Executive directors	At 1 January 2017	Vested in 2017	Dividend adjustment in 2017	At 31 December 2017
	Number of shares			
P L Howell				
2013	–	–	–	–
2014	**12,151**	–	**283**	**12,434**
	12,151	–	**283**	**12,434**
R P Stockton				
2013	**9,654**	**9,654**	–	–
2014	**7,308**	–	**169**	**7,477**
	16,962	**9,654**	**169**	**7,477**
Total	**29,113**	**9,654**	**452**	**19,911**

Share Incentive Plan

	At 1 January 2017	During 2017				At 31 December 2017
	Total number of SIP shares[1]	Partnership shares acquired	Matching shares acquired	Dividend shares acquired	Free shares received	Total number of SIP shares[1]
P L Howell	**743**	**88**	**88**	**18**	**12**	**949**
R P Stockton	**2,820**	**88**	**88**	**67**	**12**	**3,075**
Total	**3,563**	**176**	**176**	**85**	**24**	**4,024**

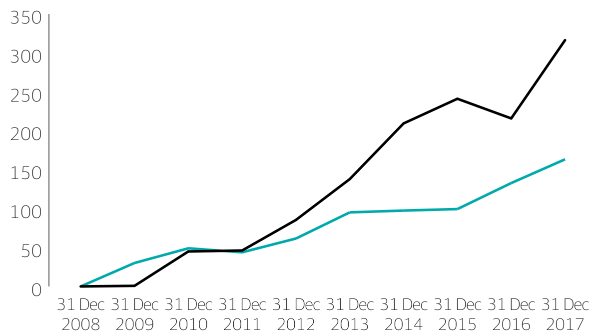
1. SIP matching and free shares held for less than three years may be forfeited in certain circumstances and so are not considered to be beneficially owned

Save As You Earn outstanding options

Executive directors	Grant date	At 1 January 2017	Granted in 2017	Exercised in 2017	Lapsed in 2017	At 31 December 2017	Earliest exercise date	Latest exercise date	Market price on grant (p)	Exercise price (p)
		Number of shares								
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										
	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
	28/04/17	–	**710**	–	–	**710**	01/06/20	01/12/20	2,373	1,899
Total		**3,439**	**710**	**867**	–	**3,282**				

Performance graph (unaudited)

The chart below shows the company's TSR against the FTSE All Share Index for the nine years to 31 December 2017. 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.



Chief executive officer single figure (unaudited)

During the nine years to 31 December 2017, 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 vesting as % of maximum opportunity
2017	**Philip Howell**	**1,104**	**64**	**–**
2016	Philip Howell	1,398	66	67
2015	Philip Howell	1,608	78	100
2014	Philip Howell	999	89	n/a
2014	Andy Pomfret	342	n/a	96
2013	Andy Pomfret	1,204	59	100
2012	Andy Pomfret	1,046	38	100
2011	Andy Pomfret	678	46	–
2010	Andy Pomfret	736	52	24

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

The table below shows the percentage year-on-year change in salary, benefits and bonus in 2017 for the chief executive compared with the average Rathbones employee.

	Salary	Benefits	Annual bonus
CEO	**–**	**–**	**(2%)**
Average pay based on all Rathbones' employees	**(1%)**	**13%**	**32%**

Chairman and non-executive directors' fees (audited)

Fees paid to the non-executive directors were not increased in 2017 with no increase for the 2018 financial year. Any future increases will depend upon a rigorous assessment of the burden of responsibilities and market rates.

	2017 £'000	2016 £'000
Chairman		
M P Nicholls	**160**	160
Non-executive directors		
J W Dean	**60**	60
J N Pettigrew	**45**	–
S F Gentleman	**56**	50
K A Matthews	**60**	60
D T D Harrel	**26**	70
Total	**407**	400

Non-executive directors' share interests

The interest of the directors in the ordinary shares of the company are set out below:

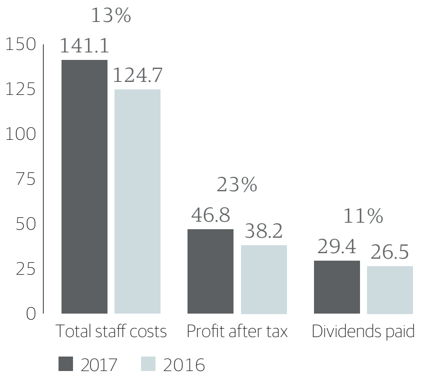
	Private shares	SIP	Total
Chairman			
M P Nicholls	**3,000**	**749**	**3,749**
Non-executive directors			
J W Dean	**1,000**	**–**	**1,000**
S F Gentleman	**–**	**–**	**–**
K A Matthews	**–**	**1,260**	**1,260**
J N Pettigrew	**–**	**–**	**–**
Total	**4,000**	**2,009**	**6,009**

Governance

Relative importance of spend on pay

The chart below shows the relationship between total employee remuneration, profit after tax and dividend distributions for 2017 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 2018

In 2018, the remuneration policy will be applied in a similar way to 2017, albeit with the changes to reflect the new directors' remuneration policy outlined above if approved. Salary adjustments awarded to executive directors for 2018 are noted below.

Salary

The executive directors' salaries for 2018 is noted below. These are in line with the awards made to the general employee base. Paul Stockton's salary increase reflects his performance and contribution to the role.

	Salary effective 1 January 2018	Salary effective 1 January 2017	% increase
Chief Executive	£477,920	£464,000	3%
Finance Director	£309,750	£295,000	5%

Pensions and benefits

Pensions and benefits will be delivered in line with the remuneration policy. Pension benefits for the year will be 12%, which is in line with the new maximum opportunity of 12%.

EIP 2018 – forward looking targets

The 2018 EIP (which would be awarded in 2019), subject to performance, will be delivered in line with the new remuneration policy, which allows for a maximum award level of 300% of base salary. While the committee is able to make awards up to this new maximum award level, actual award levels will continue to be determined by the committee based on a robust assessment of performance during the 2018 performance year.

Incentive awards under the EIP will continue to be linked to a scorecard of short and longer term financial metrics, and annual objectives covering financial and non-financial criteria. Annual targets set for 2018 will take into account the amount of expenditure and investment approved by the board in the 2018 budget to develop the business and support its growth initiatives. The committee will not, at this time, disclose any of the remaining one year measures on a prospective basis as these are considered commercially sensitive (however actual performance against these will be disclosed).

Whilst recognising the potential volatility associated with investment markets and its direct impact on the financial outcomes for Rathbones, the committee believes earnings per share and underlying ROCE measures continue to be appropriate measures to use when assessing longer term performance targets.

Long term targets for the 2018-20 award period, have accordingly been set as outlined in the table below. When establishing performance ranges for these targets, the committee has been particularly mindful of the historic performance of the business in different market conditions, the continuing need for investment in the business and the increase in regulatory capital buffers in 2018 and 2019 required by Capital Requirements Regulations (see pages 38 to 41).

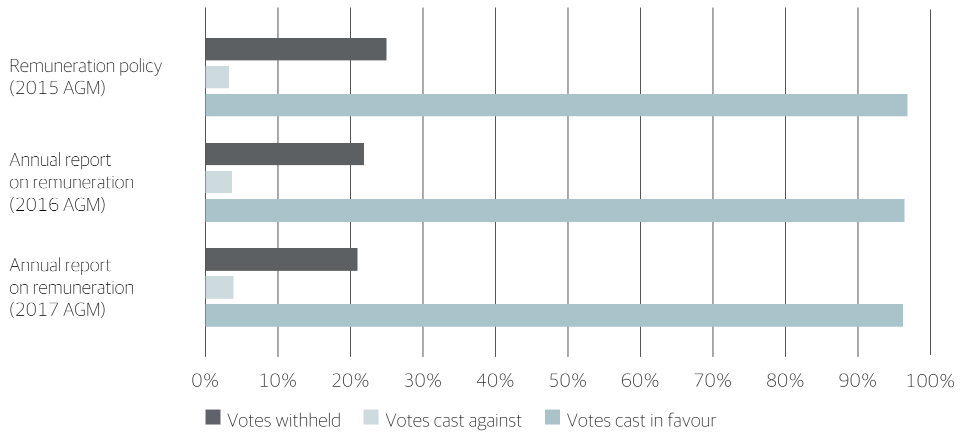
Performance measure	Threshold	Maximum
Three year CAGR EPS	5%	15%
Three year underlying average ROCE	14%	20%

In respect of the two open-award years to 31 December 2019, the committee has set a threshold and maximum of 4% to 14% respectively for the three year EPS performance measure, and 14% to 20% for three year underlying ROCE. The committee may also make adjustments to performance targets to reflect significant one-off events (e.g. a material transaction), where considered appropriate and reasonable. Clear disclosure will be provided in this instance regarding the nature and materiality of any change in the directors' remuneration report for the relevant financial year.

Statement of shareholder voting

At the 2015 AGM, shareholders approved the directors' remuneration policy, to apply for three years from the date of the AGM. At the 2017 AGM, shareholders approved the remuneration report that was published in the 2016 Annual Report and the results are detailed below:

Votes on Remuneration



	Annual report on remuneration (2017 AGM)	Annual report on remuneration (2016 AGM)	Remuneration policy (2015 AGM)
Votes cast in favour	96.2%	96.4%	96.8%
Votes cast against	3.8%	3.6%	3.2%
Total votes cast	79.0%	78.2%	77.7%
Votes withheld	1,268,045	210,393	1,373,106

Advisers to the committee and their fees

During the year, the remuneration committee reviewed its consultants and received proposals from a number of firms. After a selection process, PwC were appointed as advisers to the committee in August 2017. They are members of the Remuneration Consultants Group and advise the committee on a range of matters including on remuneration package assessments, scheme design and reporting best practice. PwC also provide professional services in the ordinary course of business, including advisory work to the group. The committee is of the opinion that the advice received is objective and independent. PwC's fees are charged on a time cost basis and were £71,400 in 2017. The appointment of advisers is reviewed annually.

Evaluating the performance of the committee

The annual evaluation of the committee's effectiveness was undertaken as part of the board's external evaluation process. The findings were discussed with the committee's chairman and additional information can be found in the corporate governance report.

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

Sarah Gentleman
Chairman of the remuneration committee

21 February 2018

Group results and company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2017 was £46,829,000 (2016: £38,157,000). The directors recommend the payment of a final dividend of 39.0p (2017: 36.0p) on 14 May 2018 to shareholders on the register on 20 April 2018. An interim dividend of 22.0p (2016: 21.0p) was paid on 3 October 2017 to shareholders on the register on 8 September 2017. This results in total dividends of 61.0 (2016: 57.0p) per ordinary share for the year. These dividends amount to £30,429,000 (2016: £28,267,000) – 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 2017, 51,302,074 shares were in issue (2016: 50,682,679). No shares were held in treasury (2016: 8,979). 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 16,894,680 shares (approximately one third of the issued share capital at 31 March 2017). The existing authorities given to the company at the last annual general meeting (AGM) to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolutions renewing these authorities are included in the Notice of AGM.

Awards under the company's employee share plans are satisfied from a combination of shares held either in treasury or in the employee benefit trust and by newly issued shares. During the year, the company transferred 8,979 shares out of treasury for a total consideration of £160,000, issued 181,712 shares to satisfy share awards and issued 437,683 shares to the company's employee benefit trust, to satisfy future awards under the group's share-based payment schemes.

Purchase of own shares

Following the 2017 AGM, resolution to purchase own shares, the board currently has the authority to buy back up to 2,500,000 shares under certain stringent conditions. During the year, the company did not utilise this authority but the board considers it would be appropriate to renew it. We intend to seek shareholder approval for the continued authority to purchase own shares at the forthcoming AGM in line with current investor sentiment.

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

Corporate governance statement

As required by Disclosure and Transparency Rule 7.2, you can find our corporate governance statement in the governance report on pages 58 to 67 and it is incorporated into this directors' report by reference.

Appointment and removal of directors

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

Employee share trust

During the year Accuro Fiduciary Services (Jersey) Limited (formerly Salamanca Trustees Limited) retired as trustee of the first employee benefit trust.

On 4 April 2017, Equiniti Trust (Jersey) Limited were appointed as trustee of the second employee benefit trust. The trust is independent and holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy awards under the Executive Incentive Plan, Share Incentive Plan and the Savings Related Share Option Plan. As part of these arrangements, the company issued shares to the trust to enable the trustee to satisfy these awards. Further details are set out in note 29 to the financial statements. During the year, the number of shares issued by both trustees totaled 99,725 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 62 to 63. The directors' interests in the share capital of the company at 31 December 2017 are set out on pages 98 to 101 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 46 to 49.

Corporate responsibility

Information about greenhouse gas emissions and our corporate social responsibility are set out in the corporate responsibility report on pages 50 to 53.

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 2017 and remain in force at the date of this report.

Substantial shareholdings

As at 31 December 2017, the company had received notifications in accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 5, of the following interests:

Shareholder	Holding at 21 Feb 2018	% held at 21 Feb 2018
Lindsell Train Ltd.	7,099,014	13.84%
MFS Investment	4,293,793	8.37%
Mawer Investment Management Ltd.	4,021,545	7.84%
Aviva Investors	1,914,423	3.73%
Troy Asset Management	1,795,500	3.50%
Heronbridge Investment Management	1,563,256	3.05%

Share price

The mid-market price of the company's shares at 31 December 2017 was £25.54 (2016: £19.83) and the range during the year was £19.79 to £28.12 (2016: £15.90 to £23.59).

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 2018 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 herselfaware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

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

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

In 2017, 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 (2016: 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 comprise the management report.

Annual General Meeting

The 2018 AGM will be held on Thursday 10 May 2018 at 12.00 noon at 8 Finsbury Circus, London EC2M 7AZ. Full details of all resolutions and notes are set out in the separate Notice of AGM.

By order of the board

Ali Johnson
Company Secretary

21 February 2018

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 2017, and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- state whether they have been prepared in accordance with IFRS as adopted by the EU
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the 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

21 February 2018

Financial statements

1 Our opinion is unmodified

We have audited the financial statements of Rathbone Brothers Plc for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated statement of cash flows, company statement of changes in equity, company balance sheet and company statement of cash flows, and the related notes, including the accounting policies in note 1 and 39.

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 2017 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 (IFRS as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described in the next paragraph. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 9 June 2009. The period of total uninterrupted engagement is for the nine financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recognition and impairment of client relationship intangibles. Amount capitalised during the year £2,743,000 (2016: £7,926,000), amount expensed as capitalisation criteria not met £5,094,000 (2016: £4,005,000) and carrying balance of client relationship intangible £88,511,000 (2016: £97,201,000)

Risk vs 2016:

Refer to page 73 (audit committee report), page 124 (accounting policy) and pages 126 and 140 (financial disclosures).

The risk – accounting application in relation to recognition of client relationship intangibles

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 judgement areas our audit concentrated on were:

- 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; during the year payments were capitalised outside the 12 month earn-out period. 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.

The risk – accounting application in relation to impairment of client relationship intangibles

- For client relationship intangibles, the group assesses whether there is an indication of impairment considering a range of impairment triggers. Where such an indication exists, the group considers whether the ongoing benefits offered by the capitalised client relationship intangibles are greater than their carrying value and, if not, an impairment provision is recorded. There is a risk that a client relationship intangible was impaired but the group did not record an impairment provision because the impairment trigger remained undetected.

