Rathbones
Look forward
Rathbone Brothers Plc
Report and accounts 2019
Thinking, acting and investing responsibly

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About Rathbones

Rathbones provides individual investment and wealth management services for private clients, charities, trustees and professional partners. We have been trusted for generations to manage and preserve our clients' wealth. Our tradition of investing and acting responsibly has been with us from the beginning and continues to lead us forward. Our ambition is to be recognised as the UK's most responsible wealth manager.

2019 financial highlights

Profit before tax

£39.7m
(2018: £61.3m)

Underlying profit before tax*[1]

£88.7m
(2018: £91.6m)

Basic earnings per share

50.3p
(2018: 88.7p)

Underlying earnings per share*[1]

132.8p
(2018: 142.5p)

Dividends paid and proposed per share

70p
(2018: 66.0p)

Underlying return on capital employed (ROCE)*[2]

14.2%
(2018: 16.9%)

For a full five year record, please see page 207

* This measure is considered an Alternative Performance Measure (APM). Please refer to pages 27 to 28 for more detail on APMs.

1. A reconciliation between underlying profit before tax and profit before tax is shown on page 27 Underlying profit after tax as a percentage of average equity at each quarter end

A responsible business

At Rathbones, we have a clear understanding of who we are as a business, supported by a strong ambition for our future. Our purpose represents our commitment as a business to all of our stakeholders and wider society, while our ambition provides our long-term goal for the future. Underpinning both of these is our strategy.

Our purpose is to think, act and invest responsibly

We deliver on our purpose through our corporate values:

Responsible and entrepreneurial
in creating value

Courageous and resilient
in leading change

Collaborative and empathetic
in dealing with people

Professional and high performing
in all our actions

Our ambition is to be recognised as the UK's most responsible wealth manager

We are committed to growing and preserving wealth for our clients.

Institutional-quality investments
whole of market

Relationship-led
tailored and flexible

Multi-generational
for clients of today and tomorrow

Partnership
working together to deliver the best client outcomes

Our purpose and ambition are achieved through a clear strategy

Enriching the client and adviser proposition and experience

Supporting and delivering growth

Inspiring our people

Operating more efficiently

We see it as our responsibility to invest for everyone's tomorrow.

Thinking, acting and investing responsibly

That means doing the right thing for our clients and for others too. Keeping the future in mind when we make decisions today. Looking beyond the short term for the most sustainable outcome. This is how we build enduring value for our clients, make a wider contribution to society and create a lasting legacy.

Our corporate values ensure we deliver on our purpose. We are:

Responsible and entrepreneurial
in creating value p.28

Courageous and resilient
in leading change p.53

Collaborative and empathetic
in dealing with people p.64

Professional and high performing
in all our actions p.75

To read more on how these values benefit our business, see page 16

A strategy for growth

"This year we took the opportunity to refocus our strategic direction. Our updated strategy both recognises a need to invest in our business in the shorter term and also builds upon our strengths as we look to grow and develop over the coming years."

Mark Nicholls
Chairman

Chairman's statement

Our year in review

2019 may well be remembered for political reasons more than any other, but investment markets finished the end of the year strongly. Our own funds under management and administration increased 14.3% to £50.4 billion, up from £44.1 billion on 31 December 2018, as we continued to focus on providing a quality service to our clients and worked hard to bring Speirs & Jeffrey fully into Rathbones.

Following the appointment of Paul Stockton as chief executive in May, we took the opportunity to refocus our strategic direction. Our updated strategy both recognises a need to invest in our business in the shorter term and also builds upon our strengths as we look to grow and develop over the coming years.

Profit before tax for the year totalled £39.7 million (2018: £61.3 million) and reflects anticipated costs associated with the acquisition of Speirs & Jeffrey. Consequently, basic earnings per share decreased to 50.3p from 88.7p in 2018. A full analysis of all non-underlying items impacting profit before tax can be found on pages 27 to 28.

Underlying profit for the year totalled £88.7 million (2018: £91.6m), resulting in an underlying operating margin of 25.5% for the year (2018: 29.4%). Underlying earnings per share in the period totalled 132.8p (2018: 142.5p). This performance is discussed further in the chief executive's review and on page 26 of the financial review.

Reflecting our confidence in the future, strong capital position and in line with our dividend policy, the board is recommending a final dividend of 45p per share. This brings the total dividend for the year to 70p per share, an increase of 6.1% over last year. The record date for the dividend is 24 April 2020, with the payment date on 12 May 2020. Further information on our dividend policy can be found on page 108.

Our purpose

In any business, identifying a purpose that drives the right behaviours and client outcomes is essential to long-term value creation and the resilience of brand. This year we have undertaken a firm-wide exercise to define our purpose – in essence, why does Rathbones exist? This exercise has included both one-on-one interviews and also group workshops involving colleagues across a wide spread of teams, regions and ages in a quest to define what Rathbones means to people within and outside the business. The result enabled us to distil our purpose to a theme of thinking, acting and investing responsibly. This is backed by a set of four central corporate values that we know resonate with our employees. These involve us being:

- responsible and entrepreneurial in creating value
- courageous and resilient in leading change
- collaborative and empathetic in dealing with people
- professional and high performing in all our actions.

In these turbulent times an agreed purpose of thinking, acting and investing responsibly is a most refreshing outcome. It chimes well with the long-standing traditions of Rathbones. During 2020, we will continue to embed this purpose throughout the business.

Governance and culture

The board strongly believes that robust corporate governance makes a significant contribution to the long-term success of the firm and the achievement of its strategy. A good governance framework creates a solid foundation, which enables us to act in the best interests of our stakeholders. Our full governance report on this can be found on pages 68 to 79. We have also detailed how the board has ensured effective engagement with our key stakeholders during the year in our section 172 statement on pages 46 to 47.

As a board, we also attribute great importance to the firm's culture. This has developed over many years and represents a key competitive advantage. The firm's client focus and integrity are fundamental to achieving the best results over the long term. During 2019, the board has continued to monitor a number of culture indicators, and further information on this can be found on page 69. The results of an extensive employee opinion survey, which had an 86% engagement rate, confirmed that one of our strengths as a business is a caring culture that is friendly and supportive.

We also believe it is in the best interests of our clients that the companies in which we invest adopt best practices in corporate governance. Mindful of our responsibilities to our clients, we seek to be good, long-term stewards of the investments we manage on their behalf, as expressed in our stewardship policy. More details of how we have taken this important agenda forward can be found in the corporate responsibility report on pages 48 to 66 and a review of our stewardship activities can be found on our website.

2019 also marked the 10th anniversary since we became a signatory to the Principles of Responsible Investment (PRI). In this time, we have seen our scoring on the PRI annual

benchmarking improve steadily and we now boast an A+ rating for our strategy and governance around responsible investment. Our footprint is substantial in this area and we are widely known for our active engagement on environmental, social and governance (ESG) issues.

Inspiring our people

Our people are our greatest asset and proper engagement with them is crucial to the ongoing success of Rathbones. This year, the board discussed the results of our employee opinion survey in detail and further surveys will be undertaken in 2020, together with ongoing workforce engagement, to ensure the initiatives we have taken continue to address the feedback from our employees.

As I mentioned in my statement last year, the 2018 Corporate Governance Code requires a specific mechanism for engagement with employees. After careful consideration the board agreed that this was best undertaken by assigning two non-executive directors to the task. We nominated Colin Clark and Sarah Gentleman to be responsible for gathering workforce feedback and the process has started well. They have visited a number of offices, where employees suggested ways to improve their working environment and how the best interests of colleagues might be catered for. We will take forward this initiative with enthusiasm.

Engaging with shareholders

I have been pleased to meet with a number of our shareholders during the year and welcome discussions with them on strategy and governance in particular. The remuneration committee also conducted an investor engagement programme in order to maintain open dialogue on remuneration matters. All of these meetings have allowed us to provide useful feedback to the board and we will continue to hold an open and constructive dialogue in analyst and investor meetings throughout 2020.

Risks

Our risk management processes continue to play an important role in decision making and managing the business. The report from the chairman of the group risk committee, Terri Duhon, is set out on pages 80 to 82. In 2019, in addition to a particular focus on suitability, we paid attention to the risks associated with cyber crime and business resilience, the operational risks associated with the integration of Speirs & Jeffrey and risks associated with our strategic update. Non-executive members of the board have also participated in a number of training and operational exercises associated with key risk areas.

Finally, although Rathbones' exposure to potential disruption from the UK leaving the European Union remains low, we will continue to monitor the outcome of post-Brexit trade negotiations closely and continue to develop appropriate contingency plans.

In any business, identifying a purpose that drives the right behaviours and client outcomes is essential to long-term value creation and the resilience of brand. This year we have undertaken a firm-wide exercise to define our purpose — in essence why does Rathbones exist? This exercise has included both one-on-one interviews and group workshops involving colleagues across a wide spread of teams, regions and ages in a quest to define what Rathbones means to people within and outside the business.

Board changes and succession

As part of our normal succession planning, the board continues to monitor its capabilities and assesses what new skills are necessary to strengthen both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity. This year saw the implementation of our succession plans, with Jennifer Mathias being appointed to the group finance director role on 1 April 2019. Paul Stockton, the former group finance director, became chief executive on 9 May 2019. The transition and handover process has gone smoothly and Paul and Jennifer are working well together in their respective new roles.

I have served as a non-executive director for over nine years, and as independent chairman since May 2011, which exceeds the tenure requirements as outlined in the new 2018 UK corporate governance code. As a result, Jim Pettigrew, our senior independent director, has started the process to appoint my successor. I will however remain as chairman during 2020, working with both Paul and Jennifer in their new roles and will ensure an orderly handover to my successor in due course. The nomination committee has assessed and confirmed my continuing independence for 2020.