Our response

In this area our procedures included:

Accounting application in relation to recognition of client relationship intangibles

- Methodology implementation: we considered whether the payments capitalised fell within the relevant 12 month period by comparing the dates of client transfer and employment contract of the investment manager.
- Tests of details: in respect of those instances where payments were capitalised beyond the 12 month period, for each significant addition we confirmed whether these relationships were held by the investment manager in a previous employment, challenged the group on the nature of the relationship and obtained documentary evidence.
- Independent re-performance: 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.
- Tests of details: on a sample basis we tested that such costs related to relationships already held by the investment manager by obtaining relevant documentation evidencing previous relationship.

Accounting application in relation to impairment of client relationship intangibles

- Independent re-performance: for the element of the client relationship intangibles previously capitalised under IFRS 3 Business Combinations we have critically assessed the group's own review of the client relationship intangibles against impairment triggers.
- Tests of details: in considering the adequacy of the impairment assessment performed by the group to support the carrying value of client relationship intangibles previously capitalised, we assessed the population for closed client accounts or non-income generating clients to assess whether they were appropriately derecognised.

Assessing transparency: we have also considered the adequacy of the group's disclosure in respect of intangible assets.

Our results – we found the recognition and carrying value of client relationship intangibles to be acceptable.

Valuation of defined benefit pension deficit £15,600,000 (2016: £39,455,000)

Refer to page 73 (audit committee report), page 125 (accounting policy) and pages 126, 143 to 148 (financial disclosures).

The risk – subjective valuation

The group and parent company has recognised a pension deficit of £15.6 million as at 31 December 2017.

- The valuation of the defined benefit pension deficit depends on a number of judgemental assumptions and estimates, including: the discount rate used to calculate the current value of the future payments the group expects to pay pensioners, the rate of inflation that must be incorporated in the estimate of the future pension payments, the life expectancy of pension scheme members and the number of members who will transfer out of the schemes. The valuation is an important judgement as this balance is volatile and impacts the parent company's distributable reserves.

  Uncertainty arises as a result of estimates made in respect of long term trends and market conditions to determine the value based on the group's expectations of the future. As a result, the 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.

2 *Key audit matters: our assessment of risks of material misstatement continued*

– The plan assets are not subject to significant risk of misstatement, but due to their materiality in the context of the group's financial statements, they are considered to be part of this key audit matter.

Our response – our procedures include:

– Our actuarial expertise: we used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the pension deficit. The key assumptions and estimates we tested included the number of members who transfer out of the schemes, the discount rate, RPI inflation and life expectancy that were applied to the valuation.

– Benchmarking assumptions: we performed a comparison of key assumptions against externally derived data and our benchmark ranges for similar schemes.

– Methodology choice: we considered the group's judgement in selecting its assumptions and whether there were any indicators of management bias.

– Comparing valuations: we obtained a breakdown of assets held in both defined benefit pension schemes. We used our own valuation specialists to independently verify the value of a sample of the assets held within both schemes.

– Assessing transparency: we considered the adequacy of the group's disclosure in respect of the defined benefit pension deficit and the assumptions used which is set out in note 27 to the financial statements.

Our results – we found the valuation of defined benefit pension deficit to be acceptable.

(New) Measurement of Onerous Lease Provision £11,478,000 (2016: nil)

Risk vs 2016:

Refer to page 73 (audit committee report), page 131 (accounting policy) and pages 126 and 141 to 142 (financial disclosures).

The risk – subjective estimate

The measurement of the onerous lease provision depends on a number of assumptions and estimates. In particular, the value of the provision is sensitive to the underlying key assumptions around future cash flows and discount rates. The key assumptions applied by the group are:

– the discount rates applied;

– the estimated period of time the property remains empty ('void period');

– the period of time a rent-free agreement is offered ('rent-free period'); and

– the level of sub-lease income and the adjustment made in relation to the risk of uncertainty.

In determining the provision, the group obtained advice from independent property specialists. These are estimates made in respect of current market trends and conditions, and the value of the provision is determined by the group's known future costs for the premises and expectations of the potential rental income.

Our response – our procedures included:

– Our property valuation expertise: we used our own property specialists to challenge key assumptions and estimates used in the calculation of the onerous lease provision. This included comparing these assumptions against our specialist's own knowledge of property lettings in the industry, and assessing the reasonableness of the group's assumptions against their benchmark ranges for similar properties in the area.

– Test of details: we tested the accuracy and completeness of key data inputs by reviewing documentation in relation to signed lease agreements.

– Our sector experience: we assessed the reasonability of the discount rate used for both certain and uncertain cash flows.

– Methodology choice: we considered the group's judgement in selecting its assumptions and whether there were any indicators of management bias.

– Assessing transparency: we considered the adequacy of the group's disclosure in respect of the onerous lease provision.

Our results – we found the measurement of the onerous lease provision to be acceptable.

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

Materiality for the group financial statements as a whole was set at £3.6 million (2016: £2.8 million), determined with reference to a benchmark of group profit before tax, normalised to exclude the loss on recognition of the onerous lease for the year of £16.1 million (as disclosed in note 25) and the credit of £2.0 million in relation to the rent-free accrual (as disclosed in note 9), a credit of £5.5 million relating to the plan amendment gain for the defined benefit pension scheme (as disclosed in note 27), as well as expense of £4.9 million relating to an aborted acquisition during the year (as disclosed in note 8). These are one-off expenses and not considered to be part of the normalised profit before tax. Materiality represents 5% (2016: 5%) of the normalised group profit before tax.

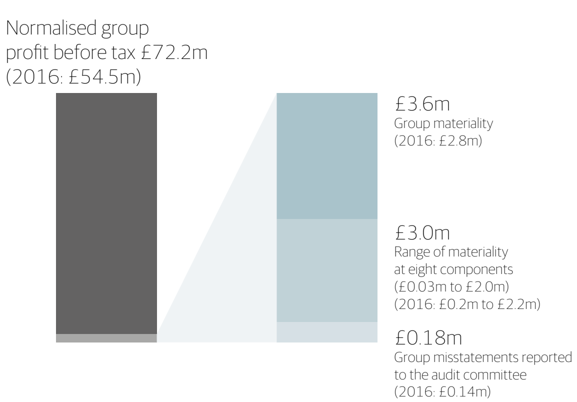
Materiality for the parent company financial statements as a whole was set at £2.9 million (2016: £2.2 million). This is lower than the materiality we would otherwise have determined by reference to net assets, and represents 1.4% of the parent company's net assets (2016: 1.2%).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £180,000 (2016: £140,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's eight (2016: eight) reporting components, we subjected eight (2016: eight) to full scope audits for group purposes. The audit work for eight (2016: six) was performed by the group team to materiality levels set individually for each entity which ranged from £0.03 million to £2.9 million (2016: £0.2 million to £2.2 million), having regard to the mix of size and risk profile of the group across the components.

The group team performed procedures on the items excluded from normalised group profit before tax.

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



4 We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement on page 121 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the same statement under the Listing Rules set out on page 105 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report and Accounts

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

5 *We have nothing to report on the other information in the annual report and accounts continued*

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within viability statement on page 28 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the corporate governance report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 106, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations that could have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

15 Canada Square
London
E14 5GL

21 February 2018

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest and similar income		**13,501**	13,890
Interest expense and similar charges		**(1,907)**	(2,319)
Net interest income	4	**11,594**	11,571
Fee and commission income		**292,034**	253,192
Fee and commission expense		**(22,715)**	(17,936)
Net fee and commission income	5	**269,319**	235,256
Net trading income	6	**3,071**	3,103
Gain on plan amendment of defined benefit pension schemes	27	**5,523**	–
Other operating income	6	**2,065**	1,353
Operating income		**291,572**	251,283
Charges in relation to client relationships and goodwill	7	**(11,716)**	(11,735)
Acquisition-related costs	8	**(6,178)**	(5,985)
Head office relocation costs	9	**(16,248)**	(7,031)
Other operating expenses		**(198,529)**	(176,403)
Operating expenses	7	**(232,671)**	(201,154)
Profit before tax		**58,901**	50,129
Taxation	11	**(12,072)**	(11,972)
Profit after tax		**46,829**	38,157
Profit for the year attributable to equity holders of the company		**46,829**	38,157
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability	27	**17,288**	(37,318)
Deferred tax relating to net remeasurement of defined benefit liability	20	**(2,939)**	5,936
Items that may be reclassified to profit or loss			
Revaluation of available for sale investment securities:			
– net gain from changes in fair value	17	**163**	93
– net profit on disposal transferred to profit or loss during the year		**(43)**	–
		120	93
Deferred tax relating to revaluation of available for sale investment securities	20	**(20)**	(14)
Other comprehensive income net of tax		**14,449**	(31,303)
Total comprehensive income for the year net of tax attributable to equity holders of the company		**61,278**	6,854
Dividends paid and proposed for the year per ordinary share	12	**61.0p**	57.0p
Dividends paid and proposed for the year		**30,429**	28,267
Earnings per share for the year attributable to equity holders of the company:	13		
– basic		**92.7p**	78.9p
– diluted		**91.9p**	78.2p

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

Consolidated statement of changes in equity

for the year ended 31 December 2017

	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 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 1 January 2017		**2,535**	**139,991**	**31,835**	**150**	**(6,243)**	**156,545**	**324,813**
Profit for the year							**46,829**	**46,829**
Net remeasurement of defined benefit liability	27						**17,288**	**17,288**
Revaluation of available for sale investment securities:								
– net gain from changes in fair value	17				**163**			**163**
– net profit on disposal transferred to profit or loss during the year					**(43)**			**(43)**
Deferred tax relating to components of other comprehensive income	20				**(20)**		**(2,939)**	**(2,959)**
Other comprehensive income net of tax		**–**	**–**	**–**	**100**	**–**	**14,349**	**14,449**
Dividends paid	12						**(29,420)**	**(29,420)**
Issue of share capital	28	**31**	**3,098**					**3,129**
Share-based payments:								
– value of employee services							**3,591**	**3,591**
– cost of own shares acquired	29					**(441)**		**(441)**
– cost of own shares vesting	29					**1,820**	**(1,820)**	**–**
– tax on share-based payments	20						**328**	**328**
At 31 December 2017		**2,566**	**143,089**	**31,835**	**250**	**(4,864)**	**190,402**	**363,278**

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

Consolidated balance sheet
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Cash and balances with central banks	14	**1,375,382**	1,075,673
Settlement balances		**46,784**	37,787
Loans and advances to banks	15	**117,253**	114,088
Loans and advances to customers	16	**126,213**	110,951
Investment securities:			
– available for sale	17	**109,312**	105,421
– held to maturity	17	**701,966**	700,000
Prepayments, accrued income and other assets	18	**74,445**	65,710
Property, plant and equipment	19	**16,457**	16,590
Net deferred tax asset	20	**9,061**	10,601
Intangible assets	21	**161,977**	167,192
Total assets		**2,738,850**	2,404,013
Liabilities			
Deposits by banks	22	**1,338**	294
Settlement balances		**54,452**	39,289
Due to customers	23	**2,170,498**	1,888,895
Accruals, deferred income, provisions and other liabilities	24	**108,391**	85,154
Current tax liabilities		**5,598**	6,523
Subordinated loan notes	26	**19,695**	19,590
Retirement benefit obligations	27	**15,600**	39,455
Total liabilities		**2,375,572**	2,079,200
Equity			
Share capital	28	**2,566**	2,535
Share premium	28	**143,089**	139,991
Merger reserve		**31,835**	31,835
Available for sale reserve		**250**	150
Own shares	29	**(4,864)**	(6,243)
Retained earnings		**190,402**	156,545
Total equity		**363,278**	324,813
Total liabilities and equity		**2,738,850**	2,404,013

The financial statements were approved by the board of directors and authorised for issue on 21 February 2018 and were signed on their behalf by:

Philip Howell
Chief Executive

Paul Stockton
Finance Director

Company registered number: 01000403

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

Consolidated statement of cash flows

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**58,901**	50,129
Net profit on disposal of available for sale investment securities		**(43)**	–
Net interest income		**(11,594)**	(11,571)
Net impairment charges on impaired loans and advances	16	**1**	9
Net charge for provisions	25	**16,728**	1,355
Profit on disposal of property, plant and equipment		**–**	(16)
Depreciation, amortisation and impairment		**19,415**	20,716
Foreign exchange movements	17	**1,480**	–
Defined benefit pension scheme charges	27	**(2,948)**	3,058
Defined benefit pension contributions paid	27	**(3,619)**	(5,422)
Share-based payment charges	10	**3,871**	5,201
Interest paid		**(1,663)**	(2,308)
Interest received		**13,084**	14,085
		93,613	75,236
Changes in operating assets and liabilities:			
– net (increase)/decrease in loans and advances to banks and customers		**(16,643)**	16,785
– net increase in settlement balance debtors		**(8,997)**	(19,839)
– net increase in prepayments, accrued income and other assets		**(8,318)**	(6,392)
– net increase in amounts due to customers and deposits by banks		**282,647**	486,000
– net increase in settlement balance creditors		**15,163**	17,808
– net increase in accruals, deferred income, provisions and other liabilities		**8,146**	9,762
Cash generated from operations		**365,611**	579,360
Tax paid		**(14,087)**	(12,025)
Net cash inflow from operating activities		**351,524**	567,335
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(2,532)
Purchase of property, plant, equipment and intangible assets		**(16,123)**	(26,137)
Proceeds from sale of property, plant and equipment		**–**	16
Purchase of investment securities	17	**(746,566)**	(905,701)
Proceeds from sale and redemption of investment securities	17	**742,581**	912,745
Net cash used in investing activities		**(20,108)**	(21,609)
Cash flows from financing activities			
Issue of ordinary shares	36	**2,688**	40,199
Dividends paid	12	**(29,420)**	(26,479)
Net cash (used in)/generated from financing activities		**(26,732)**	13,720
Net increase in cash and cash equivalents		**304,684**	559,446
Cash and cash equivalents at the beginning of the year		**1,263,074**	703,628
Cash and cash equivalents at the end of the year	36	**1,567,758**	1,263,074

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 114 to 117.

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, the group has adopted the amendments to IAS 7 'Statement of Cash Flows', which improves disclosures on net debt in these financial statements. The group now provides a reconciliation between the opening and closing balances for liabilities arising from financial activities (see note 36).

No other 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:

– Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

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 2017 and, therefore, have not been applied in preparing these consolidated financial statements. The effects of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' on the consolidated financial statements of the group are discussed below.

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 in preparing these consolidated financial statements.

IFRS 9 governs the accounting treatment for the classification and measurement of financial instruments and the timing and extent of credit provisioning. The standard replaces IAS 39.

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.

The classification criteria for allocating financial assets between categories under IFRS 9 requires the group to document the business models under which its assets are managed, distinguishing whether they are:

– held-to-collect;

– both held-to-collect and for sale; or

– another type of business model (e.g. trading).

The group is also required to review contractual terms and conditions to determine whether the cash flows arising on these assets are solely payments of principal and interest.

The group has not identified any material differences from the classification of financial assets under the new standard. Debt securities currently classified as held to maturity will be classified as amortised cost. Other assets currently carried at amortised cost such as cash with central banks (including deposits held with the Bank of England) and loans and advances to banks and customers will also continue to be classified as such. Investments in money market funds, which are currently classified as available for sale, will be classified as FVTPL as they are equity instruments. The group does not intend to make the FVOCI election. Under this classification, fair value gains and losses will be recognised in profit or loss.

Impairment of financial assets

Under IFRS 9, an expected credit loss (ECL) model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred.