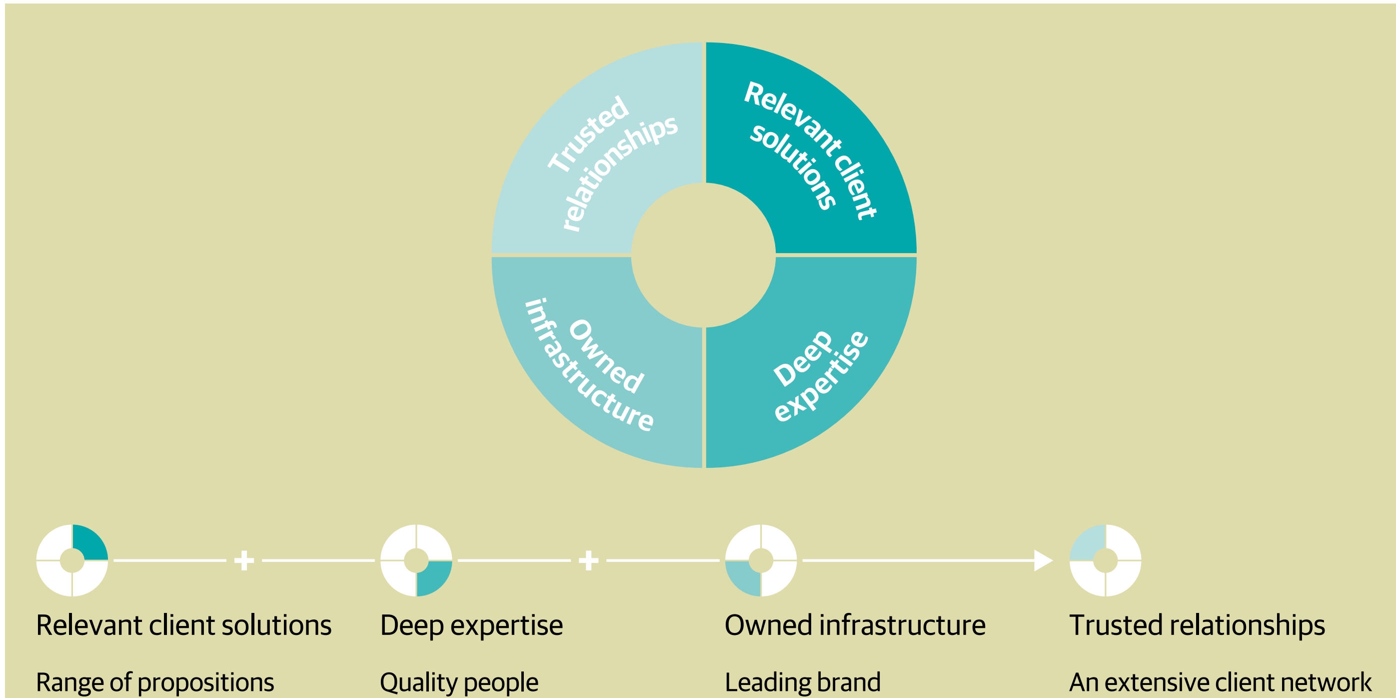
Looking forward

Rathbones has taken a number of positive steps forward this year and, having outlined our strategic priorities in 2019, we look forward to implementing them in 2020 and beyond. Whilst investment markets will undoubtedly present a number of unforeseen challenges this year, I am confident that our renewed focus will stand us in good stead to drive our business forward.

Mark Nicholls
Chairman

19 February 2020

Our investment case



Relevant client solutions

Range of propositions
Suitable for private clients, charities, trustees and professional partners

Strong ESG capability
Supported by an experienced team, proactive on ethical and sustainability issues

Growing funds business
Providing a wide range of funds catering to differing investment needs

Deep expertise

Quality people
Providing a diverse range of experience and skills

Deep investment skills
Supported by a highly experienced in-house research team

Owned infrastructure

Leading brand
Established over decades of providing quality service

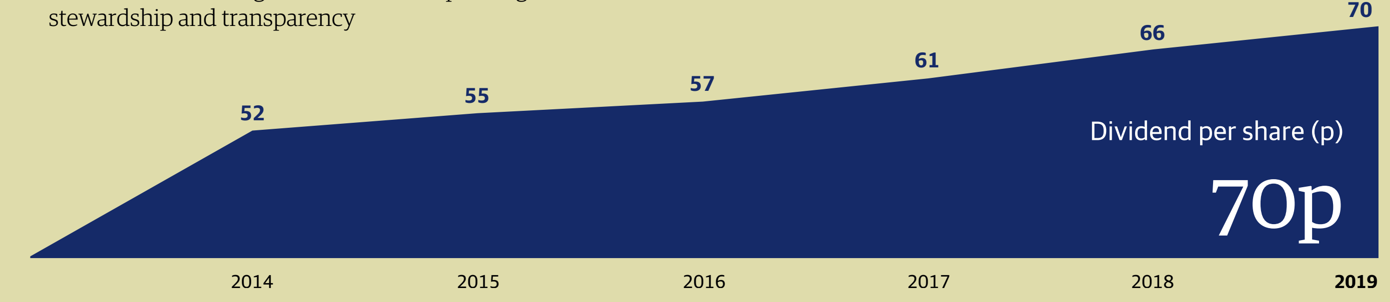
Acquisition experience
Proven by several successful integrations of full entities and individual teams

Trusted relationships

An extensive client network
Creating connections lasting generations

These allow us to deliver consistent returns to shareholders

– A progressive dividend policy
– An underlying return on capital employed of 14.2% (2018: 16.9%)
– A commitment to high standards of corporate governance, stewardship and transparency



Rathbones at a glance

Where we operate

We employ over

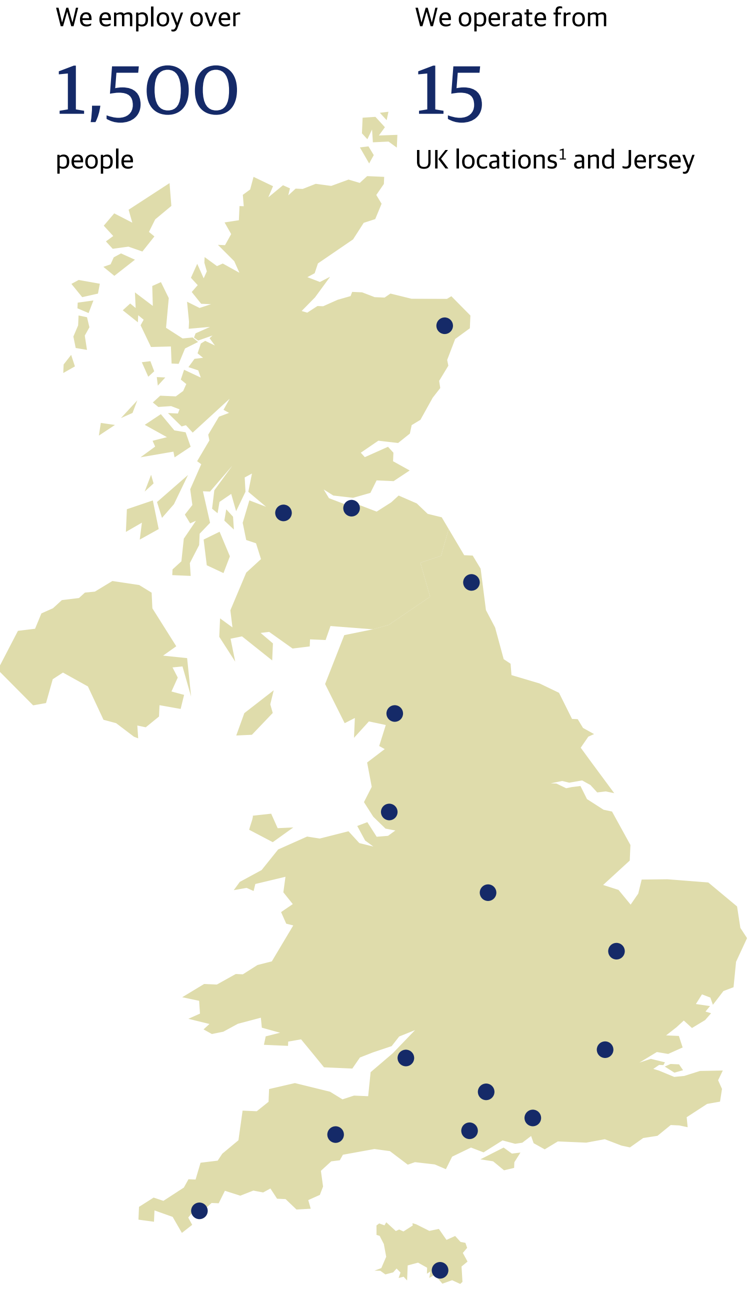
1,500

people

We operate from

15

UK locations[1] and Jersey



We manage over

£50.4bn

for our clients

We are a

FTSE 250

company listed on the London Stock Exchange

1. Includes Vision Independent Financial Planning

What we do

Investment Management

Through Rathbone Investment Management, we provide investment management solutions to a range of private clients, charities, trustees and professional partners. Clients of this service can expect a tailored investment strategy that meets individual objectives backed by 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 and not-for-profit organisations

We manage £6.1 billion of non-profit funds and are the fourth-largest charity investment manager in the UK. The team is diverse, in both its expertise and experience, and aims to deliver suitably tailored investment portfolios to meet the specific needs of clients and trustees.

Rathbone Greenbank Investments

As one of the pioneers in the field of ethically focused investments, we manage over £1.6 billion in ethical and socially responsible investment portfolios. The team is highly proactive, engaging directly with companies and government to improve business practices.

Personal injury and Court of Protection

Our specialist team works closely with deputies, trustees and families, seeking to provide a consistent and rigorous investment process sympathetic to individual circumstances.

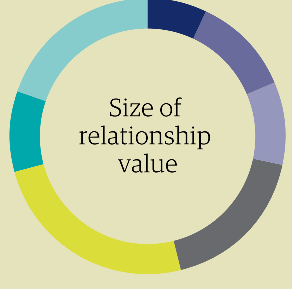
Rathbone Investment Management International

Based in Jersey, we cater for the investment needs of individuals and families, charities and professional advisers who are looking for offshore investment management.

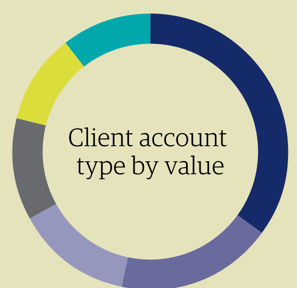
Unit Trusts

Rathbone Unit Trust Management is a UK active fund manager with £7.4 billion under management, providing a range of specialist and multi-asset funds that are designed to meet core investment needs in the retail client market. These funds are distributed primarily through financial advisers in the UK.

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



Size of relationship value	
0-£250k	7.2%
£250k-£500k	11.5%
£500k-£750k	9.7%
£750k-£1.5m	17.8%
£1.5m-£5.0m	24.7%
£5.0m-£10.0m	9.6%
£10m+	19.5%



Client account type by value	
Private clients	35.1%
ISA	18.3%
Charities	13.7%
Pensions	11.9%
Trusts	10.7%
Other	10.3%

Total Unit Trusts FUM

£7,438m

Total Unit Trusts FUM	
Rathbone Global Opportunities Fund	£1,858m
Rathbone Ethical Bond Fund	£1,495m
Rathbone Income Fund	£1,134m
Rathbone Multi-Asset Portfolios	£1,078m
Offshore funds[2]	£517m
Rathbone Active Income Fund for Charities	£210m
Rathbone Strategic Bond Fund	£207m
Rathbone High Quality Bond Fund	£203m
Rathbone Core Investment Fund for Charities	£121m
Rathbone UK Opportunities Fund	£47m
Other funds	£568m

Complementary services[3]

Financial planning

Our in-house financial planning team provides whole-of-market advice to clients. The planners work closely with investment managers to help clients create a bespoke financial plan. We have long-standing experience and can act on a one-off basis or as part of an ongoing service.