Under the ECL model, a dual measurement approach applies whereby a financial asset will attract a loss allowance equal to either:

– 12 month expected credit losses: losses resulting from possible defaults within the next 12 months; or
– lifetime expected credit losses: losses resulting from possible defaults over the remaining life of the financial asset.

The latter applies if there has been a significant deterioration in the credit quality of the asset, albeit lifetime ECLs will always be recognised for assets without a significant financing component.

The group has developed a detailed model for calculating ECLs on its treasury book and investment management loan book. This requires considerable judgement in developing different economic scenarios and probability-weighting them accordingly.

The economic scenarios in the model are based on the projections of GDP, inflation, unemployment rates, house price indices, financial markets and interest rates as set out in the banking system stress testing scenario published annually by the PRA. In addition, management prepare 'better' and 'worse' case economic forecasts by adjusting the projections for the economic variables.

Under each resultant scenario, an expected credit loss is forecast for each exposure in the treasury book and investment management loan book. The expected credit loss is calculated based on management's estimate of the probability of default, the loss given default and the exposure at default of each exposure taking into account industry credit loss data, the group's own credit loss experience, the expected repayment profiles of the exposures and the level of collateral held. Industry credit loss information is drawn from data on credit defaults for different categories of exposure published by the Council of Mortgage Lenders and Standard & Poor's.

The model adopts a staging allocation methodology, primarily based on changes in the internal and/or external credit rating of exposures to identify significant increases in credit risk since inception of the exposure.

The group's trade receivables (including trust and financial planning debtors) are generally short term and do not contain significant financing components. Therefore, the group expects to apply a practical expedient by using a provision matrix to calculate lifetime expected credit losses.

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.

Transition

In adopting IFRS 9, the group plans to take advantage of the exemption from having to restate comparative information, instead recognising any differences between the previous and the new carrying amounts in opening equity and reserves.

Estimated impact of adoption of IFRS 9

The group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements, based on the profile of its financial instruments as at the balance sheet date. From the work completed to date, the group estimates that adoption of IFRS 9 will not result in any material adjustments to opening equity, or the carrying amount of financial assets and liabilities recognised on the balance sheet.

Additional expected credit loss provisions recognised under IFRS 9 are expected to be immaterial, reflecting the high credit quality of instruments in the treasury book, the high level of security held against the investment management loan book and relatively low value of trade receivables.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for periods commencing on or after 1 January 2018 and replaces existing revenue recognition guidance, in particular under IAS 18. The standard was endorsed by the EU during 2016. The group has not adopted this standard early in preparing these consolidated financial statements.

IFRS 15 changes how and when revenue is recognised from contracts with customers and the treatment of the costs of obtaining a contract with a customer. The standard requires that the recognition of revenue is linked to the fulfilment of identified performance obligations that are enshrined in the customer contract. It also requires that the incremental cost of obtaining a customer contract should be capitalised if that cost is expected to be recovered.

1 *Principal accounting policies continued*

The group has considered the impact of adopting the standard, on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts.

Net fee and commission income

Included within net fee and commission income are initial fees, charged by a number of group companies in relation to certain business activities. Under IFRS 15, the group is 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 the relevant performance obligation has been satisfied; if not, then the fees can only be recognised in the period the services are provided.

We have not identified any instances where the recognition of revenue will change materially from the current treatment in the consolidated financial statements.

Contract costs

Under the group's current policy for capitalising contract costs, incremental payments that are made to secure investment management contracts are capitalised as client relationship intangibles if they are separable, reliably measurable and expected to be recovered. The period during which such payments are capitalised is typically 12 months, as explained in note 2.1.

Under IFRS 15, the scope requirements are broader such that costs to obtain any contract with a customer should be capitalised if those costs are incremental and the entity expects to recover them.

The group has assessed its current policy and expects to remove the 12 month limit on capitalisation of payments to newly recruited investment managers under the new standard. The policy will be unchanged in all other respects.

The group has also identified a number of other schemes where awards are linked to obtaining client contracts and has considered whether any meet the new criteria for capitalising costs under IFRS 15. The group does not believe that the adoption of the new standard will result in any awards made under these schemes being capitalised.

Transition

The group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying the standard recognised at the date of initial application, with no restatement of the comparative period.

Estimated impact of adoption of IFRS 15

The group has assessed the estimated impact that the initial application of IFRS 15 will have on its consolidated financial statements.

From the work completed to date, the group estimates that it will recognise a pre-tax adjustment of approximately £8 million to opening equity, with a corresponding adjustment to client relationship intangibles, in respect of the additional capitalisation of payments made to investment managers.

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard was endorsed by the EU during 2017. The group has not adopted this standard early.

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

Transition

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 as if IFRS 16 had always applied; or
- apply a practical expedient and retain its previous assessments of which contracts contain a lease.

The group intends to apply the practical expedient and therefore will not be reassessing those contracts that are not deemed to contain a lease prior to the date of adoption.

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 has assessed the impact of both approaches in relation to its existing lease contracts, and plans to apply the modified retrospective approach.

Potential impact

The group has conducted an initial quantification of the impact of adopting the standard, based on its existing lease contracts.

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

The most significant impact is in respect of its London head office premises. As at 31 December 2017, the group's future minimum lease payments under non-cancellable operating leases amounted to £90,602,000, on an undiscounted basis, of which £75,946,000 relates to its 8 Finsbury Circus office (see note 33).

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

In addition to the above impacts, recognition of lease assets will increase the group's regulatory capital requirement.

Lessor accounting

The group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease. The work to quantify the impact of being an intermediate lessor remains ongoing.

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.

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 *Principal accounting policies continued*

1.8 Operating leases

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

1.9 Share-based payments

The group engages in equity-settled and cash-settled share-based payment transactions in respect of services received from its employees.

Equity-settled awards

For equity-settled share-based payments, the fair value of the award is measured by reference to the fair value of the shares or share options granted on the grant date. The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss over the vesting period, with a corresponding credit to equity.

The fair value of the awards or options granted is determined using a binomial pricing model, which takes into account the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option or award, any applicable exercise price and other relevant factors. Only those vesting conditions that include terms related to market conditions are taken into account in estimating fair value. Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that, ultimately, the amount recognised in profit or loss reflects the number of vested shares or share options, with a corresponding adjustment to equity. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market-related vesting condition is met, provided that any non-market vesting conditions are also met. Shares purchased and issued are charged directly to equity.

Cash-settled awards

For cash-settled share-based payments, a liability is recognised for the services received to the balance sheet date, measured at the fair value of the liability. At each subsequent balance sheet date and at the date on which the liability is settled, the fair value of the liability is remeasured with any changes in fair value recognised in profit or loss.

1.10 Taxation

Current tax

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

Deferred tax

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

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

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

1.11 Cash and cash equivalents

Cash comprises cash in hand.

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

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

1.12 Financial assets

Initial recognition

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.

– 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; and
- 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 *Principal accounting policies continued*

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 judgement. The factors that the group takes into consideration in making this judgement are set out in note 2.1.

Individually purchased client relationships are initially recognised at cost. Where a transaction to acquire client relationship intangibles includes an element of variable deferred consideration, an estimate is made of the value of consideration that will ultimately be paid. The client relationship intangible recognised on the balance sheet is adjusted for any subsequent change in the value of deferred consideration. Note 2.1 sets out the approach taken by the group where judgement is required to determine whether payments made for the introduction of client relationships should be capitalised as intangible assets or charged to profit or loss.

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

Computer software and software development costs

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

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

1.15 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 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) are deducted. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

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

Past service costs or gains are recognised immediately in the period of a plan amendment.

The amount recognised in the balance sheet for death in service benefits represents the present value of the estimated obligation, reduced by the extent to which any future liabilities will be met by insurance policies.

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

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

1.19 Segmental reporting

The group determines and presents operating segments based on the information that is provided internally to the group executive committee, which is the group's chief operating decision maker. Operating segments are organised around the services provided to clients; a description of the services provided by each segment is given in note 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 judgements and key sources of estimation and uncertainty

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

2.1 Client relationship intangibles (note 21)

Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction, whether ownership of a corporate entity has been acquired and to whom any amounts payable under the transaction are payable, among other factors.

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If the client relationships introduced are judged to be capable of being sold separately and the corresponding payments are judged to be reliably measurable and have a high probability of recoverability then they are capitalised as client relationship intangibles. Otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

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 £2,743,000 of payments made to investment managers and expensed £5,094,000 (2016: £7,926,000 capitalised and £4,005,000 expensed). A reduction in the capitalisation period by one month would decrease client relationship intangibles by £281,000 and decrease profit before tax for the year by £281,000 (2016: £617,000 and £617,000 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 to 15 year period. Amortisation of £11,433,000 (2016: £11,594,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,076,000 (2016: £1,100,000). At 31 December 2017, the carrying value of client relationship intangibles was £88,511,000 (2016: £97,201,000).

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 judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

The principal assumptions underlying the reported deficit of £15,600,000 (2016: £39,455,000 deficit) and information on the sensitivity of the retirement benefit obligations to changes in underlying estimates are set out in note 27.

2.3 Head office relocation (notes 9 and 25)

During the year, the group moved its head office to 8 Finsbury Circus, vacating 1 Curzon Street but retaining lease commitments until September 2023. This triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing leases.

The value of the onerous lease provision is dependent on assumptions about the amount and timing of the cash flows to be received under any sublet agreement or assignment of the leases.

During the year, the group recognised an onerous lease provision, including the effect of discounting, of £16,265,000 (2016: £nil). At 31 December 2017, the outstanding provision stood at £11,478,000. Allowing for alternative assumptions about the duration of any void period, any rent-free periods offered and any discount on the passing rent, the onerous lease provision at 31 December 2017 could reasonably fall within the range of £7,600,000 to £15,100,000.

3 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Unit Trusts. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure; principally, the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and the segment's total revenue. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the group executive committee, which is the group's chief operating decision maker.

31 December 2017	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	**189,465**	**28,020**	**–**	**217,485**
Net commission income	**38,729**	**–**	**–**	**38,729**
Net interest income	**11,594**	**–**	**–**	**11,594**
Fees from advisory services and other income	**14,831**	**3,410**	**–**	**18,241**
Underlying operating income	**254,619**	**31,430**	**–**	**286,049**
Staff costs - fixed	**(59,457)**	**(3,040)**	**(25,294)**	**(87,791)**
Staff costs - variable	**(40,240)**	**(7,246)**	**(5,843)**	**(53,329)**
Total staff costs	**(99,697)**	**(10,286)**	**(31,137)**	**(141,120)**
Other direct expenses	**(21,893)**	**(4,415)**	**(31,101)**	**(57,409)**
Allocation of indirect expenses	**(56,188)**	**(6,050)**	**62,238**	**–**
Underlying operating expenses	**(177,778)**	**(20,751)**	**–**	**(198,529)**
Underlying profit before tax	**76,841**	**10,679**	**–**	**87,520**
Charges in relation to client relationships and goodwill (note 21)	**(11,716)**	**–**	**–**	**(11,716)**
Acquisition-related costs (note 8)	**(1,273)**	**–**	**(4,905)**	**(6,178)**
Segment profit before tax	**63,852**	**10,679**	**(4,905)**	**69,626**
Gain on plan amendment of defined benefit pension schemes (note 27)				**5,523**
Head office relocation costs (note 9)				**(16,248)**
Profit before tax attributable to equity holders of the company				**58,901**
Taxation (note 11)				**(12,072)**
Profit for the year attributable to equity holders of the company				**46,829**

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	**2,659,723**	**74,672**	**2,734,395**
Unallocated assets			**4,455**
Total assets			**2,738,850**

Consolidated financial statements

3 *Segmental information continued*

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

The following table reconciles underlying operating income to operating income:

	2017 £'000	2016 £'000
Underlying operating income	**286,049**	251,283
Gain on plan amendment of defined benefit pension schemes (note 27)	**5,523**	–
Operating income	**291,572**	251,283

The following table reconciles underlying operating expenses to operating expenses:

	2017 £'000	2016 £'000
Underlying operating expenses	**198,529**	176,403
Charges in relation to client relationships and goodwill (note 21)	**11,716**	11,735
Acquisition-related costs (note 8)	**6,178**	5,985
Head office relocation costs (note 9)	**16,248**	7,031
Operating expenses	**232,671**	201,154

Geographic analysis

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

	2017 £'000	2016 £'000
United Kingdom	**280,892**	241,882
Jersey	**10,680**	9,401
Operating income	**291,572**	251,283

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

	2017 £'000	2016 £'000
United Kingdom	**173,496**	178,172
Jersey	**4,938**	5,610
Non-current assets	**178,434**	183,782

Major clients

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

4 Net interest income

	2017 £'000	2016 £'000
Interest income		
Cash and balances with central banks	**3,963**	3,293
Held to maturity investment securities	**4,242**	6,014
Available for sale investment securities	**808**	368
Loans and advances to banks	**1,409**	1,202
Loans and advances to customers	**3,079**	3,013
	13,501	13,890
Interest expense		
Banks and customers	**(631)**	(1,050)
Subordinated loan notes (see note 26)	**(1,276)**	(1,269)
	(1,907)	(2,319)
Net interest income	**11,594**	11,571

5 Net fee and commission income

	2017 £'000	2016 £'000
Fee and commission income		
Investment Management	**256,476**	225,937
Unit Trusts	**35,558**	27,255
	292,034	253,192
Fee and commission expense		
Investment Management	**(17,293)**	(13,558)
Unit Trusts	**(5,422)**	(4,378)
	(22,715)	(17,936)
Net fee and commission income	**269,319**	235,256

6 Net trading and other operating income

Net trading income

Net trading income of £3,071,000 (2016: £3,103,000) comprises Unit Trusts net dealing profits.

Other operating income

Other operating income of £2,065,000 (2016: £1,353,000) 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

	2017 £'000	2016 £'000
Staff costs (note 10)	**141,120**	124,735
Depreciation of property, plant and equipment	**3,619**	2,846
Amortisation of internally generated intangible assets (note 21)	**492**	421
Amortisation of purchased software (note 21)	**2,809**	2,969
Auditor's remuneration (see below)	**857**	758
Net impairment charges on impaired loans and advances (note 16)	**1**	9
Operating lease rentals	**8,221**	6,580
Other	**41,410**	38,085
Other operating expenses	**198,529**	176,403
Charges in relation to client relationships and goodwill (note 21)	**11,716**	11,735
Acquisition-related costs (note 8)	**6,178**	5,985
Head office relocation costs (note 9)	**16,248**	7,031
Total operating expenses	**232,671**	201,154

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

	2017 £'000	2016 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	**136**	165
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	**280**	233
– audit-related assurance services	**297**	199
– tax compliance services	**25**	55
– other services	**119**	106
	857	758

Of the above, audit-related services for the year totalled £713,000 (2016: £597,000).

Fees payable for the audit of the company's annual financial statements include £39,000 (2016: £62,000) relating to prior year audit work.

Fees for audit-related assurance services include £208,000 for the provision of assurance reports to our regulators and review of the interim statement (2016: £111,000). Fees for other services include advice in relation to the pension schemes, a qualified intermediary compliance review and work related to the merger discussions.

8 Acquisition-related costs

Costs relating to merger discussions with Smith & Williamson

The group incurred professional services costs of £4,905,000 in relation to the merger discussions with Smith & Williamson. On 31 August 2017, the group announced that these discussions had been terminated.

Costs relating to the acquisition of Vision Independent Financial Planning and Castle Investment Solutions

The group has incurred the following costs in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions, summarised by the classification with the income statement:

	2017 £'000	2016 £'000
Staff costs	**1,026**	5,418
Interest expense	**247**	120
Legal and advisory fees	**–**	447
Acquisition-related costs	**1,273**	5,985

Amounts reported in staff costs relate to deferred payments to previous owners who remain in employment with the acquired companies.

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.

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 25).

During the year ended 31 December 2017, incremental costs of £16,248,000 (2016: £7,031,000) were incurred as a result of the decision to move the head office to 8 Finsbury Circus. These incremental costs were as follows:

	2017 £'000	2016 £'000
Rental costs for 8 Finsbury Circus prior to occupancy	**536**	3,328
Accelerated depreciation charge for 1 Curzon Street	**779**	2,745
Provision for dilapidations	**248**	739
Charge in relation to onerous lease provision (note 25)	**16,265**	–
Release of rent free period and landlord contribution on recognition of the onerous lease provision	**(2,148)**	–
Professional and other costs	**568**	219
	16,248	7,031

10 Staff costs

	2017 £'000	2016 £'000
Wages and salaries	**113,719**	99,543
Social security costs	**14,695**	12,298
Equity-settled share-based payments	**4,120**	4,352
Cash-settled share-based payments	**(249)**	849
Pension costs (note 27):		
– defined benefit schemes	**2,575**	3,058
– defined contribution schemes	**6,260**	4,635
	8,835	7,693
	141,120	124,735

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

	2017	2016
Investment Management:		
– investment management services	**734**	698
– advisory services	**92**	82
Unit Trusts	**28**	27
Shared services	**293**	259
	1,147	1,066

11 Income tax expense

	2017 £'000	2016 £'000
Current tax:		
– charge for the year	**13,466**	12,366
– adjustments in respect of prior years	**(303)**	(177)
Deferred tax (note 20):		
– credit for the year	**(1,034)**	(233)
– adjustments in respect of prior years	**(57)**	16
	12,072	11,972

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 (2016: higher) than the standard rate of corporation tax in the UK of 19.2% (2016: 20.0%). The differences are explained below:

	2017 £'000	2016 £'000
Tax on profit from ordinary activities at the standard rate of 19.2% (2016: 20.0%) effects of:	**11,338**	10,026
– disallowable expenses	**1,045**	958
– share-based payments	**(79)**	(72)
– tax on overseas earnings	**(230)**	(183)
– adjustments in respect of prior year	**(360)**	(161)
– deferred payments to previous owners of acquired companies (note 8)	**247**	1,237
– other	**(28)**	63
Effect of change in corporation tax rate on deferred tax	**139**	104
	12,072	11,972

12 Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of 36.0p (2015: 34.0p) per share	**18,236**	16,336
– interim dividend for the year ended 31 December 2017 of 22.0p (2016: 21.0p) per share	**11,184**	10,143
Dividends paid in the year of 58.0p (2016: 55.0p) per share	**29,420**	26,479
Proposed final dividend for the year ended 31 December 2017 of 39.0p (2016: 36.0p) per share	**19,245**	18,124

An interim dividend of 22.0p per share was paid on 3 October 2017 to shareholders on the register at the close of business on 8 September 2017 (2016: 21.0p).

A final dividend declared of 39.0p per share (2016: 36.0p) is payable on 14 May 2018 to shareholders on the register at the close of business on 20 April 2018. The final dividend is subject to approval by shareholders at the Annual General Meeting on 10 May 2018 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:

	2017			2016		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	**87,520**	**(17,426)**	**70,094**	74,880	(15,816)	59,064
Gain on plan amendment of defined benefit pension schemes (note 27)	**5,523**	**(1,063)**	**4,460**	–	–	–
Charges in relation to client relationships and goodwill (note 21)	**(11,716)**	**2,255**	**(9,461)**	(11,735)	2,347	(9,388)
Acquisition-related costs (note 8)	**(6,178)**	**944**	**(5,234)**	(5,985)	91	(5,894)
Head office relocation costs (note 9)	**(16,248)**	**3,218**	**(13,030)**	(7,031)	1,406	(5,625)
Profit attributable to shareholders	**58,901**	**(12,072)**	**46,829**	50,129	(11,972)	38,157

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 50,493,984 (2016: 48,357,728).

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

	2017	2016
Weighted average number of ordinary shares in issue during the year – basic	**50,493,984**	48,357,728
Effect of ordinary share options/Save As You Earn	**188,549**	114,415
Effect of dilutive shares issuable under the Share Incentive Plan	**59,030**	37,186
Effect of contingently issuable shares under the Executive Incentive Plan	**228,702**	260,655
Diluted ordinary shares	**50,970,265**	48,769,984

	2017	2016
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**138.8p**	122.1p
– diluted	**137.5p**	121.1p

14 Cash and balances with central banks

	2017 £'000	2016 £'000
Cash in hand	**2**	3
Balances with central banks	**1,375,380**	1,075,670
	1,375,382	1,075,673

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

	2017 £'000	2016 £'000
Repayable:		
– on demand	**1,374,002**	1,075,003
– 1 year or less but over 3 months	**1,380**	670
	1,375,382	1,075,673
Amounts include balances with:		
– variable interest rates	**1,374,000**	1,075,000
– non-interest-bearing	**1,382**	673
	1,375,382	1,075,673

15 Loans and advances to banks

	2017 £'000	2016 £'000
Repayable:		
– on demand	**75,826**	73,844
– 3 months or less excluding on demand	**11,183**	10,000
– 1 year or less but over 3 months	**30,244**	30,226
– 5 years or less but over 1 year	**–**	18
	117,253	114,088
Amounts include loans and advances with:		
– variable interest rates	**75,734**	73,766
– fixed interest rates	**41,183**	40,000
– non-interest-bearing	**336**	322
	117,253	114,088

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 2017 were £87,009,000 (note 36) (2016: £83,844,000).

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

	2017 £'000	2016 £'000
Overdrafts	**4,621**	3,740
Investment management loan book	**120,509**	106,335
Trust and financial planning debtors	**1,048**	855
Other debtors	**35**	21
	126,213	110,951

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.

	2017 £'000	2016 £'000
Repayable:		
– on demand	**4,732**	3,821
– 3 months or less excluding on demand	**13,312**	21,214
– 1 year or less but over 3 months	**42,519**	43,884
– 5 years or less but over 1 year	**65,716**	41,753
– greater than 5 years	**–**	370
Less: allowance for losses on loans and advances (see below)	**(66)**	(91)
	126,213	110,951
Amounts include loans and advances with:		
– variable interest rates	**125,046**	110,051
– non-interest-bearing	**1,167**	900
	126,213	110,951

No overdrafts or investment management loan book balances were impaired as at 31 December 2017 (2016: none impaired).

Allowance for losses. 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

	2017 £'000	2016 £'000
Equity securities – at fair value:		
– listed	**2,565**	1,864
Money market funds – at fair value:		
– unlisted	**106,747**	103,557
	109,312	105,421

Held to maturity securities

	2017 £'000	2016 £'000
Debt securities – at amortised cost:		
– unlisted	**701,966**	700,000
	701,966	700,000

All held to maturity debt securities are due to mature within one year (2016: 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).

17 *Investment securities continued*

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 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 1 January 2017	**105,421**	**700,000**	**805,421**
Additions	**36,248**	**745,867**	**782,115**
Disposals (sales and redemptions)	**(27,416)**	**(742,421)**	**(769,837)**
Foreign exchange movements	**(5,104)**	**(1,480)**	**(6,584)**
Gain from changes in fair value	**163**	**–**	**163**
At 31 December 2017	**109,312**	**701,966**	**811,278**

Included within available for sale securities are additions of £699,000 (2016: £701,000) and £160,000 (2016: £nil) of disposals of financial instruments that are not classified as cash and cash equivalents.

18 Prepayments, accrued income and equipment

	2017 £'000	2016 £'000
Work in progress	**1,461**	1,530
Prepayments and other assets	**12,396**	12,020
Accrued income	**60,588**	52,160
	74,445	65,710

19 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2016	13,036	15,131	28,167
Additions	9,729	2,446	12,175
Disposals	–	(216)	(216)
At 1 January 2017	**22,765**	**17,361**	**40,126**
Additions	**1,940**	**2,325**	**4,265**
Disposals	**–**	**(1,970)**	**(1,970)**
At 31 December 2017	**24,705**	**17,716**	**42,421**
Depreciation			
At 1 January 2016	5,991	12,170	18,161
Charge for the year	3,870	1,721	5,591
Disposals	–	(216)	(216)
At 1 January 2017	**9,861**	**13,675**	**23,536**
Charge for the year	**2,436**	**1,962**	**4,398**
Disposals	**–**	**(1,970)**	**(1,970)**
At 31 December 2017	**12,297**	**13,667**	**25,964**
Carrying amount at 31 December 2017	**12,408**	**4,049**	**16,457**
Carrying amount at 31 December 2016	12,904	3,686	16,590
Carrying amount at 1 January 2016	7,045	2,961	10,006

20 Net deferred tax asset

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
As at 1 January 2017	**1,122**	**6,705**	**1,264**	**2,320**	**(30)**	**(780)**	**10,601**
Recognised in profit or loss in respect of:							
– current year	**(38)**	**(1,264)**	**(57)**	**2,434**	**–**	**99**	**1,174**
– prior year	**196**	**–**	**–**	**(139)**	**–**	**–**	**57**
– change in rate	**4**	**148**	**4**	**(284)**	**–**	**(12)**	**(140)**
Total	**162**	**(1,116)**	**(53)**	**2,011**	**–**	**87**	**1,091**
Recognised in other comprehensive income in respect of:							
– current year	**–**	**(3,327)**	**–**	**–**	**(23)**	**–**	**(3,350)**
– prior year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**388**	**–**	**–**	**3**	**–**	**391**
Total	**–**	**(2,939)**	**–**	**–**	**(20)**	**–**	**(2,959)**
Recognised in equity in respect of:							
– current year	**–**	**–**	**318**	**–**	**–**	**–**	**318**
– prior year	**–**	**–**	**10**	**–**	**–**	**–**	**10**
– change in rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**328**	**–**	**–**	**–**	**328**
As at 31 December 2017	**1,284**	**2,650**	**1,539**	**4,331**	**(50)**	**(693)**	**9,061**

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Intangible assets £'000	Total £'000
Deferred tax assets	**1,284**	**2,650**	**1,539**	**4,331**	**–**	**–**	**9,804**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**(50)**	**(693)**	**(743)**
As at 31 December 2017	**1,284**	**2,650**	**1,539**	**4,331**	**(50)**	**(693)**	**9,061**

20 Net deferred tax asset continued

	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	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

21 Intangible assets

	2017 £'000	2016 £'000
Goodwill	**63,182**	63,465
Other intangible assets	**98,795**	103,727
	161,977	167,192

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 2016, 2017 and 31 December 2017	**62,091**	**1,954**	**227**	**64,272**
Impairment				
At 1 January 2016	**–**	**666**	**–**	**666**
Charge in the year	**–**	**141**	**–**	**141**
At 1 January 2017	**–**	**807**	**–**	**807**
Charge in the year	**–**	**283**	**–**	**283**
At 31 December 2017	**–**	**1,090**	**–**	**1,090**
Carrying amount at 31 December 2017	**62,091**	**864**	**227**	**63,182**
Carrying amount at 31 December 2016	62,091	1,147	227	63,465
Carrying amount at 1 January 2016	62,091	1,288	227	63,606

The recoverable amounts of the CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins are in line with recent historical rates and equity markets will not change significantly in the forthcoming year. Budgets are extrapolated for up to 10 years based on annual revenue growth for each CGU (see table below); as well as the group's expectation of future industry growth rates. A 10 year extrapolation period is chosen based on the group's assessment of the likely associated duration of client relationships. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The pre-tax rate used to discount the forecast cash flows for each CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which the CGUs operate and, in particular, the relatively small size of the trust and tax CGU.

	Investment Management		Trust and tax		Rooper & Whately	
At 31 December	2017	2016	2017	2016	2017	2016
Discount rate	**11.1%**	9.3%	**13.1%**	11.3%	**11.1%**	9.3%
Annual revenue growth rate	**5.0%**	4.0%	**(1.0)%**	(1.0)%	**0.0%**	0.0%

At 30 June 2017, the group recognised an impairment charge of £283,000 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 2017 was £864,000, which was lower than the carrying value of £1,147,000 at 31 December 2016. The recoverable amount was calculated based on forecast earnings for 2017, 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 14.0%. The impairment was recognised in the Investment Management segment in the segmental analysis. No further impairment was recognised at 31 December 2017.

Based on the assumptions in the table above, the calculated recoverable amount of the trust and tax CGU at 31 December 2017 was £1,181,000; this was higher than its carrying value of £864,000. Reducing the assumed growth rate for income in the trust and tax CGU by one percentage point would reduce the calculated recoverable amount of the CGU to £828,000. No reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the investment management CGU would result in an impairment of the goodwill allocated to it.

21 *Intangible assets continued*

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2016	138,659	4,514	21,838	165,011
Internally developed in the year	–	408	–	408
Purchased in the year	7,926	–	2,530	10,456
Disposals	(1,933)	–	–	(1,933)
At 1 January 2017	**144,652**	**4,922**	**24,368**	**173,942**
Internally developed in the year	**–**	**837**	**–**	**837**
Purchased in the year	**2,743**	**–**	**6,222**	**8,965**
Disposals	**(1,983)**	**–**	**–**	**(1,983)**
At 31 December 2017	**145,412**	**5,759**	**30,590**	**181,761**
Amortisation				
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 1 January 2017	**47,451**	**4,037**	**18,727**	**70,215**
Charge for the year	**11,433**	**492**	**2,809**	**14,734**
Disposals	**(1,983)**	**–**	**–**	**(1,983)**
At 31 December 2017	**56,901**	**4,529**	**21,536**	**82,966**
Carrying amount at 31 December 2017	**88,511**	**1,230**	**9,054**	**98,795**
Carrying amount at 31 December 2016	97,201	885	5,641	103,727
Carrying amount at 1 January 2016	100,869	898	6,080	107,847

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 £11,716,000 (2016: £11,735,000). A further £5,094,000 (2016: £4,005,000) 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 £18,069,000 (2016: £14,117,000) has been fully amortised but is still in use.

22 Deposits by banks

On 31 December 2017, deposits by banks included overnight cash book overdraft balances of £1,338,000 (2016: £294,000).

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

	2017 £'000	2016 £'000
Repayable:		
– on demand	**2,081,788**	1,768,215
– 3 months or less excluding on demand	**83,425**	119,438
– 1 year or less but over 3 months	**5,285**	1,242
	2,170,498	1,888,895
Amounts include balances with:		
– variable interest rates	**2,060,565**	1,751,483
– fixed interest rates	**83,908**	115,148
– non-interest-bearing	**26,025**	22,264
	2,170,498	1,888,895

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

	2017 £'000	2016 £'000
Trade creditors	**2,259**	2,319
Other creditors	**18,294**	15,471
Accruals and deferred income	**64,126**	52,620
Other provisions (note 25)	**23,712**	14,744
	108,391	85,154

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 2016	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 1 January 2017	**10,212**	**1,136**	**598**	**2,798**	**14,744**
Charged to profit or loss	**–**	**–**	**248**	**16,534**	**16,782**
Unused amount credited to profit or loss	**–**	**–**	**(54)**	**–**	**(54)**
Net charge to profit or loss	**–**	**–**	**194**	**16,534**	**16,728**
Other movements	**2,743**	**84**	**–**	**–**	**2,827**
Utilised/paid during the year	**(4,883)**	**–**	**(115)**	**(5,589)**	**(10,587)**
At 31 December 2017	**8,072**	**1,220**	**677**	**13,743**	**23,712**
Payable within 1 year	**4,769**	**–**	**677**	**5,794**	**11,240**
Payable after 1 year	**3,303**	**1,220**	**–**	**7,949**	**12,472**
	8,072	**1,220**	**677**	**13,743**	**23,712**

25 Other provisions continued

Deferred, variable costs to acquire client relationship intangibles

Deferred, variable costs to acquire client relationship intangibles of £2,743,000 arose during the year, in relation to deferred payments to investment managers and third parties linked to the value of client funds introduced (2016: £7,820,000). These amounts have been capitalised (see note 21).