Unitised Portfolio Service

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

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 via an adviser at a price that reflects the competitive nature of our sector, but to a standard that clients have come to expect from Rathbones.

Rathbone Select Portfolio

An attractive and cost-effective investment solution for clients with £15,000 or more to invest for at least three years. Providing access to the Rathbone Multi-Asset Portfolio funds on a self-select basis, this service is designed for clients who are comfortable choosing an investment strategy to meet their investment objectives and risk profile.

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.

We also provide services through these entities:

Rathbone Trust Company

Provides UK trust and specialist legal, estate and tax advice to larger clients.

Vision Independent Financial Planning

An independent IFA network providing financial advisory solutions to UK private clients. Acquired in 2015, it has grown from £845 million of assets on its discretionary fund management panel and 81 advisers to £1.9 billion and over 130 independent financial advisers.

2. Our Luxembourg-based feeder funds were converted to directly invested funds in preparation for the potential loss of UCITS status post Brexit

3. All complementary services are reported as part of our Investment Management segment

Our strategy

During 2019, we carried out a strategic review and formally launched the next medium-term strategy for the business in October 2019. Our strategy is set out below along with how we plan to implement these priorities in the years ahead.

Our strategy	How we plan to achieve this
Enriching the client and adviser proposition and experience	**Enhancing valued services** Enhancing the experience for private clients and providing a dedicated service for financial advisers. **Deepening investment skills** Fostering our investment expertise, broadening capability and coverage, and investing responsibly.
Supporting and delivering growth	**Penetrating specialist markets** Focusing on specialisms, building on existing capabilities and leveraging Rathbone Greenbank Investments. **Driving organic growth** Managing client-facing capacity, structuring distribution, driving growth through financial planning and building our funds business.
Inspiring our people	**Our culture and corporate values** Becoming a more diverse and inclusive organisation, continuing to listen to our people and improving our commitments to them.
Operating more efficiently	**Driving productivity** Providing a quality client experience and making us easy to do business with.

	Link to KPIs	Link to risk
Our strategy finds new ways to develop content and tailor the delivery of our services to both the direct-to-client and direct-to-financial adviser markets to ensure we serve all client segments appropriately. We continue to focus on fostering our investment culture and investing to broaden our capability and coverage to drive positive investment outcomes. Our investment process is supported by a continually evolving environmental, social and governance focus.	– Number of Investment Management clients – Staff turnover	– Suitability and advice – Business model – Regulatory – People
We intend to invest to improve our organic growth rate. To do this, we will build up skills and resources to access specialist markets including charities, Rathbone Greenbank Investments and court of protection, free up capacity in our investment teams, add structure to our business development activity and support the ongoing growth of our Rathbone Funds and Rathbone Financial Planning businesses.	– Total funds under management and administration – Investment Management net organic growth rates – Underlying operating margin – Underlying earnings per share – Return on capital employed	– Suitability and advice – Business model – Regulatory – Change
We are a people business so it is imperative that our strategy sets a culture that drives performance and builds long, rewarding careers for our colleagues. Against a common set of corporate values and a commitment to diversity and inclusion, we plan to leverage the talent in our business as we develop more career paths, build leadership skills and manage succession.	– Percentage of shares held by current employees – Staff turnover – Variable staff costs as a % of underlying profit before tax and before variable staff costs	– People – Change
Leveraging the use of technology to streamline processes and manage change is a significant opportunity and embedding a productivity culture is an important part of our future success. Productivity will support growth, employee morale and create the time and resources to help invest in future growth initiatives. We will also embrace digital to work alongside our face-to-face service, offering a set of more holistic communication options for clients and advisers.	– Underlying operating margin – Return on capital employed – Common Equity Tier 1 ratio	– Information security and cyber – People – Change

Read more on our KPIs on pages 23 to 25

Read more on our risks on pages 40 to 45

Future focused

"Over recent years the industry's focus has been on responding to a rapidly changing environment that has involved some considerable regulatory change. Today, in order to progress, we will now refocus our attention to what we do best, which is providing a personal service to our clients."

Paul Stockton
Chief Executive

Chief executive's review

A look back

During 2019, we once again managed a very full agenda, balancing the impact of acquisitions with projects to improve our service to both clients and employees. In October, we set out our strategic focus for the medium term, refocusing our efforts to provide relevant investment and advice solutions to our clients. We continued to grow our funds under management and administration (FUMA), reaching £50.4 billion at 31 December 2019 (2018: £44.1 billion). Total funds in our Investment Management business were £43.0 billion (2018: 38.5 billion), whilst our Unit Trusts business reached £7.4 billion (2018: £5.6 billion).

Total net inflows across the group were £0.6 billion in 2019 (2018: £8.5 billion, largely reflecting the acquisition of Speirs & Jeffrey). Gross organic inflows in Investment Management remained resilient at £3.3 billion (2018: £3.8 billion) in the face of weaker investor sentiment and no reoccurrence of the larger short-term mandates won in 2018, but were offset by elevated outflows in Investment Management of £3.9 billion (2018: £2.7 billion). This reflected additional outflows as some pension and other institutional mandates were repositioned by trustees, previously noted investment manager departures and the exit of some lower-margin mandates following the integration of Speirs & Jeffrey, some of which is expected to continue into 2020.

Net inflows in our Unit Trusts business totalled £943 million in the year (2018: £543 million) representing 16.7% of opening funds under management, an outstanding performance against a difficult environment for asset managers. Our strong performance in the year was reflected in the February 2020 Pridham report on the industry which ranked Rathbones as 9th for overall net retail sales in 2019.

Profit before tax of £39.7 million (2018: £61.3 million) reflected anticipated items including costs associated with the acquisition of Speirs & Jeffrey, which were capital in nature. The majority of these costs were in relation to deferred consideration payments to former shareholders of the business who remain in employment and have therefore been treated as remuneration. Accordingly, earnings per share totalled 50.3p (31 December 2018: 88.7p).

When reporting earlier in 2019, we flagged some expected pressures on our underlying profit expectations for the year, including the cessation of 'risk-free' managers' box dealing profits in our Unit Trusts business from mid-January (2019: £0.2 million, 2018: £3.4 million) and the acceleration of some deferred executive awards in relation to recent executive retirements (2019: £1.1 million, 2018: £0.1 million). Underlying profit before tax of £88.7 million (2018: £91.6 million) reflects these items alongside the following factors.

A Financial Services Compensation Scheme (FSCS) charge of £4.5 million for the year (2018: £2.8 million) was considerable and, following recent announcements from the FSCS, we can reasonably expect this charge to increase further by up to 45% in 2020. Along with many in the industry, we feel that the ongoing cost of this scheme falls unfairly and is becoming a disproportionate burden on participating firms. We will continue to work closely with industry bodies on this important issue.

During the strategic review in 2019, we started looking closely at our IT strategy to deliver on the goals we set out. Refocusing our digital strategy towards on-boarding and improving the client experience has meant that software previously aimed at improving some internal workflows no longer provides value for money and will no longer be put into production. This has resulted in an impairment charge of £3.1 million in 2019.

An underlying profit before tax of £88.7 million represents an underlying operating margin of 25.5% for the year (2018: 29.4%), and provides an underlying earnings per share of 132.8p (2018: 142.5p).

As reported on page 35, our balance sheet remains strong with a consolidated Common Equity Tier 1 ratio at 31 December 2019 of 22.0% compared with 20.6% at 31 December 2018. We remain very lightly geared with a consolidated leverage ratio at 31 December 2019 of 8.3% compared with 8.9% at 31 December 2018. Our underlying return on capital employed for the year equalled 14.2% (2018: 16.9%). The decrease was a result of average equity in 2018 being lower than that in 2019 due to the timing of the £60 million share placing in relation to the acquisition of Speirs & Jeffrey in 2018. A detailed analysis of our regulatory capital position at 31 December 2019 can be found on page 35.

Although I have been a member of the Rathbones team for over a decade, I have taken this opportunity to take a step back and look at the business again.

A look forward

One of my key priorities when I took over as chief executive was setting a strategic focus for the business that leveraged our many strengths. Although I have been a member of the Rathbones team for over a decade, I have taken this opportunity to take a step back and look at the business again.

Over recent years, the industry's focus has been on responding to a rapidly changing environment that has involved some considerable regulatory change. Today, in order to progress, we will now refocus our attention on what we do best, which is providing a personal service to clients. After dialogue with various stakeholders, in October 2019 we delivered a strategic update where we set six clear priorities for the future:

- provide a refreshed discretionary service that gives clients a tailored, whole-of-market investment choice, delivered by an investment professional that is accountable for results, and supported by a full digital experience
- deepen investment skills in the company, adding expertise to invest across a wider range of asset classes, giving clients more options to invest responsibly, aligned with their values
- further penetrate specialist markets in the charity and Environmental, Social and Governance (ESG) space
- drive organic growth by freeing up team capacity, supporting business development while growing Rathbone Unit Trust Management, Vision Independent Financial Planning and the financial planning and advice capability across our branch network
- establish a common culture and corporate values to inspire our people
- drive productivity, whilst looking to take advantage of inorganic growth opportunities that fit our culture to accelerate our strategy and build market share.

Delivering client service

Client advocacy for our service has always been very positive and this was reaffirmed through a recent independent study into client experience in wealth management. Rathbones' net promoter score (a measure of the willingness of clients to recommend Rathbones to others) was 55% against an industry benchmark of 46%.

Our strong standing in the industry was further reinforced as we were awarded our sixth consecutive Gold Standard Award for discretionary fund management from *Investment Week*. Although we are proud of this high degree of advocacy, we also see opportunities to improve.

Embracing digital to complement our face-to-face service will be key to future success and we continue to update and deliver our group-wide digital programme. We have commenced a project to support the launch of a new client and adviser portal as well as a new mobile app, due in 2020. These important pieces of technology will upgrade our existing service. As a firm, we are keen to provide more holistic communication options to clients through the medium most convenient to them at the time, whether that be digitally or face to face.

Our long-standing credentials in ESG investing continue to build on strong foundations. We now manage £1.6 billion (2018: £1.2 billion) in Rathbone Greenbank Investments and £1.5 billion (2018: £1.2 billion) in our Ethical Bond Fund. We also continue to build our capability in the equity space with our Rathbone Global Sustainability Fund. Our charities business now manages £6.1 billion (2018: £5.3 billion) and is the fourth largest charity investment manager in the UK, with aspirations to move up further as it continues to grow. This year also marked the 10th anniversary since we became a signatory to the Principles for Responsible Investment (PRI) and we are proud to have been an early mover in the UK market. We will look to develop our proposition further in 2020 and beyond.