Deferred and contingent consideration in business combinations

Deferred and contingent consideration of £1,220,000 (2016: £1,136,000) is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Legal and compensation

During the ordinary course of business the group may, from time-to-time, be subject to complaints, as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

Property-related

Property-related provisions of £13,743,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the group (2016: £2,798,000 dilapidations).

The move to the 8 Finsbury Circus office was completed on 13 February 2017, which triggered the recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing leases. The ultimate amount of the provision is dependent on the timing of any subletting or assignment arrangements and the associated terms negotiated with prospective third parties. Based on management's expectations of future costs for the premises and potential rental income, and timings thereof, the group recognised a provision of £16,265,000. The group utilised £4,787,000 (2016: £nil) of the onerous lease provision during the year, being the payment of rent, rates and service charge.

Dilapidation provisions are calculated using a discounted cash flow model; during the year ended 31 December 2017, dilapidation provisions decreased by £533,000 (2016: increased £1,003,000). The group utilised £802,000 (2016: £nil) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. The impact of discounting led to an additional £82,000 (2016: £1,003,000) being provided for over the year.

Amounts payable after one year

Property-related provisions of £7,949,000 are expected to be settled within 19 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Provisions for deferred and contingent consideration in business combinations of £1,220,000 are expected to be settled within two years of the balance sheet date. Remaining provisions payable after one year are expected to be settled within three years of the balance sheet date.

26 Subordinated loan notes

	2017 £'000	2016 £'000
Subordinated loan notes		
– face value	**20,000**	20,000
– carrying value	**19,695**	19,590

Subordinated loan notes consist of 10-year Tier 2 notes ('Notes'), which are repayable in August 2025, with a call option in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over 6 month LIBOR thereafter. An interest expense of £1,276,000 (2016: £1,269,000) 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 £6,213,000 (2016: £4,595,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £47,000 (2016: £40,000).

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.

With effect from 30 June 2017, the link between past service benefit and pensionable salaries was broken for both schemes and the Rathbone 1987 Scheme was closed to future accrual from this date. This resulted in a plan amendment gain of £5,523,000 being recognised in operating income on that date.

The group provides death in service benefits to all employees through the Rathbone 1987 Scheme. Third party insurance is purchased for the benefits where possible and £1,167,000 of related insurance premiums were expensed to profit or loss in the year (2016: £1,134,000). 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

During 2017, triennial valuations of both schemes as at 31 December 2016 were being carried out. These valuations are yet to be formally finalised.

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.

27 *Long-term employee benefits continued*

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2017 % (unless stated)	2016 % (unless stated)	2017 % (unless stated)	2016 % (unless stated)
Rate of increase of salaries	**n/a**	4.50	**n/a**	4.50
Rate of increase of pensions in payment	**3.60**	3.60	**3.40**	3.40
Rate of increase of deferred pensions	**3.50**	3.50	**3.50**	3.50
Discount rate	**2.65**	2.80	**2.65**	2.80
Inflation*	**3.50**	3.50	**3.50**	3.50
Percentage of members transferring out of the schemes per annum	**3.00**	3.00	**3.00**	3.00
Average age of members at date of transferring out (years)	**52.5**	52.5	**52.5**	52.5

* Inflation assumptions are based on the Retail Price Index

Over the year, the financial assumptions have been amended to reflect changes in market conditions. Specifically:

1. the discount rate has been decreased by 0.15% to reflect a decrease in the yields available on AA-rated corporate bonds at a term consistent with the average duration of the liabilities;
2. the assumed rate of future inflation is unchanged and reflects expectations of long-term inflation as implied by changes in the fixed-interest and index-linked gilts market;
3. the assumed rates of future increases to pensions in payment are unchanged, consistent with the assumed rate of future inflation.

Over the year the demographic assumptions adopted remain unchanged, other than updating the CMI model used to project future improvements in mortality from the 2013 version to the 2016 version.

The assumed duration of the liabilities for the Laurence Keen Scheme is 16 years (2016: 20 years) and the assumed duration for the Rathbone 1987 Scheme is 20 years (2016: 24 years).

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S2NA actuarial tables (2016: S2NA tables). The assumed life expectations on retirement were:

		2017		2016	
		Males	Females	Males	Females
Retiring today:	– aged 60	**28.5**	**30.6**	29.3	31.5
	– aged 65	**23.7**	**25.6**	24.3	26.5
Retiring in 20 years:	– aged 60	**30.4**	**32.4**	31.8	33.9
	– aged 65	**25.4**	**27.4**	26.6	28.8

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows:

	2017			2016		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Present value of defined benefit obligations	**(12,980)**	**(151,133)**	**(164,113)**	(16,203)	(216,238)	(232,441)
Fair value of scheme assets	**12,278**	**136,235**	**148,513**	14,099	178,887	192,986
Net defined benefit liability	**(702)**	**(14,898)**	**(15,600)**	(2,104)	(37,351)	(39,455)

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2017			2016		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Current service cost	**–**	**1,559**	**1,559**	–	3,022	3,022
Net interest on net liability	**59**	**957**	**1,016**	1	35	36
Gain on plan amendment	**(305)**	**(5,218)**	**(5,523)**	–	–	–
	(246)	**(2,702)**	**(2,948)**	1	3,057	3,058

Remeasurements of the net defined benefit liability have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £1,170,000 (2016: £2,018,000 rise) for the Laurence Keen Scheme and a rise in value of £13,558,000 (2016: £31,353,000 rise) for the Rathbone 1987 Scheme.

Movements in the present value of defined benefit obligations were as follows:

	2017			2016		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**16,203**	**216,238**	**232,441**	14,002	161,965	175,967
Service cost (employer's part)	**–**	**1,559**	**1,559**	–	3,022	3,022
Interest cost	**412**	**5,219**	**5,631**	522	6,172	6,694
Contributions from members	**–**	**314**	**314**	–	981	981
Actuarial experience gains	**(214)**	**(4,489)**	**(4,703)**	(135)	(1,783)	(1,918)
Actuarial (gains)/losses arising from:						
– demographic assumptions	**(494)**	**(7,786)**	**(8,280)**	(519)	(4,379)	(4,898)
– financial assumptions	**369**	**5,439**	**5,808**	4,262	66,585	70,847
Gain on plan amendment	**(305)**	**(5,218)**	**(5,523)**	–	–	–
Benefits paid	**(2,991)**	**(60,143)**	**(63,134)**	(1,929)	(16,325)	(18,254)
At 31 December	**12,980**	**151,133**	**164,113**	16,203	216,238	232,441

Movements in the fair value of scheme assets were as follows:

	2017			2016		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**14,099**	**178,887**	**192,986**	13,991	157,475	171,466
Remeasurement of net defined benefit liability:						
– interest income	**353**	**4,262**	**4,615**	521	6,137	6,658
– return on scheme assets (excluding amounts included in interest income)	**817**	**9,296**	**10,113**	1,497	25,216	26,713
Contributions from the sponsoring companies	**–**	**3,619**	**3,619**	19	5,403	5,422
Contributions from scheme members	**–**	**314**	**314**	–	981	981
Benefits paid	**(2,991)**	**(60,143)**	**(63,134)**	(1,929)	(16,325)	(18,254)
At 31 December	**12,278**	**136,235**	**148,513**	14,099	178,887	192,986

27 *Long-term employee benefits continued*

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 also seeks to hedge around 50% of its interest rate and inflation risk by using Liability Driven Investment (LDI) strategies.

In the Laurence Keen Scheme the target date for the 100% allocation to safer assets is 31 December 2040.

The expected asset allocations at 31 December 2017 as set out in the statements of investment principles are as follows:

Target asset allocation at 31 December 2017	Laurence Keen Scheme %	Rathbone 1987 Scheme %
Benchmark		
Return seeking assets	**52**	**40**
Growth assets	**48**	**60**
Range		
Return seeking assets	**46 – 58**	**32 – 44**
Growth assets	**42 – 54**	**54 – 66**

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

Laurence Keen Scheme	2017 Fair value £'000	2016 Fair value £'000	2017 Current allocation %	2016 Current allocation %
Equity instruments:				
– United Kingdom	**3,722**	4,178		
– Eurozone	**409**	358		
– North America	**755**	921		
– Other	**558**	710		
	5,444	6,167	**45**	44
Debt instruments:				
– United Kingdom government bonds	**4,482**	5,413		
– United Kingdom corporate bonds	**1,686**	1,918		
	6,168	7,331	**50**	52
Cash	**283**	10	**2**	–
Other	**383**	591	**3**	4
At 31 December	**12,278**	14,099	**100**	100

Rathbone 1987 Scheme	2017 Fair value £'000	2016 Fair value £'000	2017 Current allocation %	2016 Current allocation %
Equity instruments:				
– United Kingdom	**41,736**	57,134		
– Eurozone	**6,016**	8,807		
– North America	**9,422**	14,486		
– Other	**7,168**	12,384		
	64,342	92,811	**47**	52
Debt instruments:				
– United Kingdom government bonds	**36,069**	35,836		
– Overseas government bonds	**1,973**	3,670		
– United Kingdom corporate bonds	**10,100**	17,505		
– Overseas corporate bonds	**–**	1,010		
	48,142	58,021	**35**	32
Derivatives:				
– Interest rate swap funds	**20,222**	17,365		
	20,222	17,365	**15**	10
Cash	**3,529**	9,885	**3**	6
Other	**–**	805	**–**	–
At 31 December	**136,235**	178,887	**100**	100

During 2017, the Rathbone 1987 Scheme held shares in real time inflation-linked interest rate swap funds, which had a fair value of £20,222,000 at the year end (2016: £17,365,000). The value of these investments is expected to increase when the value of the scheme's liabilities increase (and vice versa). They therefore act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation. The funds are selected so that their average duration is intended to broadly align with the duration of the scheme's liabilities.

All equity and debt instruments have quoted prices in active markets. The majority of government bonds are issued by governments of the United Kingdom, the United States of America and Germany all of which are rated AAA, AA+ or AA, based on credit ratings awarded by Fitch Ratings Limited (Fitch) or Moody's Corporation (Moody's) as at the balance sheet date. Other scheme assets comprise commodities and property funds, both of which also have quoted prices in active markets.

The key assumptions affecting the results of the valuation are the discount rate, future inflation, mortality, the rate of members transferring out and the average age at the time of transferring out. In order to demonstrate the sensitivity of the results to these assumptions, the actuary has recalculated the defined benefit obligations for each scheme by varying each of these assumptions in isolation whilst leaving the other assumptions unchanged. For example, in order to demonstrate the sensitivity of the results to the discount rate, the actuary has recalculated the defined benefit obligations for each scheme using a discount rate that is 0.5% higher than used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations are set out below.

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
0.5% increase in:		
– discount rate	(16,124)	(9.8)
– rate of inflation	7,323	4.5
1% increase in the rate of members transferring out each year	(449)	(0.3)
1 year increase to:		
– longevity at 60	6,759	4.1
– average age of members at the time of transferring out	574	0.3

27 *Long-term employee benefits continued*

The total regular contributions made by the group to the Rathbone 1987 Scheme during the year were £856,000 (2016: £2,558,000) based on 20.3% of pensionable salaries (2016: 20.3%). Additional lump sum contributions of £2,838,000 were paid in 2017 (2016: £2,917,000). The group is not committed to making any further deficit reduction contributions as at the year end. As part of the ongoing triennial valuation, the group has agreed with the trustees of the Rathbone 1987 Scheme to put in place a funding deficit reduction plan, which requires annual contributions of £2,750,000, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2019.

The total contributions made by the group to the Laurence Keen Scheme during the year were £nil (2016: £nil). No additional lump sum contributions were paid in 2017 (2016: £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. Although the funding valuation for the Laurence Keen Scheme as at 31 December 2016 has not yet been finalised, the group does not expect that material funding deficit contributions will be required.

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 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 1 January 2017	**50,682,679**		**2,535**	**139,991**	**142,526**
Shares issued:					
– to Share Incentive Plan	**86,671**	**1,784.0 – 2,611.0**	**4**	**1,725**	**1,729**
– to Save As You Earn scheme	**95,041**	**984.0 – 1,648.0**	**5**	**1,373**	**1,378**
– to Employee Benefit Trust	**437,683**	**5.0**	**22**	**–**	**22**
At 31 December 2017	**51,302,074**		**2,566**	**143,089**	**145,655**

The total number of issued and fully paid up ordinary shares at 31 December 2017 was 51,302,074 (2016: 50,682,679) 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.

29 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
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 1 January 2017	**336,987**	**6,243**
Acquired in the year	**461,067**	**441**
Released on vesting	**(141,361)**	**(1,820)**
At 31 December 2017	**656,693**	**4,864**

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 company held no own shares as treasury shares at 31 December 2017 (2016: 8,979). However, 382,751 shares were held in the Employee Benefit Trust at 31 December 2017 (2016: 31,803) and a further 273,942 (2016: 296,205) 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 2017, the trustees of the SIP held 1,092,120 (2016: 1,243,979) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £28,330,000 (2016: £24,668,000). Of the total number of shares held by the trustees, 263,165 (2016: 294,680) have been conditionally gifted to employees and 10,777 (2016: 1,525) remain unallocated. Dividends on the unallocated shares have been waived by the trustees.

Savings-related share option or Save As You Earn (SAYE) plan

Under the SAYE plan, employees can contribute up to £500 per month to acquire shares at the end of a three or five year savings period.

Options with an aggregate estimated fair value of £625,000, determined using a binomial valuation model including expected dividends, were granted on 28 April 2017 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2017, as at the date of issue, were as follows:

	2017	2016
Share price	**2,351p**	2,033p
Exercise price	**1,899p**	1,648p
Expected volatility	**20%**	21%
Risk-free rate	**0.2%**	0.7%
Expected dividend yield	**2.4%**	2.7%

Consolidated financial statements

30 *Share-based payments continued*

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	2017 Number of share options	2016 Number of share options
2012	984.0	2017	**–**	16,966
2013	1,106.0	2018	**74,868**	76,495
2014	1,556.0	2019	**59,415**	134,265
2015	1,641.0	2018 and 2020	**123,182**	128,418
2016	1,648.0	2019 and 2021	**141,034**	151,570
2017	1,899.0	2020 and 2022	**127,392**	–
At 31 December			**525,891**	507,714

Movements in the number of share options outstanding for the SAYE plan were as follows:

	2017		2016	
	Number of share options	Weighted average exercise price pence	Number of share options	Weighted average exercise price pence
At 1 January	**507,714**	**1,518.0**	484,364	1,379.0
Granted in the year	**130,745**	**1,899.0**	155,334	1,648.0
Forfeited in the year	**(17,520)**	**1,684.0**	(15,876)	1,612.0
Exercised in the year	**(95,048)**	**1,450.0**	(116,108)	1,098.0
At 31 December	**525,891**	**1,620.0**	507,714	1,518.0

The weighted average share price at the dates of exercise for share options exercised during the year was £25.72 (2016: £20.06). The options outstanding at 31 December 2017 had a weighted average contractual life of 2.3 years (2016: 2.5 years) and a weighted average exercise price of £16.20 (2016: £15.18).

Executive Incentive Plan

Details of the general terms of this plan are set out in the remuneration committee report on page 86.

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.

Other schemes

The group operates a number of other plans for rewarding employees. Participants are granted awards under these plans in the form of options, which vest automatically on an anniversary of the grant date (generally between one and five years). As the intention is to settle the options in such plans in shares, the awards are treated as equity-settled share-based payments under IFRS 2.

The group recognised total expenses of £3,871,000 in relation to share-based payment transactions in 2017 (2016: £5,201,000) (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 68 to 69.

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 or Moody's. Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the banking committee also utilises market intelligence information to assist its ongoing monitoring.

The group's financial assets are categorised as follows:

Balances with central banks (note 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.

31 Financial risk management continued

(i) Credit risk continued

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 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 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 2017, the total lending exposure limit for the investment management loan book was £175,000,000 (2016: £150,000,000), of which £120,433,000 had been advanced (2016: £106,276,000) and a further £30,025,000 had been committed (2016: £31,642,000).

(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

	2017 £'000	2016 £'000
Credit risk relating to on-balance sheet exposures:		
Cash and balances with central banks	**1,375,380**	1,075,670
Settlement balances	**46,784**	37,787
Loans and advances to banks	**117,253**	114,088
Loans and advances to customers:		
– overdrafts	**4,621**	3,740
– investment management loan book	**120,509**	106,335
– trust and financial planning debtors	**1,114**	946
– other debtors	**35**	21
Investment securities:		
– unlisted debt securities and money market funds	**808,713**	803,557
Other financial assets	**71,562**	56,986
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**30,025**	31,642
Financial guarantees	**117**	117
	2,576,113	2,230,889

The above table represents the group's gross credit risk exposure at 31 December 2017 and 2016, 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.

9.5% of the total maximum exposure is derived from loans and advances to banks and customers (2016: 10.1%) and 31.4% represents investment securities (2016: 36.0%).

The credit risk relating to off-balance sheet exposures for financial guarantees reflects the group's gross potential exposure of guarantees held on balance sheet (see note 1.21).

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.

	2017 £'000	2016 £'000
AA+ to AA-	**1,375,380**	1,075,670
Carrying value	**1,375,380**	1,075,670

Settlement balances

Settlement balances are summarised as follows:

	2017 £'000	2016 £'000
Neither past due nor impaired	**46,679**	36,964
Past due but not impaired < 90 days	**105**	823
Past due but not impaired > 90 days	**–**	–
Carrying value	**46,784**	37,787

31 Financial risk management continued

(i) Credit risk continued

Loans and advances

Loans and advances are summarised as follows:

	2017		2016	
	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	**117,253**	**125,610**	114,088	110,461
Past due but not impaired	**–**	**601**	–	487
Impaired	**–**	**68**	–	94
Gross carrying value	**117,253**	**126,279**	114,088	111,042
Less: allowance for impairment (note 16)	**–**	**(66)**	–	(91)
Net carrying value	**117,253**	**126,213**	114,088	110,951

No loans and advances have been renegotiated (2016: 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 2017 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:

	2017 £'000	2016 £'000
AA+ to AA-	**24,538**	23,321
A+ to A	**90,904**	90,737
Other*	**1,811**	30
	117,253	114,088

* 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 2017, which are all externally unrated, is analysed between those loans that are subject to standard lending criteria, which are described on page 152, and, where applicable, those loans for which there are no standard lending criteria. At 31 December 2017, all loans are subject to standard lending criteria (2016: 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 2017 and 2016, 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:

At 31 December	2017 £'000	2016 £'000
<90 days overdue	**385**	149
90-180 days overdue	**75**	148
180-270 days overdue	**53**	55
270-365 days overdue	**24**	46
>365 days overdue	**64**	89
	601	487

(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 2017	**91**
Amounts written off	**(26)**
Credit to profit or loss	**1**
At 31 December 2017	**66**

Gross carrying value of impaired loans and advances to customers	
At 31 December 2017	**68**
At 31 December 2016	94

All loans and advances to customers impaired relate to trust and financial planning debtors (2016: all). There were no other impaired credit exposures at 31 December 2017 (2016: £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.

	2017 Money market funds £'000	2017 Certificates of deposit £'000	2017 Total £'000	2016 Money market funds £'000	2016 Certificates of deposit £'000	2016 Total £'000
AAA	**106,747**	**–**	**106,747**	103,557	–	103,557
AA+ to AA-	**–**	**264,569**	**264,569**	–	325,000	325,000
A+ to A-	**–**	**437,397**	**437,397**	–	375,000	375,000
	106,747	**701,966**	**808,713**	103,557	700,000	803,557

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 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 2017	United Kingdom £'000	Eurozone £'000	Rest of the world £'000	Total £'000
Cash and balances with central banks	**1,375,380**	**–**	**–**	**1,375,380**
Settlement balances	**43,688**	**1,211**	**1,885**	**46,784**
Loans and advances to banks	**113,225**	**4,028**	**–**	**117,253**
Loans and advances to customers:				
– overdrafts	**4,295**	**68**	**258**	**4,621**
– investment management loan book	**112,286**	**269**	**7,954**	**120,509**
– trust and financial planning debtors	**1,048**	**–**	**–**	**1,048**
– other debtors	**35**	**–**	**–**	**35**
Investment securities:				
– unlisted debt securities and money market funds	**205,000**	**306,751**	**296,962**	**808,713**
Other financial assets	**63,238**	**1,076**	**1,385**	**65,699**
	1,918,195	**313,403**	**308,444**	**2,540,042**

31 Financial risk management continued

(i) Credit risk continued

Concentration of credit risk continued

(a) Geographical sectors continued

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

At 31 December 2017, materially all eurozone exposures were to counterparties based in the Netherlands and France (2016: Netherlands and France) and all rest of the world exposures were to counterparties based in Switzerland, Sweden, Canada and Australia (2016: Switzerland, Sweden, Canada and Australia). At 31 December 2017, the group had no exposure to sovereign debt (2016: no exposure to sovereign debt).

(b) Industry sectors

The group's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2017	**Public sector £'000**	**Financial institutions £'000**	**Clients and other corporates £'000**	**Total £'000**
Cash and balances with central banks	**1,375,380**	**–**	**–**	**1,375,380**
Settlement balances	**–**	**46,784**	**–**	**46,784**
Loans and advances to banks	**–**	**117,253**	**–**	**117,253**
Loans and advances to customers:				
– overdrafts	**–**	**–**	**4,621**	**4,621**
– investment management loan book	**–**	**–**	**120,509**	**120,509**
– trust and financial planning debtors	**–**	**–**	**1,048**	**1,048**
– other debtors	**–**	**–**	**35**	**35**
Investment securities:				
– unlisted debt securities and money market funds	**–**	**808,713**	**–**	**808,713**
Other financial assets	**1,138**	**2,578**	**61,983**	**65,699**
	1,376,518	**975,328**	**188,196**	**2,540,042**

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

(ii) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The primary objective of the group's treasury policy is to manage short to medium term liquidity requirements. In addition to setting the treasury policy, Rathbone Investment Management ('the Bank') performs an annual assessment of liquidity adequacy in accordance with the regulatory requirements of the Prudential Regulation Authority (PRA) (our Individual Liquidity Adequacy Assessment). The Bank faces two principal risks, namely that a significant proportion of client funds are withdrawn over a short period of time (retail funding risk) and the risk that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

Retail funding risks are monitored by daily cash mismatch analyses and Basel Committee ratios using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market wide stresses. Marketable assets risk is primarily managed by holding cash and marketable instruments which are realisable at short notice. The group operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the board at least annually in conjunction with an amount prescribed by the PRA.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the group under non-derivative financial assets and liabilities analysed by the remaining contractual maturities at the balance sheet date.

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash and balances with central banks	1,374,002	1,138	1,380	–	–	–	1,376,520
Settlement balances	–	46,785	–	–	–	–	46,785
Loans and advances to banks	75,826	11,490	30,577	–	–	–	117,893
Loans and advances to customers	4,733	13,407	43,304	70,450	–	–	131,894
Debt securities and money market funds	106,816	263,385	442,503	–	–	–	812,704
Other financial assets	110	60,859	640	3,435	2,819	–	67,863
Cash flows arising from financial assets	1,561,487	397,064	518,404	73,885	2,819	–	2,553,659
Deposits by banks	1,338	–	–	–	–	–	1,338
Settlement balances	–	54,452	–	–	–	–	54,452
Due to customers	2,081,805	83,469	5,306	–	–	–	2,170,580
Subordinated loan notes	–	586	586	22,342	–	–	23,514
Other financial liabilities	1,192	52,612	3,587	38,023	5,985	–	101,399
Cash flows arising from financial liabilities	2,084,335	191,119	9,479	60,365	5,985	–	2,351,283
Net liquidity gap	(522,848)	205,945	508,925	13,520	(3,166)	–	202,376
Cumulative net liquidity gap	(522,848)	(316,903)	192,022	205,542	202,376	202,376	

Included in 'Other financial liabilities' in the table above are cash flows for lease payments under the group's agreement for leased space at 1 Curzon Street. These contractual payments comprise part of the onerous lease provision for that property (see note 25).

31 *Financial risk management continued*

(ii) Liquidity risk continued

Non-derivative cash flows continued

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	

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 £2,565,000 of equity investments (2016: £1,864,000) 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.

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 2017	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	**30,025**	**–**	**–**	**–**	**30,025**
Financial guarantees	**–**	**–**	**117**	**–**	**117**
Operating lease commitments	**712**	**3,817**	**28,780**	**57,293**	**90,602**
Capital commitments	**48**	**–**	**–**	**–**	**48**
Total off-balance sheet items	**30,785**	**3,817**	**28,897**	**57,293**	**120,792**

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

Total liquidity requirement

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	**2,084,335**	**191,119**	**9,479**	**60,365**	**5,985**	**2,351,283**
Total off-balance sheet items	**–**	**30,785**	**3,817**	**28,897**	**57,293**	**120,792**
Total liquidity requirement	**2,084,335**	**221,904**	**13,296**	**89,262**	**63,278**	**2,472,075**

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

31 *Financial risk management continued*

(iii) Market risk

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The 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 2017	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Cash and balances with central banks	**1,374,000**	**–**	**–**	**–**	**–**	**1,382**	**1,375,382**
Settlement balances	**–**	**–**	**–**	**–**	**–**	**46,784**	**46,784**
Loans and advances to banks	**86,673**	**244**	**30,000**	**–**	**–**	**336**	**117,253**
Loans and advances to customers	**125,046**	**–**	**–**	**–**	**–**	**1,167**	**126,213**
Investment securities:							
– equity securities	**–**	**–**	**–**	**–**	**–**	**2,565**	**2,565**
– unlisted debt securities and money market funds	**368,708**	**85,005**	**355,000**	**–**	**–**	**–**	**808,713**
Other financial assets	**–**	**–**	**–**	**–**	**–**	**65,699**	**65,699**
Total financial assets	**1,954,427**	**85,249**	**385,000**	**–**	**–**	**117,933**	**2,542,609**
Liabilities							
Deposits by banks	**1,338**	**–**	**–**	**–**	**–**	**–**	**1,338**
Settlement balances	**–**	**–**	**–**	**–**	**–**	**54,452**	**54,452**
Due to customers	**2,139,188**	**5,285**	**–**	**–**	**–**	**26,025**	**2,170,498**
Subordinated loan notes	**–**	**–**	**–**	**19,695**	**–**	**–**	**19,695**
Other financial liabilities	**–**	**–**	**–**	**–**	**42**	**81,694**	**81,736**
Total financial liabilities	**2,140,526**	**5,285**	**–**	**19,695**	**42**	**162,171**	**2,327,719**
Interest rate repricing gap	**(186,099)**	**79,964**	**385,000**	**(19,695)**	**(42)**	**(44,238)**	**214,890**

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							
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

The banking committee has set an overall pre-tax interest rate exposure limit of £6,000,000 (2016: £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 2017, the Bank had a net present value sensitivity of £4,310,000 (2016: £3,696,000) for an upward 2% shift in rates. The group held no forward rate agreements at 31 December 2017 (2016: 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.

31 *Financial risk management continued*

(iii) Market risk continued

Foreign exchange risk continued

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 2017. Included in the table are the group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2017	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances with central banks	**1,375,382**	**–**	**–**	**–**	**1,375,382**
Settlement balances	**46,166**	**465**	**–**	**153**	**46,784**
Loans and advances to banks	**80,727**	**15,363**	**13,946**	**7,217**	**117,253**
Loans and advances to customers	**118,591**	**4,482**	**3,140**	**–**	**126,213**
Investment securities:					
– equity securities	**2,565**	**–**	**–**	**–**	**2,565**
– unlisted debt securities and money market funds	**720,005**	**88,708**	**–**	**–**	**808,713**
Other financial assets	**65,242**	**341**	**61**	**55**	**65,699**
Total financial assets	**2,408,678**	**109,359**	**17,147**	**7,425**	**2,542,609**
Liabilities					
Deposits by banks	**1,338**	**–**	**–**	**–**	**1,338**
Settlement balances	**52,431**	**950**	**958**	**113**	**54,452**
Due to customers	**2,039,156**	**109,453**	**14,773**	**7,116**	**2,170,498**
Subordinated loan notes	**19,695**	**–**	**–**	**–**	**19,695**
Other financial liabilities	**81,580**	**26**	**130**	**–**	**81,736**
Total financial liabilities	**2,194,200**	**110,429**	**15,861**	**7,229**	**2,327,719**
Net on-balance sheet position	**214,478**	**(1,070)**	**1,286**	**196**	**214,890**
Loan commitments	**30,025**	**–**	**–**	**–**	**30,025**

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

A 10% weakening of the US dollar against sterling, occurring on 31 December 2017, would have increased equity and profit after tax by £86,000 (2016: reduced by £124,000). A 10% weakening of the euro against sterling, occurring on 31 December 2017, would have reduced equity and profit after tax by £104,000 (2016: reduced by £30,000). 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 2017, the fair value of equity securities recognised on the balance sheet was £2,565,000 (2016: £1,864,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax decrease to net assets of £133,000 (2016: £110,000); 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 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**2,565**	**–**	**–**	**2,565**
– money market funds	**–**	**106,747**	**–**	**106,747**
	2,565	**106,747**	**–**	**109,312**

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

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 (2016: none).

The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of the following:

- Held to maturity investment debt securities (note 17) comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2017 was £704,002,000 (2016: £704,815,000) and the carrying value was £701,966,000 (2016: £700,000,000). 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. The fair value of the loan notes at 31 December 2017 was £20,478,000 (2016: £19,578,000) and the carrying value was £19,695,000 (2016: £19,590,000). 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 2017 this totalled £363,278,000 (2016: £324,813,000).

Rathbone Investment Management has issued 10 year subordinated Tier 2 loan notes (note 26). As at 31 December 2017, the carrying value of the notes was £19,675,000 (2016: £19,590,000). From time-to-time, the group also runs small overnight overdraft balances as part of working capital.