Investment Management FUMA

£43.0 billion
2018: £38.5 billion

Unit Trusts FUM

£7.4 billion
2018: £5.6 billion

Total Rathbones FUMA

£50.4 billion
2018: £44.1 billion

Focusing on growth

Improving organic growth rates will remain a priority over the next few years and increasing the number of experienced client-facing individuals will be fundamental to this. Not only will we focus on recruiting more investment managers, but we will also continue to invest in our graduate and apprenticeship programmes to identify and develop future talent.

Our strategy also highlighted the importance of investment in business development skills and resources. During 2019 we therefore established business development teams focused on financial advisers and added to our client development support team. These teams have already been instrumental in winning some larger mandates and helping our investment management teams grow.

We have also been looking carefully at new solutions to help optimise the capacity of our current investment management teams. During the year we worked to develop the Rathbone Select Portfolio service, a cost-effective investment solution for clients with £15,000 or more to invest. The service accesses our in-house multi-asset funds on a self-select basis and is designed for clients who are comfortable choosing an investment strategy to meet their investment objectives. The solution is efficient whilst offering an effective choice for clients. A pilot is already underway and the roll out will commence during 2020.

Finally, although we remain investment led, we strongly believe that the provision of financial planning and advice, either on a one-off or ongoing basis, is an important part of our future proposition. We now have over 30 financial planners and paraplanners in our in-house financial planning business, with recruitment expected to continue into 2020. Our external financial planning business, Vision Independent Financial Planning, will continue to collaborate across Rathbone offices and with Rathbone Financial Planning to service clients who are not covered by our in-house services. The business continues to perform strongly and now advises on £1.9 billion assets under administration and has over 130 external independent advisers, up from £1.5 billion and 125 external advisers a year earlier. We anticipate adviser numbers will continue growing in 2020 as the regional footprint expands.

The inorganic opportunity

Whilst much of our strategic focus is on organic growth, part of our strategy has been, and will continue to be, acquiring businesses that fit our culture.

We formally acquired Speirs & Jeffrey in 2018 and transferred clients onto our platform during 2019, completing the largest acquisition and client migration project that Rathbones has undertaken to date. By 1 October 2019 we had transferred 98% of funds under management and administration to Rathbones' systems. This was a significant operational exercise and confirmation of our ability to successfully consolidate a sizeable business onto our platform, which gives us confidence as we seek further opportunities. The spirit of engagement we have seen on all fronts has been very positive, with teams learning a considerable amount from one another over the past 18 months. During 2020 and 2021 we will focus on realising the remaining potential synergy benefits of the transaction.

Reinforcing our commitment to developing specialist businesses, in November 2019 we announced the acquisition of the Court of Protection (COP) and Personal Injury (PI) business of Barclays Wealth. The business, acquired through existing capital resources, comprises approximately £500 million of funds managed on behalf of approximately 600 clients and their deputies and trustees. A team of 10 individuals will join Rathbones' current specialist Court of Protection and personal injury team at completion, which is expected in the second quarter of 2020. We will continue to support our specialist teams in order to afford them further growth.

Thinking, acting and investing responsibly

This year we have expressed our purpose as a business. During the year we engaged extensively with our employees to help us to understand what Rathbones means to them. Their feedback was critical to us in developing our purpose and it has led us to four corporate values that resonate with our people and are lived by them on a daily basis through their work.

These four corporate values are the blueprint for achieving our ambition, both as a business and as individuals. We have therefore included some of our employees' thoughts on each of these, and how they support their work on a daily basis, throughout the report (see pages 1 to 3 for more).

"Companies with positive cultures tend to work well together in difficult times, which enables them to emerge with a stronger business when conditions improve."

Paul Stockton
Chief Executive

Building on a successful culture

People are our most important asset in meeting our strategic objectives and being a diverse and inclusive organisation is a key element of our strategy. Companies with positive cultures tend to work well together in difficult times, which enables them to emerge with a stronger business when conditions improve. I have seen a lot of this in our own business over the past year as we navigated through changes. The commitment to our clients that our teams exhibit reaffirms my belief that a strong culture must remain central to our purpose. To this end, we ran more than 10 workshops bringing together a cross-section of employees across our regional network, ranging in age and background, who helped to define our purpose and corporate values to ensure that they resonate across the business. Thinking, acting and investing responsibly is what we do.

Although there is still work to do, we have also taken important steps forward on improving our commitments to our people. We recognise the importance of an appropriate work-life balance, both to the health and welfare of employees and to the business. Whilst our engagement survey results suggest the vast majority of colleagues feel they strike the right balance between work and home life, we have continued to grow our employee wellbeing offering. In 2019, we increased the range and number of training opportunities through one-to-one and drop-in sessions on wellbeing-related topics, including: building resilience, using mindfulness, managing stress, and protecting mental health.

During the year, we also appointed a diversity and inclusion committee, improved our maternity, paternity and shared parental leave policies, continued our roll out of unconscious bias and inclusive leadership training programmes across the business and achieved 20.3% of the Women in Finance target to have senior management composed of 25% women by 2023. Our initiatives in this space will continue throughout 2020 and beyond.

Investing in productivity

During the last few years, a significant amount of process has been added to meet the requirements of a number of complex regulatory compliance projects with mandatory deadlines. These external requirements have had to be balanced with important internal projects. In 2019, we adopted MiFID II costs and charges disclosure standards, taking care to achieve as much commonality as possible with other industry participants. We believe that being more transparent about costs is a positive step for both our clients and the wealth management industry generally. Alongside this work, we also updated client documentation and anti-money laundering documentation and standards.

With more of this mandatory work behind us, now is the time to move forward and look at how we can increase productivity. This includes new ways of working with technology, workflow tools, and re-engineering processes in order to ease client administration, improve client on-boarding and enhance our digital capabilities to create capacity for our investment managers so they can continue to meet the growing needs of our current and future clients.

Ongoing risk management

Evidence points to an increased frequency of cyber attacks on our industry, which reinforces the importance of managing cyber risk to protect our client data and assets. We continue to focus on this risk, implementing a number of tangible improvements to operating processes in the year and putting in place structures to support our response capabilities and training for staff.

Managing through any uncertainties associated with a disorderly Brexit will also remain a focus, as will our relentless monitoring and assessment of how unforeseen global events, economic and trading conditions will impact our approach to investment.

Outlook

Rathbones has grown considerably in the past five years, nearly doubling its funds under management and administration during that time. Opportunities to build our market share remain. Delivering on our strategy will be our focus in the near term as we balance greater productivity with an ongoing desire to invest and grow.

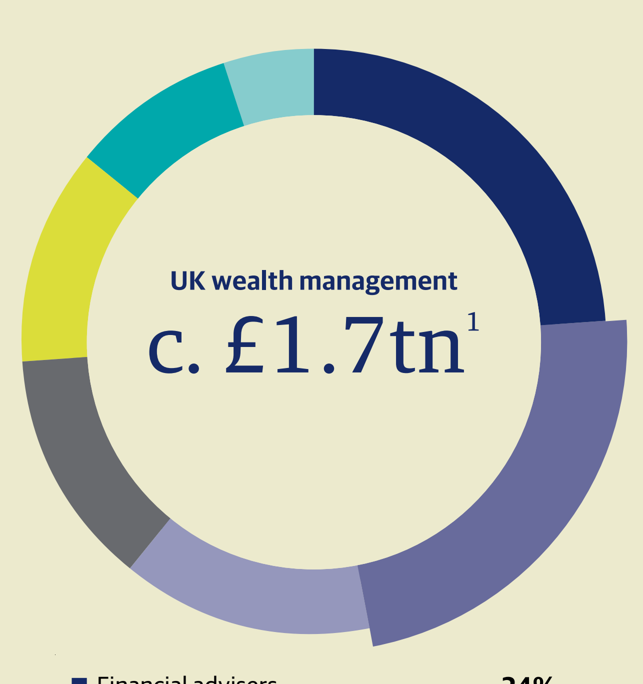
Paul Stockton
Chief Executive

19 February 2020

Our market and opportunities

The UK wealth management industry continues to grow, with sector assets reaching close to an estimated £1.7 trillion. The case for independent wealth managers providing discretionary investment management through a personalised client relationship model continues to be compelling. Capitalising on the market opportunity requires continuous investment in technology and professional talent, which in turn calls for the advantages of scale. In this environment, Rathbones is well positioned.

Rathbones' target market is large and continues to grow



Financial advisers	**24%**
Independent wealth managers	**23%**
Global wealth managers	**14%**
Self-directed	**13%**
Vertically integrated firms	**12%**
Retail banks	**9%**
Private banks	**5%**

Rathbones accounts for approximately:

2.5%
of the UK wealth management market

11.5%
of the independent wealth management market

Industry trends

Adapting to changing client needs

Leveraging technology

Taking advantage of scale economies

1. Market and Oliver Wyman research

Certain elements will be key to success for all players	How Rathbones will respond
We recognise that client expectations are changing. Clients are focused on value for money, transparency, digital augmentation of services and social responsibility more than ever before. An ageing population with increased life expectancy along with greater pension freedoms increases the need to save for retirement and finance lifestyles over a longer period of time and Rathbones continues to anticipate these changing requirements.	– Ensure a quality service, competitive investment outcomes and clear fee-based pricing – Provide a wide range of services to cater to differing investment requirements, including a greater focus on our ESG credentials – Employ a diverse set of individuals to ensure we have an employee profile that reflects the differing needs of clients
The industry continues to change, with all business models looking for technological advancement. Keeping pace with this change is fundamental to sustaining a quality service.	– Enhance the digital client experience and provide seamless multi-channel communication to clients – Upgrade client relationship management tools and risk management processes – Invest in systems that will reduce time spent on administrative tasks – Enhance the use of data to reduce costs, improve productivity and enable continual reinvestment
The market is fragmented and has several different business models. Many businesses in the marketplace are unable to keep up with the pace of regulatory and technological change. This has led to an increased pressure on the industry to consolidate.	– Support business development activity to improve organic growth with direct clients, intermediaries and advisers – Continue to look for consolidation opportunities that fit our culture but maintain strict acquisition criteria – Continue to selectively recruit individuals and teams to the business

Our business model

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

What we do

We are a leading provider of individual investment and wealth management services for private clients, charities, trustees and professional partners.