The group's objectives when managing capital are to:

- safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- maintain a strong capital base in a cost-efficient manner to be able to support the development of the business when required;
- optimise the distribution of capital across group companies, reflecting the requirements of each business;
- strive to make capital freely transferable across the group where possible; and
- comply with regulatory requirements at all times.

Rathbones is classified for capital purposes as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP), which is presented to the PRA on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with published rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the PRA's Pillar 1 and Pillar 2 methodology. The group has adopted the standardised approach to calculating its Pillar 1 credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both group and entity level.

At 31 December 2017 the group's regulatory capital resources, including retained earnings for 2017, were £216,838,000 (2016: £174,192,000). The increase in reserves during 2017 is due an increase in the group's retained earnings on account of profits generated in the year and the gain on remeasurement of the defined benefit liabilities.

In addition to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecast on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions.

No breaches were reported to the PRA during the financial years ended 31 December 2016 and 2017.

33 Contingent liabilities and commitments

(a) Capital expenditure authorised and contracted for at 31 December 2017 but not provided in the financial statements amounted to £48,000 (2016: £4,430,000).

(b) The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	2017 £'000	2016 £'000
Guarantees	**117**	117
Undrawn commitments to lend of 1 year or less	**20,985**	25,661
Undrawn commitments to lend of more than 1 year	**9,040**	5,981
	30,142	31,759

The fair value of the guarantees is £nil (2016: £nil).

(c) The group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. At 31 December 2017, the group's agreements to lease space at 8 Finsbury Circus had remaining lease terms of 15 years; total payments due over this period are £75,946,000. The leases provide for rent reviews every 5 years.

Payments under non-cancellable operating leases	2017 £'000	2016 £'000
No later than 1 year	**4,529**	6,011
Later than 1 year and no later than 5 years	**28,780**	39,336
Later than 5 years	**57,293**	69,148
	90,602	114,495

The above table excludes total lease payments of £18,124,000, at 31 December 2017, under the group's agreement for leased space at 1 Curzon Street, as these payments are included as part of the cash flows that comprise the onerous lease provision for that property (see note 25). These cash flows have been included in 'Other financial liabilities' in note 31.

(d) The arrangements put in place by the Financial Services Compensation Scheme (FSCS) to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years. The financial impact of unexpected FSCS levies is largely out of the group's control as they result from other industry failures.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The group contributes to the deposit class, investment fund management class and investment intermediation levy classes and accrues levy costs for future levy years when the obligation arises.

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 directors' remuneration report on page 95.

	2017 £'000	2016 £'000
Short term employee benefits	**10,951**	10,750
Post-employment benefits	**327**	330
Other long term benefits	**2,425**	1,581
Share-based payments	**2,187**	2,775
	15,890	15,436

Dividends totalling £408,000 were paid in the year (2016: £302,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2017, the group had outstanding interest-free season ticket loans of £6,000 (2016: £6,000) issued to key management personnel.

At 31 December 2017, key management personnel and their close family members had gross outstanding deposits of £4,059,000 (2016: £5,464,000) and gross outstanding banking loans of £728,000 (2016: £959,000), all of which (2016: 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.

34 Related party transactions continued

Other related party transactions

The group's transactions with the pension funds are described in note 27. At 31 December 2017, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2016: £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 2017, the group managed 25 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2016: 25 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

The following transactions and balances relate to the group's interest in the unit trusts:

Year ended 31 December	2017 £'000	2016 £'000
Total management fees	**35,525**	27,783

As at 31 December	2017 £'000	2016 £'000
Management fees owed to the group	**3,266**	2,557
Holdings in unit trusts (note 17)	**2,565**	1,864
	5,831	4,421

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 2017, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £2,565,000 (2016: £1,864,000), representing 0.05% (2016: 0.05%) of the total value of the collectives managed by the group. These assets are held to hedge the group's exposure to deferred remuneration schemes for employees of Unit Trusts.

The group's primary risk associated with its interest in the unit trusts is from changes in fair value of its holdings in the funds.

The group is not judged to control, and therefore does not consolidate, the collectives. Although the fund trustees have limited rights to remove Rathbone Unit Trust Management as manager, the group is exposed to very low variability of returns from its management and share of ownership of the funds and is therefore judged to act as an agent rather than having control under IFRS 10.

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:

	2017 £'000	2016 £'000
Cash and balances at central banks (note 14)	**1,374,002**	1,075,673
Loans and advances to banks (note 15)	**87,009**	83,844
Available for sale investment securities (note 17)	**106,747**	103,557
At 31 December	**1,567,758**	1,263,074

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:

	2017 £'000	2016 £'000
Share capital issued (note 28)	**31**	128
Share premium on shares issued (note 28)	**3,098**	42,348
Shares issued in relation to share-based schemes for which no cash consideration was received	**(441)**	(1,631)
Shares issued in relation to business combinations (note 28)	**–**	(646)
	2,688	40,199

A reconciliation of the movements of liabilities to cash flows arising from financing activities were as follows:

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	**19,590**	**142,526**	**25,742**	**156,545**	**344,403**
Changes from financing cash flows					
Proceeds from issue of share capital	**–**	**3,129**	**–**	**–**	**3,129**
Proceeds from sale of treasury shares	**–**	**–**	**1,379**	**(1,820)**	**(441)**
Dividends paid	**–**	**–**	**–**	**(29,420)**	**(29,420)**
Total changes from financing cash flows	**–**	**3,129**	**1,379**	**(31,240)**	**(26,732)**
The effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**
Other changes					
Liability-related					
Interest expense	**1,276**	**–**	**–**	**–**	**1,276**
Interest paid	**(1,171)**	**–**	**–**	**–**	**(1,171)**
Total liability-related changes	**105**	**–**	**–**	**–**	**105**
Total equity-related other changes	**–**	**–**	**100**	**65,097**	**65,197**
At 31 December 2017	**19,695**	**145,655**	**27,221**	**190,402**	**382,973**

37 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report

.

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 2017.

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 page 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	**284,726**	**56,914**	**13,850**	**1,132**
Jersey	**10,831**	**2,493**	**237**	**15**
Sub-total	**295,557**	**59,407**	**14,087**	**1,147**
Intergroup eliminations and other entries arising on consolidation	**(3,985)**	**(506)**	**–**	**–**
Total	**291,572**	**58,901**	**14,087**	**1,147**

Company statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
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 1 January 2017		**2,535**	**139,991**	**150**	**(6,243)**	**48,906**	**185,339**
Profit for the year						**32,614**	**32,614**
Net remeasurement of defined benefit liability	49					**17,288**	**17,288**
Revaluation of available for sale investment securities:							
– net gain from changes in fair value	17			**163**			**163**
– net profit on disposal transferred to profit or loss during the year				**(43)**			**(43)**
Deferred tax relating to components of other comprehensive income	46			**(20)**		**(2,939)**	**(2,959)**
Other comprehensive income net of tax		**–**	**–**	**100**	**–**	**14,349**	**14,449**
Dividends paid	42					**(29,420)**	**(29,420)**
Issue of share capital	50	**31**	**3,098**				**3,129**
Share-based payments:							
– value of employee services						**3,591**	**3,591**
– cost of own shares acquired	50				**(441)**		**(441)**
– cost of own shares vesting	50				**1,820**	**(1,820)**	**–**
– tax on share-based payments	46					**328**	**328**
At 31 December 2017		**2,566**	**143,089**	**250**	**(4,864)**	**68,548**	**209,589**

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

Company balance sheet
as at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Investment in subsidiaries	43	**180,503**	140,503
Other investments	44	**12,565**	11,864
Deferred tax	46	**4,455**	8,128
		197,523	160,495
Current assets			
Trade and other receivables	45	**114,597**	131,310
Current tax asset		**1,616**	92
Cash and cash equivalents		**7,400**	6,212
		123,613	137,614
Total assets		**321,136**	298,109
Current liabilities			
Trade and other payables	47	**(73,018)**	(59,264)
Provisions for liabilities and charges	48	**(22,929)**	(14,051)
		(95,947)	(73,315)
Net current assets		**27,666**	64,299
Non-current liabilities			
Retirement benefit obligations	49	**(15,600)**	(39,455)
Total liabilities		**(111,547)**	(112,770)
Net assets		**209,589**	185,339
Equity			
Share capital	50	**2,566**	2,535
Share premium	50	**143,089**	139,991
Available for sale reserve		**250**	150
Own shares	50	**(4,864)**	(6,243)
Retained earnings		**68,548**	48,906
Equity shareholders' funds		**209,589**	185,339

The financial statements were approved by the board of directors and authorised for issue on 21 February 2018 and were signed on their behalf by:

Philip Howell
Chief Executive

Paul Stockton
Finance Director

Company registered number: 01000403

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

Company statement of cash flows

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**30,390**	40,955
Net profit on disposal of available for sale investment securities		**(43)**	–
Net interest and dividends receivable		**(47,576)**	(48,772)
Net charge for provisions	48	**16,523**	964
Defined benefit pension scheme charges	49	**(2,948)**	3,058
Defined benefit pension scheme contributions paid	49	**(3,619)**	(5,422)
Share-based payment charges	50	**3,871**	5,201
		(3,402)	(4,016)
Changes in operating assets and liabilities:			
– net decrease in trade debtors		**–**	–
– net decrease/(increase) in prepayments, accrued income and other assets		**16,712**	(52,946)
– net increase in accruals, deferred income, provisions and other liabilities		**5,590**	7,959
Cash used in/(generated from) operations		**18,900**	(49,003)
Tax received		**1,747**	397
Net cash inflow/(outflow) from operating activities		**20,647**	(48,606)
Cash flows from investing activities			
Interest received		**24**	94
Interest paid		**(208)**	(81)
Inter-company dividends received		**48,000**	48,800
Acquisition of subsidiaries		**–**	(2,532)
Investment in subsidiaries	43	**(40,000)**	(11,725)
Repayment of subordinated loans by group undertakings	43	**–**	1,750
Purchase of other investments		**(698)**	(701)
Proceeds from sale of investments		**160**	–
Net cash generated from investing activities		**7,278**	35,605
Cash flows from financing activities			
Issue of ordinary shares	50	**2,688**	40,199
Dividends paid	42	**(29,420)**	(26,479)
Net cash (used in)/generated from financing activities		**(26,732)**	13,720
Net increase in cash and cash equivalents		**1,193**	719
Cash and cash equivalents at the beginning of the year		**5,963**	5,244
Cash and cash equivalents at the end of the year	55	**7,156**	5,963

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.

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 judgements and key sources of estimation and uncertainty

The critical accounting judgement and key sources of estimation and uncertainty arise from the company's defined benefit pension schemes and the onerous lease provision in relation to surplus property at the company's previous head office at 1 Curzon Street. These are 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 2017 of £32,614,000 (2016: £40,950,000).

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:

	2017	2016
Investment Management:		
– investment management services	**715**	681
– advisory services	**92**	82
Unit Trusts	**28**	27
Shared services	**293**	259
	1,128	1,049

42 Dividends

Details of the company's dividends paid and proposed for approval at the Annual General Meeting are set out in note 12 to the consolidated financial statements.

The company's dividend policy is described in the directors' report on page 104.

Reserves available for distribution as at 31 December were comprised as follows:

	2017 £'000	2016 £'000
Net assets	**209,589**	185,339
Less:		
– share capital	**(2,566)**	(2,535)
– share premium	**(143,089)**	(139,991)
Distributable reserves	**63,934**	42,813

Movements in reserves available for distribution were as follows:

	2017 £'000	2016 £'000
As at 1 January	**42,813**	57,875
Profit for the year	**32,614**	40,950
Net remeasurement of defined benefit liability	**14,349**	(31,382)
Net gain on revaluation of available for sale investment securities	**100**	79
Dividends paid	**(29,420)**	(26,479)
Other movements	**3,478**	1,770
As at 31 December	**63,934**	42,813

43 Investment in subsidiaries

	Equities £'000	Subordinated loans to group undertakings £'000	Total £'000
At 1 January 2016	128,857	1,750	130,607
Additions	11,725	–	11,725
Disposals	(79)	(1,750)	(1,829)
At 1 January 2017	**140,503**	**–**	**140,503**
Additions	**40,000**	**–**	**40,000**
Disposals	**–**	**–**	**–**
At 31 December 2017	**180,503**	**–**	**180,503**

43 *Investment in subsidiaries continued*

Equities

On 11 December 2017, 445,000 ordinary shares of £1 each in Rathbone Investment Management were issued to the company at a price of £90 per share for cash consideration.

At 31 December 2017 the company's subsidiary undertakings were as follows:

Subsidiary undertaking	Activity and operation
Rathbone Investment Management Limited	Investment management and banking services
Rathbone Investment Management International Limited*	Investment management
Rathbone Trust Company Limited	Trust and tax services
Rathbone Unit Trust Management Limited*	Unit trust management
Arcticstar Limited	Introducer of private clients
Vision Independent Financial Planning Limited	Financial planning services
Castle Investment Solutions Limited	Investment support services
Rathbone Trust Legal Services Limited*	Trust and legal services
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 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.

On 1 January 2018, 17,645 ordinary shares of 5p each in Vision Independent Financial Planning Limited were issued to the company at a price of £295 per share in exchange for the company's equity holding in Castle Investment Solutions. This transaction is not reflected in the above disclosure.

44 Other investments

Available for sale securities

	2017 £'000	2016 £'000
Equity securities – at fair value:		
– listed	**2,565**	1,864
Money market funds – at fair value:		
– unlisted	**10,000**	10,000
	12,565	11,864

45 Trade and other receivables

	2017 £'000	2016 £'000
Prepayments and other receivables	**4,403**	3,836
Amounts owed by group undertakings	**110,194**	127,474
	114,597	131,310
Current	**114,597**	131,310
Non-current	**–**	–
	114,597	131,310

46 Deferred tax

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
As at 1 January 2017	**6,705**	**1,264**	**189**	**(30)**	**8,128**
Recognised in profit or loss in respect of:					
– current year	**(1,264)**	**(57)**	**144**	**–**	**(1,177)**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**148**	**4**	**(17)**	**–**	**135**
Total recognised in profit or loss	**(1,116)**	**(53)**	**127**	**–**	**(1,042)**
Recognised in other comprehensive income in respect of:					
– current year	**(3,327)**	**–**	**–**	**(23)**	**(3,350)**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**388**	**–**	**–**	**3**	**391**
Total recognised in other comprehensive income	**(2,939)**	**–**	**–**	**(20)**	**(2,959)**
Recognised in equity in respect of:					
– current year	**–**	**318**	**–**	**–**	**318**
– prior year	**–**	**10**	**–**	**–**	**10**
– change in rate	**–**	**–**	**–**	**–**	**–**
Total recognised in equity	**–**	**328**	**–**	**–**	**328**
As at 31 December 2017	**2,650**	**1,539**	**316**	**(50)**	**4,455**

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Available for sale securities £'000	Total £'000
Deferred tax assets	**2,650**	**1,539**	**316**	**–**	**4,505**
Deferred tax liabilities	**–**	**–**	**–**	**(50)**	**(50)**
As at 31 December 2017	**2,650**	**1,539**	**316**	**(50)**	**4,455**

46 *Deferred tax continued*

	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

	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

47 Trade and other payables

	2017 £'000	2016 £'000
Trade creditors	**355**	571
Accruals, deferred income and other creditors	**64,672**	53,338
Amounts owed to group undertakings	**230**	–
Other taxes and social security costs	**7,761**	5,355
	73,018	59,264

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 2016	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**
Charged to profit or loss	**–**	**–**	**16,523**	**16,523**
Other movements	**2,743**	**84**	**–**	**2,827**
Utilised/paid during the year	**(4,883)**	**–**	**(5,589)**	**(10,472)**
As at 31 December 2017	**8,070**	**1,220**	**13,639**	**22,929**
Payable within 1 year	**4,768**	**–**	**5,794**	**10,562**
Payable after 1 year	**3,302**	**1,220**	**7,845**	**12,367**
	8,070	**1,220**	**13,639**	**22,929**

Deferred, variable costs to acquire client relationship intangibles of £2,743,000 arose during the year, in relation to deferred payments to investment managers and third parties linked to the value of client funds introduced (2016: £7,820,000).

Deferred and contingent consideration of £1,220,000 (2016: £1,136,000) is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Property-related provisions of £13,639,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the company (2016: £2,705,000). Dilapidation provisions are calculated using a discounted cash flow model; during the year, provisions have decreased by £544,000 (2016: increased by £964,000) due to the utilisation of the dilapidation provision held for surplus property at 1 Curzon Street during the year.

Provisions payable after one year are expected to be settled within two years of the balance sheet date (2016: three years), except for the property-related provisions of £7,845,000 (2016: £1,413,000). These are expected to be settled within 19 years of the balance sheet date (2016: 20 years).

49 Long-term employee benefits

Details of the defined benefit pension schemes operated by the company are provided in note 27 to the consolidated 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 consolidated financial statements. Details of options on the company's shares and share-based payments are set out in note 30 to the consolidated financial statements.

51 Financial instruments

The company's risk management policies and procedures are integrated with the wider Rathbones group's risk management process. The Rathbones group has identified the risks arising from all of its activities, including those of the company, and has established policies and procedures to manage these items in accordance with its risk appetite. The company categorises its financial risks into the following primary areas:

(i) credit risk;
(ii) liquidity risk;
(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk); and
(iv) pension risk.

The company's exposures to pension risk are set out in note 27 to the consolidated financial statements.

The sections below outline the group risk appetite, as applicable to the company, and explain how the company defines and manages each category of financial risk.

The company's financial risk management policies are designed to identify and analyse the financial risks that the company faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in the business and the wider industry.

The company's overall strategy and policies for monitoring and management of financial risk are set by the board of directors (the board). The board has embedded risk management within the business through the executive committee and senior management.

(i) Credit risk

The company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its trading activities. The principal sources of credit risk arise from depositing funds with banks and through providing long term and working capital financing for subsidiaries.

The company's financial assets are categorised as follows:

Trade and other receivables

Trade and other receivables relate to amounts placed with subsidiaries, 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 or 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 2016.

Maximum exposure to credit risk

	2017 £'000	2016 £'000
Other investments:		
– money market funds	**10,002**	10,000
Trade and other receivables:		
– amounts owed by group undertakings	**110,194**	127,474
– other financial assets	**7,500**	1,112
Balances at banks	**7,400**	6,212
	135,096	144,798

The above table represents the gross credit risk exposure of the company at 31 December 2017 and 2016, 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:

	2017 £'000	2016 £'000
Neither past due nor impaired	**110,194**	127,474
Impaired	**–**	–
Gross carrying value	**110,194**	127,474
Less: allowance for impairment	**–**	–
Net carrying value	**110,194**	127,474

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.

	2017 £'000	2016 £'000
A	**5,733**	6,194
Other*	**1,667**	18
	7,400	6,212

* 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 2017, based on Fitch or Moody's long term rating designation.

	2017		2016	
	Money market funds £'000	Total £'000	Money market funds £'000	Total £'000
AAA	**10,000**	**10,000**	10,000	10,000

Company financial statements

51 *Financial instruments continued*

(i) *Credit risk continued*

Concentration of credit risk

The company has counterparty credit risk within its balances at banks in that the principal exposure is to its banking subsidiary. The board sets and monitors the group policy for the management of group funds, which include the placement of funds with a range of high-quality financial institutions.

(a) Geographical sectors

The following table analyses the company's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2017	United Kingdom £'000	Rest of the world £'000	Total £'000
Other investments:			
– money market funds	**10,000**	**–**	**10,000**
Trade and other receivables:			
– amounts owed by group undertakings	**109,906**	**288**	**110,194**
– other financial assets	**1,196**	**439**	**1,635**
Balances at banks	**7,400**	**–**	**7,400**
	128,502	**727**	**129,229**

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 2017, all rest of the world exposures were to counterparties based in Jersey and the United States of America (2016: Jersey and the United States of America). At 31 December 2017, the company had no exposure to sovereign debt (2016: 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 2017	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
– money market funds	**10,000**	**–**	**10,000**
Trade and other receivables:			
– amounts owed by group undertakings	**82,131**	**28,063**	**110,194**
– other financial assets	**2**	**1,633**	**1,635**
Balances at banks	**7,400**	**–**	**7,400**
	99,533	**29,696**	**129,229**

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

(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 (2016: £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 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	**10,002**	**–**	**–**	**–**	**–**	**–**	**10,002**
Trade and other receivables:							
– amounts owed by group undertakings	**110,194**	**–**	**–**	**–**	**–**	**–**	**110,194**
– other financial assets	**7**	**600**	**639**	**3,435**	**2,819**	**–**	**7,500**
Balances at banks	**7,156**	**–**	**244**	**–**	**–**	**–**	**7,400**
Cash flows arising from financial assets	**127,359**	**600**	**883**	**3,435**	**2,819**	**–**	**135,096**
Trade and other payables:							
– amounts owed to group undertakings	**230**	**–**	**–**	**–**	**–**	**–**	**230**
– other financial liabilities	**244**	**42,858**	**3,404**	**37,746**	**5,873**	**–**	**90,125**
Cash flows arising from financial liabilities	**474**	**42,858**	**3,404**	**37,746**	**5,873**	**–**	**90,355**
Net liquidity gap	**126,885**	**(42,258)**	**(2,521)**	**(34,311)**	**(3,054)**	**–**	**44,741**
Cumulative net liquidity gap	**126,885**	**84,627**	**82,106**	**47,795**	**44,741**	**44,741**	

51 *Financial instruments continued*

(ii) *Liquidity risk continued*

Non-derivative cash flows continued

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	

Included within trade and other payables disclosed above are balances that are repayable on demand or that do not have a contractual maturity date, which historical experience shows are unlikely to be called in the short term.

Included within other financial liabilities disclosed above are cash flows for lease payments under the company's agreement for leased space at 1 Curzon Street. These contractual payments comprise part of the onerous lease provision for that property (see note 25).

The company holds £2,565,000 of equity investments (2016: £1,864,000) 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.

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 2017	**658**	**3,651**	**27,973**	**57,002**	**89,284**
At 31 December 2016	1,426	4,362	38,487	68,681	112,956

Total liquidity requirement

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	**474**	**42,858**	**3,404**	**37,746**	**5,873**	**90,355**
Total off-balance sheet items	**–**	**658**	**3,651**	**27,973**	**57,002**	**89,284**
Total liquidity requirement	**474**	**43,516**	**7,055**	**65,719**	**62,875**	**179,639**

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

(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 2017	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Other investments:							
– equity securities	**–**	**–**	**–**	**–**	**–**	**2,565**	**2,565**
– money market funds	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
Trade and other receivables:							
– amounts owed by group undertakings	**–**	**–**	**–**	**–**	**–**	**110,194**	**110,194**
– other financial assets	**–**	**–**	**–**	**–**	**–**	**1,635**	**1,635**
Balances at banks	**7,150**	**244**	**–**	**–**	**–**	**6**	**7,400**
Total financial assets	**17,150**	**244**	**–**	**–**	**–**	**114,400**	**131,794**
Liabilities							
Trade and other payables:							
– amounts owed to group undertakings	**–**	**–**	**–**	**–**	**–**	**230**	**230**
– other financial liabilities	**–**	**–**	**–**	**–**	**–**	**70,520**	**70,520**
Total financial liabilities	**–**	**–**	**–**	**–**	**–**	**70,750**	**70,750**
Interest rate repricing gap	**17,150**	**244**	**–**	**–**	**–**	**43,650**	**61,044**

51 *Financial instruments continued*

iii. Market risk continued

Interest rate risk continued

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

A 1% parallel increase/decrease in the sterling yield curve would have no impact on profit after tax or equity (2016: no impact).

Foreign exchange risk

The company does not have any material exposure to transactional foreign exchange risk. The table below summarises the company's exposure to foreign currency translation risk at 31 December 2017. Included in the table are the company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2017	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
Assets				
Other investments:				
– equity securities	**2,565**	**–**	**–**	**2,565**
– money market funds	**10,000**	**–**	**–**	**10,000**
Trade and other receivables:				
– amounts owed by group undertakings	**110,194**	**–**	**–**	**110,194**
– other financial assets	**1,383**	**252**	**–**	**1,635**
Balances at banks	**7,400**	**–**	**–**	**7,400**
Total financial assets	**131,542**	**252**	**–**	**131,794**
Liabilities				
Trade and other payables:				
– amounts owed to group undertakings	**230**	**–**	**–**	**230**
– other financial liabilities	**70,520**	**–**	**–**	**70,520**
Total financial liabilities	**70,750**	**–**	**–**	**70,750**
Net on-balance sheet position	**60,792**	**252**	**–**	**61,044**

At 31 December 2016	Sterling £'000	US dollar £'000	Euro £'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

A 10% weakening of the US dollar against sterling, occurring on 31 December 2017, would have reduced equity and profit after tax by £20,000 (2016: £21,000). 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 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**2,565**	**–**	**–**	**2,565**
– money market funds	**–**	**10,000**	**–**	**10,000**
	2,565	**10,000**	**–**	**12,565**

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

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 (2016: 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.

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 group leases various offices and other assets under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. At 31 December 2017, the company's agreements to lease space at 8 Finsbury Circus had remaining lease terms of 15 years; total payments due over this period are £75,946,000. The leases provide for rent reviews every five years.

Payments under non-cancellable operating leases	2017 £'000	2016 £'000
No later than 1 year	**4,310**	5,788
Later than 1 year and no later than 5 years	**27,973**	38,487
Later than 5 years	**57,002**	68,681
	89,285	112,956

The above table excludes total lease payments of £18,124,000 at 31 December 2017, under the company's agreement for leased space at 1 Curzon Street as these payments are included as part of the cash flows that comprise the onerous lease provision for that property (see note 25). These cash flows have been included in 'Other financial liabilities' in note 51.

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.

	2017 £'000	2016 £'000
Short term employee benefits	**1,569**	1,727
Post-employment benefits	**–**	12
Share-based payments	**602**	847
	2,171	2,586

Dividends totalling £408,000 were paid in the year (2016: £302,000) 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:

	2017 Receivable £'000	2017 Payable £'000	2016 Receivable £'000	2016 Payable £'000
Interest	–	–	34	–
Charges for management services	**152,708**	–	139,954	–
Dividends received	**48,000**	–	48,800	–
	200,708	–	188,788	–

The company's balances with fellow group companies at 31 December 2017 are set out in notes 45 and 47.

The company's transactions with the pension funds are described in note 49. At 31 December 2017, no amounts were due from the pension schemes (2016: £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:

	2017 £'000	2016 £'000
Cash at bank (excluding amounts held at employee benefit trust)	**7,156**	5,963

A reconciliation of the movements of liabilities to cash flows arising from financing activities is provided in note 36 to the consolidated financial statements.

56 Events after the balance sheet date

On 1 January 2018, the company transferred 100% of its equity holding in Castle Investment Solutions to Vision Independent Financial Planning, a 100% owned subsidiary undertaking, in a share-for-share exchange (see note 43).

Further information

Five year record

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Underlying operating income	**286,049**	251,283	229,178	200,803	176,409
Underlying profit before tax	**87,520**	74,880	70,365	61,556	50,510
Profit before tax	**58,901**	50,129	58,632	45,710	44,204
Profit after tax	**46,829**	38,157	46,371	35,678	34,751
Equity dividends paid and proposed	**30,429**	28,267	26,305	24,863	22,645
Basic earnings per share	**92.7p**	78.9p	97.4p	76.0p	76.1p
Diluted earnings per share	**91.9p**	78.2p	96.6p	75.4p	75.6p
Underlying earnings per share	**138.8p**	122.1p	117.0p	102.4p	86.7p
Dividends per ordinary share	**61.0p**	57.0p	55.0p	52.0p	49.0p
Equity shareholders' funds	**363,278**	324,813	300,192	271,271	251,000
Total funds under management	**£39.1bn**	£34.2bn	£29.2bn	£27.2bn	£22.0bn

Corporate information

	Investment Management	Unit Trusts
Principal trading names	Rathbone Investment Management Rathbone Investment Management International Rathbone Greenbank Investments Rathbone Trust Company Rathbone Trust Legal Services Vision Independent Financial Planning Castle Investment Solutions	Rathbone Unit Trust Management
Direct employees	826	28
Offices	16	1
Websites	www.rathbones.com www.rathboneimi.com www.rathbonegreenbank.com	www.rathbones.com www.rutm.com

Company secretary and registered office

A Johnson
Rathbone Brothers Plc
8 Finsbury Circus
London
EC2M 7AZ

Company No. 01000403
www.rathbones.com
ali.johnson@rathbones.com

Registrars and transfer office

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
www.equiniti.com

Our offices

Head office

8 Finsbury Circus
London
EC2M 7AZ
+44 (0)20 7399 0000

Investment Management

8 Finsbury Circus
London
EC2M 7AZ
+44 (0)20 7399 0000

1 Albert Street
Aberdeen
AB25 1XX
+44 (0)1224 218 180

Temple Point
1 Temple Row
Birmingham
B2 5LG
+44 (0)121 233 2626

10 Queen Square
Bristol
BS1 4NT
+44 (0)117 929 1919

North Wing, City House
126 – 130 Hills Road
Cambridge
CB2 1RE
+44 (0)1223 229 229

1 Northgate
Chichester
West Sussex
PO19 1AT
+44 (0)1243 775 373

28 St Andrew Square
Edinburgh
EH2 1AF
+44 (0)131 550 1350

The Senate
Southernhay Gardens
Exeter
EX1 1UG
+44 (0)1392 201 000

Vision House
Unit 6A Falmouth
Business Park
Bickland Water Road
Falmouth
Cornwall
TR11 4SZ
+44 (0)1326 210904

The Athenaeum
8 Nelson Mandela Place
Glasgow
G2 1BT
+44 (0)141 397 9900

26 Esplanade
St Helier
Jersey
JE1 2RB
Channel Islands
+44 (0)1534 740500

The Stables
Levens Hall
Kendal
Cumbria
LA8 0PB
+44 (0)1539 561 457

Port of Liverpool Building
Pier Head
Liverpool
L3 1NW
+44 (0)151 236 6666

48 High Street
Lymington
SO41 9AG
+44 (0)1590 647 657

Earl Grey House
75 – 85 Grey Street
Newcastle upon Tyne
NE1 6EF
+44 (0)191 255 1440

Fiennes House
32 Southgate Street
Winchester
SO23 9EH
+44 (0)1962 857 000

Unit Trusts

8 Finsbury Circus
London
EC2M 7AZ
+44 (0)20 7399 0000

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C008198

It is important to us that all materials used in the production of this document are environmentally sustainable. The paper is FSC certified and contains 75% recycled fibre and 25% virgin fibre from sustainable sources. Once you have finished with this report please recycle it.

Rathbones
Look forward

Rathbone Brothers Plc
8 Finsbury Circus, London, EC2M 7AZ

+44 (0)20 7399 0000
rathbones.com