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

- Rathbone Investment Management offers personal discretionary investment management solutions
- Rathbone Unit Trust Management provides single strategy and multi-asset fund products
- Complementary services including:
  - Financial planning
  - Unitised Portfolio Service
  - Managed Portfolio Service
  - Rathbone Select Portfolio
  - Banking and loan services
  - UK trust, legal, estate and tax advice
  - Vision Independent Financial Planning

What makes us different

A sound investment case

- Relevant client solutions
- Deep expertise
- Owned infrastructure
- Trusted relationships

Scale and expertise

- £50.4 billion of funds under management and administration
- An established brand with local presence
- 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

Working flexibly with clients and advisers

Link to relevant client solutions

An informed investment process

Link to deep expertise

Supported by in-house operations

Link to owned infrastructure

Individual relationships with clients and advisers

Link to trusted relationships

Read more about our investment case on page 7

- 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 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, ethical investors and Court of Protection clients
- Our internal quality assurance and performance measurement capabilities provide a sound control framework

- We have dedicated in-house custody and settlement services
- Our operations team is highly experienced
- We outsource selected services, where it is cost-effective, to reliable and carefully chosen partners

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

How we create long-term value

For investors

- High operating margins compared to industry peers
- Successful acquisition capability for people and firms that fit our culture
- Stable dividend growth

Dividends paid per share in 2019

70p

For clients

- Active management of portfolios through changing market conditions
- A valued and quality service that builds trust
- Specialist mandate capabilities
- High-quality adviser services

Client numbers

60,000

For employees

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

Employee survey engagement score

86%

Enhanced performance

"Our next medium-term strategy is focused on leveraging the core strengths of our business to continue to provide a quality proposition to our clients. We will invest in the people and processes that will enable us to support our next phase of growth."

Jennifer Mathias
Group Finance Director

Key performance indicators

The group considers the following financial and non-financial measures as key performance indicators (KPIs) of its overall performance. Following a review of the KPIs, this year we have made some changes to ensure they remain relevant. 'Capital expenditure excluding property' has been removed as it is no longer relevant for the business following our office move in 2017. 'Average full-time equivalent employees' has also been removed as it is no longer deemed a relevant indicator of performance. 'Number of participants with SIP partnership shares' has been replaced with 'Percentage of shares held by current employees' as this is felt to be a more relevant measure. Finally, 'Common Equity Tier 1 ratio' has been added as an indicator of financial resilience.

Some measures that assess the performance of the group are not defined under IFRS so are termed 'alternative performance measures' or APMs.

Each KPI is linked to at least one of our four strategic pillars and is used to measure both the progress and success of our strategy implementation.

Link to our strategy

Enhancing the client and adviser proposition and experience

Supporting and delivering growth

Inspiring our people

Operating more efficiently

Total funds under management and administration

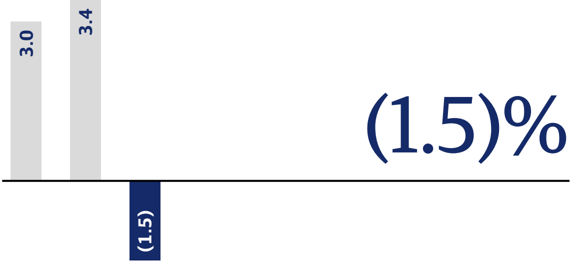
Definition

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

Relevance

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

Investment Management net organic growth rates



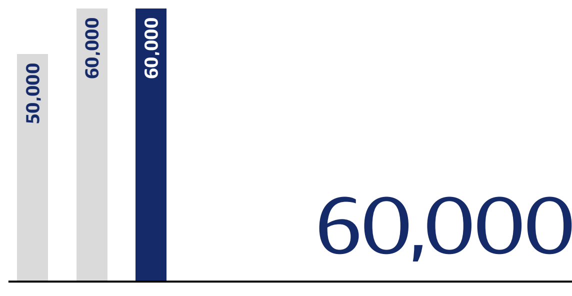
Definition

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

Relevance

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

Number of Investment Management clients



Definition

The number of clients who use our services.

Relevance

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

Underlying operating margin[1]

Definition

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

Relevance

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

Underlying earnings per share[1]

Definition

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

Relevance

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

Variable staff costs as a % of underlying profit before tax and before variable staff costs[1]

Definition

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

Relevance

Shows the extent to which profits are shared between employees and shareholders.

Underlying return on capital employed[1]

Definition

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

Relevance

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

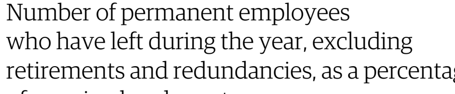
1. This measure is considered an APM. Please refer to page 27 for more detail on APMs

Dividend per share

Definition
Total annual dividend per share (interim and final).

Relevance
Dividends represent an important part of the returns to shareholders.

Staff turnover

Definition

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

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

Percentage of shares held by current employees[2]

Definition
The percentage of outstanding shares held by current employees of the firm.

Relevance
A direct link for employees in the future financial success of the company as shareholders.

2. Includes some unvested employee share plans

Common Equity Tier 1 ratio

Definition
Common Equity Tier 1 capital as a proportion of total risk exposure amount.

Relevance
As a bank, we must maintain certain levels of capital. A higher ratio is an indicator of financial resilience.

Refer to page 35 for further detail

Financial performance

Overview of financial performance

The group's financial performance for the year to 31 December 2019 was resilient during a year of significant integration activity and economic and political uncertainty.

Statutory profit before tax of £39.7 million in 2019 (2018: £61.3 million) includes planned costs of £30.8 million for the acquisition and integration of Speirs & Jeffrey.

Underlying profit before tax was £88.7 million (2018: £91.6 million) reflecting the initiation of investment in the strategic plans announced in October 2019 (see page 10) and a number of other cost increases, as detailed below. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 25.5% (2018: 29.4%).

The board primarily considers underlying measures of income, expenditure and earnings when assessing the performance of the group. These are considered by the board to be a better reflection of true business performance than reviewing results on a statutory basis only. These measures are also widely used by research analysts covering the group. A full reconciliation between underlying results and the closest IFRS equivalent is provided on page 27.

Table 1. Group's overall performance

	2019 £m (unless stated)	2018 £m (unless stated)
Operating income (and underlying operating income[1])	**348.1**	312.0
Underlying operating expenses[1]	**(259.4)**	(220.4)
Underlying profit before tax[1]	**88.7**	91.6
Underlying operating margin[1]	**25.5%**	29.4%
Profit before tax	**39.7**	61.3
Effective tax rate	**32.2%**	24.6%
Taxation	**(12.8)**	(15.1)
Profit after tax	**26.9**	46.2
Underlying earnings per share[1]	**132.8p**	142.5p
Earnings per share	**50.3p**	88.7p
Dividend per share[2]	**70.0p**	66.0p
Underlying return on capital employed (ROCE)[1]	**14.2%**	16.9%

1. A reconciliation between the underlying measure and its closest IFRS equivalent is shown in table 2
2. The total interim and final dividend proposed for the financial year

Underlying operating income

No adjustments have been made to operating income as reported under IFRS for 2019 or 2018.

Operating income increased 11.6% in 2019 to £348.1 million. This included a full year of income from Speirs & Jeffrey, which represented a £17.2 million increase.

Fee income of £260.2 million in 2019 increased 11.5% compared to £233.4 million in 2018. Fees represented 74.7% of underlying operating income in 2019, which was in line with 74.8% in 2018.

Net commission income increased 23.4% to £51.1 million in 2019 (2018: £41.4 million). Commission income was higher in the second half of the year, reflecting elevated levels of investment activity as investor sentiment improved, notably following the general election in December.

Net interest income increased 7.2% to £16.4 million, reflecting higher average levels of liquidity in client portfolios – particularly in the second half of the year following the migration of former Speirs & Jeffrey clients onto the group's banking terms.

Underlying operating expenses

Operating expenses increased from £250.7 million to £308.4 million during the year. Operating expenses include expenditure falling into the three categories explained on page 27.

Underlying operating expenses increased by 17.7% to £259.4 million. As well as the full-year impact of Speirs & Jeffrey, which added £11.7 million to the cost base, this reflects a number of specific areas of cost growth, described below, in addition to underlying growth of the business.

Regulation continued to drive cost growth with additional Financial Services Compensation Scheme levies and regulatory change projects adding £2.5 million to costs in 2019. Charges of £3.1 million were incurred in relation to a review of our IT infrastructure and the write off of IT developments which are no longer planned to be put into use in the business. The group also incurred £0.4 million on preparations for a no-deal Brexit.

Planned additions to headcount in 2018 and 2019 and market-led salary increases increased fixed staff costs by 15.4% to £110.8 million. The full-year impact of Speirs & Jeffrey contributed £6.8 million of this increase. In total, average headcount increased by 13.5% to 1,509 in 2019 (see note 12). Planned reductions in headcount following the successful integration of Speirs & Jeffrey into the group will take effect in early 2020.

Total variable staff costs increased by 21.2% to £66.8 million, reflecting improved performance-based reward levels and the additional cost of share incentives to staff, including a full-year charge for the Staff Equity Plan launched in May 2018. The previously announced retirements of a number of executives resulted in accelerated charges for deferred executive awards of £1.1 million in 2019. Variable staff costs in 2019 represented 19.2% of underlying operating income (2018: 17.7%) and 43.0% of underlying profit before variable staff costs and tax (2018: 37.6%).

Alternative performance measures

Table 2. Reconciliation of underlying performance measures to closest equivalent IFRS measures

	2019 £m (unless stated)	2018 £m (unless stated)
Operating income (and underlying operating income)	**348.1**	312.0
Operating expenses	**(308.4)**	(250.7)
Charges in relation to client relationships and goodwill	**15.9**	13.2
Acquisition-related costs	**33.1**	19.9
Head office relocation costs	**–**	(2.8)
Underlying operating expenses	**(259.4)**	(220.4)
Profit before tax	**39.7**	61.3
Underlying profit before tax[1]	**88.7**	91.6
Operating margin	**11.4%**	19.6%
Underlying operating margin[2]	**25.5%**	29.4%
Taxation	**(12.8)**	(15.1)
Tax on non-underlying expenses	**(4.8)**	(2.3)
Underlying taxation	**(17.6)**	(17.4)
Profit after tax	**26.9**	46.2
Underlying profit after tax[3]	**71.1**	74.2
Weighted average number of shares in issue	**53.6m**	52.1m
Earnings per share	**50.3p**	88.7p
Underlying earnings per share[4]	**132.8p**	142.5p
Quarterly average total equity	**498.9**	440.1
Underlying ROCE[5]	**14.2%**	16.9%

1. Underlying operating income less underlying operating expenses
2. Underlying profit before tax as a % of underlying operating income
3. Underlying profit before tax less underlying taxation
4. Underlying profit after tax divided by the weighted average number of shares in issue
5. Underlying profit after tax as a percentage of quarterly average total equity

Charges in relation to client relationships and goodwill (note 24)

As explained in notes 1.15 and 3.1, client relationship intangible assets are recognised when we acquire a business or hire a team of investment managers. The charges associated with these assets represent the proportion of acquisition costs which are charged to profit or loss as amortisation each year over the estimated duration of the client relationships. The quantum of the accounting charge will vary depending on the terms of each individual acquisition or team hire and represents a significant non-cash profit and loss item. They have, therefore, been excluded from underlying profit, which represents largely cash-based earnings and more directly relates to the financial reporting period.

Acquisition-related costs (note 10)

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

They primarily represent deferred acquisition consideration and the costs of integrating acquired businesses into the group.

Deferred acquisition costs are generally significant payments that are capital in nature reflecting the transfer of ownership of the business. However, in accordance with IFRS 3, any deferred consideration payments to former shareholders of the acquired business who remain in employment with the group must be treated as remuneration. This distorts the view of operational performance given by the statutory measure of profit.

During 2019, £26.0 million of deferred consideration payments for Speirs & Jeffrey (2018: £14.7 million) were charged to the income statement and are considered separately for executive remuneration purposes (see page 93). A further £4.7 million of integration costs and £0.1 million of legal fees were also incurred in 2019.

Deferred costs of £2.0 million (2018: £1.5 million) were incurred in relation to the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions ('Vision') which were completed on 31 December 2015. These amounts represent the cost of payments to vendors of the business who remained in employment with the group. The final payment in respect of this acquisition of £7 million was made to the vendors at the end of 2019.

As announced on 28 November 2019, acquisition costs of £0.2 million were incurred in relation to the acquisition of the Personal Injury and Court of Protection business of Barclays Wealth, which is expected to complete in the second quarter of 2020.

Responsible and entrepreneurial
in creating value

It's through responsible entrepreneurship that we achieve the best results for our clients. Our people are trusted to pursue value. They know when to change course to preserve it too. Being responsible for today and tomorrow, we are open to the new yet always guided by the long view.

"It's a huge responsibility to be entrusted by our clients with their money, with their life savings, to keep them safe and help them grow."

Sanjiv Tumkur
Head of Equity Research, London

Head office relocation costs (note 11)

During February 2017, we relocated our London head office to new premises. On 6 June 2018, our legacy lease was assigned, several months earlier than anticipated, triggering a release of the unused element of a provision for the cost of the surplus property. A credit of £2.8 million, net of professional costs incurred in 2018, was therefore recognised in the result for 2018. There has been no impact in 2019.

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

Taxation

The corporation tax charge for 2019 was £12.7 million (2018: £15.1 million). The effective tax rate of 32.1% (2018: 24.6%) reflects the disallowable costs of deferred consideration payments for the acquisition of Speirs & Jeffrey. The effective tax rate in 2020 is expected to remain elevated as the group continues to recognise these costs. Thereafter, the group expects it to return to 1-2% above the statutory rate.

A full reconciliation of the income tax expense is provided in note 13 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. Although the Government has announced its intention to delay these reductions, the legislation to effect this amendment has not yet been passed. 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 2019 were 50.3p compared to 88.7p in 2018. This reflects the full impact of non-underlying charges as well as the issue of 3.9 million shares in June 2018 to partially finance the acquisition of Speirs & Jeffrey and to satisfy share-based remuneration scheme awards. On an underlying basis, earnings per share were 132.8p in 2019, compared to 142.5p in 2018 (see note 14 to the financial statements).

Dividends

We operate a generally progressive dividend policy, as set out in the directors' report on page 108.

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); and
- 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 2019 the company's distributable reserves were £72.0 million (2018: £68.9 million).

In light of the results for the year, the board has proposed a final dividend for 2019 of 45.0p. This results in a full-year dividend of 70.0p, an increase of 4.0p on 2018 (6.1%). The proposed full-year dividend is covered 0.7 times by basic earnings and 1.9 times by underlying earnings.

Capital expenditure

Overall, capital expenditure of £11.6 million in 2019 was up £0.6 million compared to 2018, an increase of 5.5%, as we commenced investment in the initiatives outlined in our strategic plan. These activities are expected to continue throughout 2020 and 2021, with a similar level of capital expenditure.

Premises-related capital expenditure of £3.1 million was slightly reduced from £3.3 million in 2018.

Underlying return on capital employed

The board monitors the underlying 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 95. For monitoring purposes, underlying ROCE is defined as underlying profit after tax expressed as a percentage of quarterly average total equity across the year.

Assessment of underlying return on capital is a key consideration for all investment decisions, particularly in relation to acquired growth.

In 2019, underlying ROCE was 14.2%, a decrease of 2.7 percentage points on 2018. Quarterly average total equity increased by £61.5 million in 2019 compared to 2018, reflecting a full year's impact of the issue of £60 million of new share capital in June 2018 and growth in retained earnings.

Outlook

The group's profitability remains closely linked with the performance of investment markets and interest rates.

Following the successful migration of clients from Speirs & Jeffrey to Rathbones' systems during 2019, cost synergies of approximately £4.5 million are expected to be realised in 2020 as planned. We also anticipate realising revenue synergies during the deferred consideration period.

Staff costs in 2020 will reflect salary inflation, including promotions, of approximately 3%, in addition to the full impact of hiring activity in 2019.

As announced in October 2019, our medium-term strategy is focused on leveraging the core strengths of our business to continue to provide a quality proposition to our clients. We will invest in the people and processes that will enable us to support our next phase of growth. Consequently, during the next two to three years, we believe it is appropriate to operate the business closer to a mid-twenties underlying operating margin.

However, announcements from the Financial Services Compensation Scheme in December 2019 signal the group's share of levies could increase again in 2020, by approximately £2 million.

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

Other financial impacts

Deferred consideration payments to former shareholders of Speirs & Jeffrey will be made in 2021 and 2022. The ultimate amounts payable are conditional on performance against certain operational targets. We currently expect to recognise a non-underlying charge of approximately £18 million in 2020 in relation to these deferred payments.

Segmental review

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 7 to 9. The Investment Management segment comprises those activities described under the headings 'Investment Management' and 'complementary services' on pages 8 and 9 respectively. The results of the Investment Management segment described below include the trading results of Speirs & Jeffrey for the full year in 2019, compared with only four months of trading results in 2018 post acquisition on 31 August 2018.

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

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

Table 3. Investment Management — key performance indicators

	2019	2018
Funds under management and administration at 31 December[1]	**£43.0bn**	£38.5bn
Underlying rate of net organic growth in Investment Management funds under management and administration[1]	**-1.5%**	3.4%
Underlying rate of total net growth in Investment Management funds under management and administration[1]	**-0.9%**	23.5%
Average net operating basis point return[2]	**68.2 bps**	71.4bps
Number of Investment Management clients ('000)	**60**	60
Number of investment managers[3]	**297**	295

1. See table 4
2. See table 8
3. Comparatives have been restated to remove research analysts and other non-client-facing investment professionals

Funds under management and administration

Investment Management funds under management and administration increased by 11.7% to £43.0 billion at 31 December 2019 from £38.5 billion at the start of the year.

During 2019, Investment Management has continued to attract new clients both organically and through acquisitions. However, the level of client losses in 2019 increased following some investment manager departures in recent years. The total number of clients (or groups of closely related clients) remained at approximately 60,000 throughout the year.

During 2019, the total number of investment managers increased to 297 at the end of the year, from 295 at the end of 2018.

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

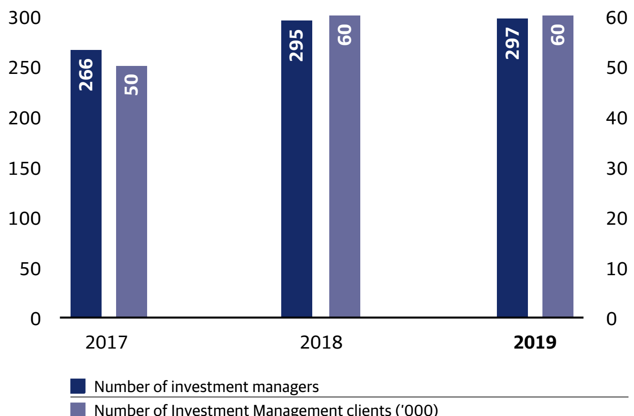


Table 4. Investment Management — funds under management and administration

	2019 £bn	2018 £bn
As at 1 January	**38.5**	33.8
Inflows	**3.5**	10.6
— organic[1]	**3.3**	3.8
— acquired[2]	**0.2**	6.8
Outflows[1]	**(3.9)**	(2.7)
Market adjustment[3]	**4.9**	(3.2)
As at 31 December	**43.0**	38.5
Net organic new business[4]	**(0.6)**	1.1
Underlying rate of net organic growth[5]	**-1.5%**	3.4%
Underlying rate of total net growth[6]	**-0.9%**	23.5%

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

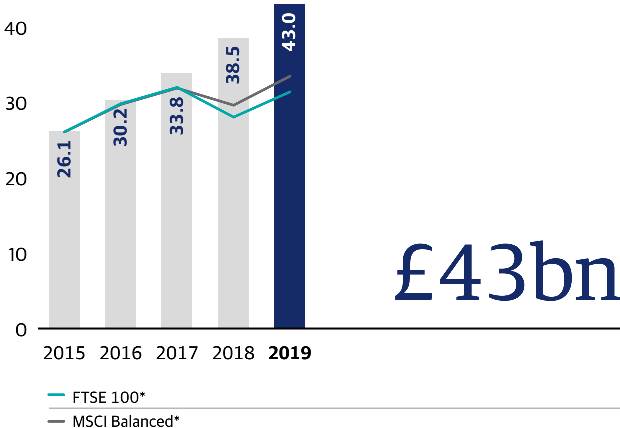
Gross organic inflows of £3.3 billion remained resilient at 8.6% of opening funds under management and administration, with approximately half coming from existing client relationships. Organic inflows of £3.8 billion in 2018 included £0.4 billion of short-term mandates.

Acquired inflows of £0.2 billion in 2019 represented funds introduced by teams who recently joined the group. Acquired inflows of £6.8 billion in 2018 included £6.7 billion from the acquisition of Speirs & Jeffrey.

Outflows of funds under management and administration were 10.1% of the opening balance (2018: 8.0%). The increase on 2018 reflects the repositioning of some pension and other institutional mandates by their trustees, the impact of investment manager departures in recent years and the exit of some lower margin mandates following the integration of Speirs & Jeffrey.

As a result, net organic new business in our Investment Management business was negative £0.6 billion during 2019, representing a decrease by 1.5% of opening funds under management and administration (2018: net organic growth of 3.4%).

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



* Index figures show how funds under management and administration would have changed between 2015 and 2019 if they had tracked each index

Table 5. Investment Management — service level breakdown

	2019 £bn	2018 £bn
Direct	**31.0**	26.7
Financial adviser linked[1]	**8.7**	7.5
Total discretionary	**39.7**	34.2
Non-discretionary investment management	**2.6**	3.3
Execution only	**2.4**	2.1
Gross Investment Management FUMA	**44.7**	39.6
Discretionary wrapped funds[2]	**(1.7)**	(1.1)
Total Investment Management FUMA	**43.0**	38.5

1. Comparative figure restated to exclude £0.3 billion held in execution only accounts
2. Holdings of the group's mutual funds in Investment Management client portfolios and mutual funds for which the management of the assets is undertaken by Investment Management teams; the funds under management and administration of which is reported within Unit Trusts

Charity funds under management and administration continued to grow strongly and reached £6.1 billion at 31 December 2019, up 15.1% from £5.3 billion at the start of the year.

As at 31 December 2019, Vision advised on client assets of £1.9 billion, up 26.7% from 2018.

Overall 2019 was another volatile year for equity and bond markets, which fixated during the year on the potential impacts of US and China trade negotiations, Brexit-related concerns and general consumer confidence. Sentiment improved markedly in the fourth quarter with the phase one US/China trade deal and the UK election result allaying many fears. Reflecting these factors, the MSCI PIMFA Balanced index finished the year up +13.1%.

The average investment return across all Investment Management client portfolios was +13.7%, which outperformed the PIMFA index by +0.6%. This outperformance was largely driven by UK equities; boosted by the decisive UK election result and positive advancements on Brexit, which drove expectations of capital flows returning to the UK. Overall performance against other competitor indices, such as the Private Client Indices published by ARC, was again robust.

Financial performance

Table 6. Investment Management — financial performance

	2019 £m	2018 £m
Net investment management fee income[1]	**224.1**	200.5
Net commission income	**51.1**	41.4
Net interest income	**16.4**	15.3
Fees from advisory services[2] and other income	**19.3**	18.1
Underlying operating income	**310.9**	275.3
Underlying operating expenses[3]	**(232.5)**	(196.5)
Underlying profit before tax	**78.4**	78.8
Underlying operating margin[4]	**25.2%**	28.6%

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2. Fees from advisory services includes income from trust, tax and financial planning services (including Vision)
3. See table 9
4. Underlying profit before tax as a percentage of underlying operating income

Net investment management fee income increased by 11.8% to £224.1 million in 2019, benefiting from a full year of Speirs & Jeffrey income as well as positive markets throughout the year.

Fees are applied to the value of funds on quarterly charging dates. Average funds under management and administration on these billing dates in 2019 were £42.3 billion, up 15.6% from 2018 (see table 7).

Table 7. Investment Management — average funds under management and administration

	2019 £bn	2018 £bn
Valuation dates for billing		
– 5 April	**41.4**	32.4
– 30 June	**42.5**	34.1
– 30 September[1]	**42.2**	41.3
– 31 December	**43.0**	38.5
Average	**42.3**	36.6
Average FTSE 100 level[2]	**7,456**	7,269

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

In 2019, net commission income totalled £51.1 million; an increase of 23.4% on 2018. Commission income from Speirs & Jeffrey in 2019 totalled £11.0 million (2018: £4.2 million, earned in the last four months of the year). Excluding Speirs & Jeffrey, commission levels were £2.9 million higher than 2018, reflecting more positive investor sentiment in the latter half of the year.

Net interest income increased 7.2% to £16.4 million in 2019 as a result of an increase to the interest rate in August 2018. Higher average levels of liquidity in client portfolios and the full-year impact of Speirs & Jeffrey were partially offset by a £3.6 million interest charge following the adoption of IFRS 16 on 1 January 2019.

The investment management loan book remained broadly unchanged at £132.0 million at the end of the year and contributed £4.0 million to net interest income in 2019 (2018: £3.5 million). Also included in net interest income is £1.3 million (2018: £1.3 million) of interest payable on the Tier 2 notes which are callable in August 2020.

Table 8. Investment Management — revenue margin

	2019 bps	2018 bps
Basis point return[1] from:		
– fee income	**52.9**	56.5
– commission	**12.1**	11.7
– interest	**3.2**	3.2
Basis point return on funds under management and administration	**68.2**	71.4

1. Underlying operating income (see table 6), excluding interest on own reserves, interest payable on Tier 2 notes issued, interest payable on lease assets, fees from advisory services and other income, divided by the average funds under management and administration on the quarterly billing dates (see table 7). Speirs & Jeffrey funds under management and administration have been included pro rata for the period of ownership in 2018

The average net operating basis point return on funds under management and administration has decreased by 4.5 bps to 68.2 bps in 2019, largely reflecting a full year of ownership of Speirs & Jeffrey and the impact of tiered fee rates in higher average market levels.

Fees from advisory services and other income increased 6.6% to £19.3 million. This largely reflects a higher level of retained advisory fees earned by Vision and growth in trust administration revenues.

Underlying operating expenses in Investment Management for 2019 were £232.5 million, an increase of 18.3% compared to 2018. This is highlighted in table 9.

Table 9. Investment Management — underlying operating expenses

	2019 £m	2018 £m (re-presented)[3]
Staff costs[1]		
– fixed	**78.6**	66.5
– variable	**49.7**	40.7
Total staff costs	**128.3**	107.2
Other operating expenses	**104.2**	89.3
Underlying operating expenses	**232.5**	196.5
Underlying cost/income ratio[2]	**74.8%**	71.4%

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)
3. In 2018, the cost of the Staff Equity Plan for Investment Management staff was reported within centrally allocated costs. In 2019 these costs are reported as variable staff costs directly incurred by the segment. Accordingly, the 2018 comparative figures have been represented to present the costs on a consistent basis

Fixed staff costs of £78.6 million increased by 18.2% year-on-year, principally reflecting a 13.5% increase in average headcount (largely the full year impact of Speirs & Jeffrey) and salary inflation.

Variable staff costs totalled £49.7 million in 2019, an increase of £9.0 million on 2018. This includes the impact of a full year charge for the Staff Equity Plan, which was launched in May 2018, as well as a full year charge for Speirs & Jeffrey and higher Investment Management teams' profitability during the year.

Other operating expenses of £104.2 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £14.9 million (16.7%) includes £3.1 million of impairment charges for some IT developments, which are no longer planned to be put into use in the business and £2.5 million of increased levies for the Financial Services Compensation Scheme and regulatory change projects. 2019 cost growth also reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.

Unit Trusts

Table 10. Unit Trusts — funds

	2019 £m	2018 £m
Rathbone Global Opportunities Fund	**1,858**	1,351
Rathbone Ethical Bond Fund	**1,495**	1,236
Rathbone Income Fund	**1,134**	1,091
Rathbone Multi-Asset Portfolios	**1,078**	965
Offshore funds[1]	**517**	-
Rathbone Active Income Fund for Charities	**210**	179
Rathbone Strategic Bond Fund	**207**	145
Rathbone High Quality Bond Fund	**203**	52
Rathbone Core Investment Fund for Charities	**121**	95
Rathbone UK Opportunities Fund	**47**	48
Other funds	**568**	480
	7,438	5,642

1. During 2019, our range of Luxembourg-based feeder funds were converted to directly invested funds in preparation for the potential loss of UCITS status of our onshore funds post Brexit

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 11.

Table 11. Unit Trusts — key performance indicators

	2019	2018
Funds under management at 31 December[1]	**7.4**	5.6
Underlying rate of net growth in Unit Trusts funds under management[1]	**16.7%**	10.1%
Underlying profit before tax[2]	**10.3**	12.7

1. See table 12
2. See table 14

Funds under management

Net retail sales in the asset management industry totalled approximately £6.5 billion in 2019, as reported by the Investment Association (IA), down around £0.5 billion on 2018. Industry-wide funds under management increased 12.1% to £1.29 trillion at the end of the year.

The sterling strategic bond and global equity sectors were the two highest selling sectors in 2019. In total, the IA sectors in which we manage funds saw net inflows of £7.71 billion, up from £0.8 billion in 2018. Gross sales in those sectors were up 7.6% at £138.2 billion in 2019.

Against this backdrop, the overall positive momentum in sales of our funds increased in 2019, with gross sales up 21.0% in the year to £2.3 billion. In contrast, redemptions remained in line with 2018 at £1.4 billion, resulting in net inflows of £0.9 billion for the year (2018: £0.5 billion). This level of net retail sales ranked 9th highest in the UK for 2019, according to the Pridham Sales Report.

Net inflows continued to be spread across the range of funds. The Multi-Asset Portfolios, Global Opportunities Fund and Ethical Bond Fund continued to attract particularly strong net flows in the year.

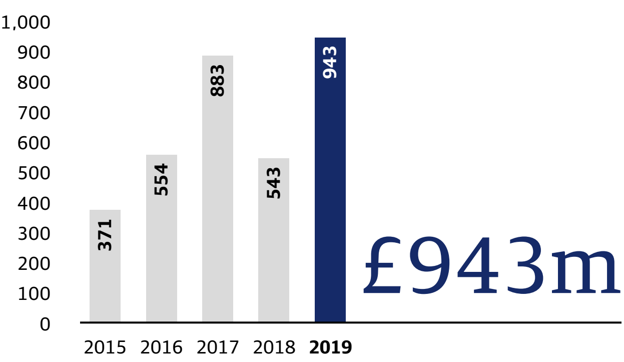
Unit Trusts funds under management closed the year up 32.1% at £7.4 billion (see table 12).

Table 12. Unit Trusts — funds under management

	2019 £bn	2018 £bn
As at 1 January	**5.6**	5.3
Net inflows	**0.9**	0.5
— inflows[1]	**2.3**	1.9
— outflows[1]	**(1.4)**	(1.4)
Market adjustments[2]	**0.9**	(0.2)
As at 31 December	**7.4**	5.6
Underlying rate of net growth[3]	**16.7%**	10.1%

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

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



In line with market sentiment, performance of the UK equity funds (Income and UK Opportunities) was volatile over the period, but both funds ended the year reasonably well as mid-cap stocks rose following the election. The Ethical Bond and Global Opportunities funds maintained their excellent track records and both finished in the first quartile for performance, measured over one, three and five years.

The more defensively positioned Strategic Bond Fund saw poorer short-term performance measured over the year.

The recently launched High Quality Bond Fund and Global Sustainability Fund both posted good returns over the year. The multi-asset funds all beat their benchmarks and did well against their peers.

Long-term performance for our retail funds remains strong and the funds are performing in line with expectations given their investment mandates.

Table 13. Unit Trusts — performance[1, 2]

2019/(2018) Quartile ranking[3] over	1 year	3 years	5 years
Rathbone Ethical Bond Fund	1 (4)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	1 (1)	1 (1)	1 (1)
Rathbone Income Fund	3 (2)	3 (3)	2 (1)
Rathbone UK Opportunities Fund	2 (4)	3 (4)	2 (4)
Rathbone Strategic Bond Fund	4 (1)	2 (1)	2 (2)

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds (for which quartile rankings are prohibited by the IA), High Quality Bond Fund, which has no relevant peer group against which to measure quartile performance, non-publicly marketed funds and segregated mandates
3. Ranking of institutional share classes at 31 December 2018 and 2017 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)
4. Funds included in the above table account for 64% of the total FUM of the Unit Trusts business

As at 31 December 2019, 95% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2018: 88%).

During the year, the total number of investment professionals in Unit Trusts increased to 15 at 31 December 2019 from 14 at the end of 2018.

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 payable to intermediaries.

Unit Trusts also earned net dealing profits (the bid-offer spread from sales and redemptions of units) until 21 January 2019, on which date all funds were converted to single-priced units and this income stream ceased.

Table 14. Unit Trusts — financial performance

	2019 £m	2018 £m
Net annual management charges	**36.1**	32.9
Net dealing profits	**0.2**	3.4
Interest and other income	**0.9**	0.4
Underlying operating income	**37.2**	36.7
Underlying operating expenses[1]	**(26.9)**	(24.0)
Underlying profit before tax	**10.3**	12.7
Operating % margin[2]	**27.7%**	34.6%

1. See table 15
2. Underlying profit before tax divided by underlying operating income

Net annual management charges increased 9.7% to £36.1 million in 2019, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 56 bps (2018: 58 bps) reflecting the increased proportion of holdings in institutional units and the continued growth in the fixed income mandate funds.

Underlying operating income as a percentage of average funds under management and administration fell to 56 bps in 2019 from 65 bps in 2018 reflecting the lost dealing profits.

Table 15. Unit Trusts — underlying operating expenses

	2019 £m	2018 £m
Staff costs		
– Fixed	**3.8**	3.3
– Variable	**8.7**	7.6
Total staff costs	**12.5**	10.9
Other operating expenses	**14.4**	13.1
Underlying operating expenses	**26.9**	24.0
Underlying cost/income ratio[1]	**72.3%**	65.4%

1. Underlying operating expenses as a % of underlying operating income (see table 14)

Fixed staff costs of £3.8 million for the year ended 31 December 2019 were 15.2% higher than 2018. This reflects salary inflation and growth in headcount in response to regulatory changes, including £0.2 million of staff costs supporting the Brexit readiness project.

Variable staff costs of £8.7 million were 14.5% higher than 2018 as growth in gross sales drove increases in sales commissions. Charges for deferred profit share awards made in prior years also contributed to growth in variable staff costs.

Other operating expenses have increased by 9.9% to £14.4 million, largely reflecting higher marketing, distribution and facilities costs in the growing business as well as increased charges for research. Project costs of £0.2 million were also incurred in preparation for Brexit.

Financial position

Table 16. Group's financial position

	2019 £m (unless stated)	2018 £m (unless stated)
Own funds:		
– Common Equity Tier 1 ratio[1]	**22.0%**	20.6%
– Total Own Funds ratio[2]	**23.3%**	22.0%
– Total equity	**485.4**	464.1
– Tier 2 subordinated loan notes[3]	**19.9**	19.8
– Risk-weighted assets	**1,209.0**	1,141.8
– Leverage ratio[4]	**8.3%**	8.9%
Other resources:		
– Total assets	**3,398.7**	2,867.7
– Treasury assets[5]	**2,817.1**	2,351.7
– Investment management loan book[6]	**132.0**	131.7
– Intangible assets from acquired growth[7]	**214.9**	225.6
– Tangible assets and software[8]	**28.4**	30.2
Liabilities:		
– Due to customers[9]	**2,668.6**	2,225.5
– Net defined benefit pension liability	**8.0**	11.2

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 17) as a proportion of total risk exposure amount
3. Represents the carrying value of the Tier 2 loan notes (see note 30)
4. Common Equity Tier 1 capital as a % of total assets, excluding intangible assets, plus certain off-balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. See note 17 to the financial statements
7. Net book value of acquired client relationships and goodwill (note 24)
8. Net book value of property, plant and equipment and computer software (notes 21 and 24)
9. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank (note 26)

Own funds

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

At 31 December 2019, the group's regulatory own funds (including verified profits for the year) were £282.2 million (2018: £251.3 million).

Table 17. Regulatory own funds

	2019 £m	2018 £m (restated – note 1.3)
Share capital and share premium	**213.8**	208.0
Reserves	**313.6**	288.8
Less:		
Own shares	**(42.0)**	(32.7)
Intangible assets[1]	**(218.9)**	(229.3)
Total Common Equity Tier 1 own funds	**266.5**	234.8
Tier 2 own funds	**15.7**	16.5
Total own funds	**282.2**	251.3

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

Common Equity Tier 1 (CET1) own funds increased by £31.7 million during 2019, due to the inclusion of verified retained profits for the 2019 financial year and the issue of 603,913 shares in respect of the contingent consideration from acquisition of Speirs & Jeffrey (note 32), net of dividends paid in the year.

The CET1 ratio was 22.0%, an increase on the 20.6% reported at the previous year end. Our consolidated CET1 ratio remains higher than the banking industry norm, reflecting the low-risk nature of our banking activity.

The leverage ratio was 8.3% at 31 December 2019, compared to 8.9% at 31 December 2018. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off-balance sheet exposures. The ratio has fallen during the year due to the transition of Speirs & Jeffrey clients to our banking terms of business, which has increased the level of client deposits (see page 37).

The business is primarily funded by equity, but also supported by £20 million of 10-year Tier 2 subordinated loan notes. The notes introduce a small amount of gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six-month LIBOR thereafter (note 30).

The consolidated balance sheet total equity was £485.4 million at 31 December 2019, up 4.6% from £464.1 million at the end of 2018, primarily reflecting the issue of new share capital (note 32) and retained profits for the year.

Own funds and liquidity requirements

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

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

The group's own funds requirements were as follows:

Table 18. Group's own funds requirements[1]

	2019 £m	2018 £m
Credit risk requirement	**46.5**	44.6
Market risk requirement	**0.4**	0.4
Operational risk requirement	**49.8**	46.3
Pillar 1 own funds requirement	**96.7**	91.3
Pillar 2A own funds requirement	**39.8**	48.4
Total Pillar 1 and 2A own funds requirements	**136.5**	139.7
CRD IV buffers:		
– capital conservation buffer (CCB)	**30.2**	28.5
– countercyclical buffer (CCyB)	**11.3**	8.9
Total Pillar 1 and 2A own funds requirements and CRD IV buffers	**178.0**	177.1

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

Pillar 1 — minimum requirement for capital

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

At 31 December 2019, the group's total risk exposure amount was £1,209.0 million (2018: £1,141.8 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 the year.

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 was phased in over four years from 1 January 2016. On 1 January 2019, it increased to 2.5% of risk-weighted assets, which was the final increase of this phasing.

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's 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 1.0% for the UK. The group also has some small, relevant credit exposures in Australia, Finland and Switzerland, all of which have applicable buffer rates of 0%, resulting in a weighted buffer rate of 0.94% of the group's total risk exposure amount as at 31 December 2019.

In December 2019, the FPC announced that, as a result of a review of the stability of the UK financial system, it intends to raise the UK CCyB rate to 2.0%, with effect from December 2020. Based on the group's balance sheet as at 31 December 2019, this change would add approximately £10 million to the group's CRD IV buffers.

PRA buffer

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

The surplus of own funds (including verified profits for the full year) over total Pillar 1 and 2A own funds requirements and CRD IV buffers was £104.2 million, up from £74.2 million at the end of 2018.

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

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

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

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

Total assets

Total assets at 31 December 2019 were £3.4 billion (2018: £2.9 billion), of which £2.7 billion (2018: £2.2 billion) represents the investment in the money markets of the cash element of client portfolios that is held as a banking deposit.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.7 billion (2018: £2.2 billion) represented 6.2% of total Investment Management funds under management and administration at 31 December 2019, compared to 5.8% at the end of 2018. Cash held in client money accounts was £5.7 million (2018: £3.0 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 35 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 £1.9 billion from £1.2 billion at 31 December 2018. During the year, £0.3 billion from maturing certificates of deposit was invested with the Bank of England due to unattractive rates offered elsewhere in the market.

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 18 to the financial statements). In addition, charges may be taken on property held by the client to meet security cover requirements.

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

Loans advanced to clients totalled £132.0 million at the end of 2019 (2018: £131.7 million).

Intangible assets

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

At 31 December 2019, the total carrying value of intangible assets arising from acquired growth was £214.9 million (2018: £225.6 million). During the year, client relationship intangible assets of £5.3 million were capitalised (2018: £55.6 million, including £54.3 million relating to the acquisition of Speirs & Jeffrey). No goodwill was acquired in 2019 (2018: £28.1 million relating to the acquisition of Speirs & Jeffrey).

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 2019, including the impact of any lost relationships, was £15.4 million (2018: £12.9 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 £0.6 million was recognised in relation to this element of goodwill (2018: £0.3 million), which reduced its carrying value to £nil. Further detail is provided in note 24 to the financial statements.

Capital expenditure

During 2019, we have increased the level of investment in the development of our systems and premises, with capital expenditure for the year totalling £11.6 million (2018: £11.0 million). Capital expenditure in 2018 included property-related spend of £3.2 million including the cost of moving to a new office in Birmingham and the fit out of additional space in Liverpool. In 2019, property-related costs of £3.0 million included further development of the Liverpool office, integration of the Speirs & Jeffrey office in Glasgow and refurbishment work on the Exeter and Winchester offices.

The level of spend on our systems and digital capabilities has increased in 2019, as we continue to invest in our infrastructure and client relationship management systems. Total costs for the purchase and development of software were £8.6 million in the year (2018: £7.7 million). New areas of investment during the year included work towards the launch of the new client online portal and mobile app.

Overall, new investment accounted for approximately 84% of total capital expenditure in 2019, compared with 77% in 2018, with the balance of total spend incurred for the maintenance and replacement of existing software and equipment. Of the £8.3 million of new investment, £3.4 million was linked to strategic initiatives announced in October 2019.

Following the strategic review undertaken at the end of 2019, we have looked closely at our IT infrastructure. This has resulted in the decision to cease the development of certain systems and write off the associated costs capitalised to date. This has resulted in an impairment charge of £3.1 million in 2019.

Right-of-use assets

Following the adoption of IFRS 16, the group is required to recognise all leases with a term of more than 12 months as right-of-use lease assets on its balance sheet, along with a corresponding financial liability representing its obligation to make future lease payments.

As at 1 January 2019, the group recognised right-of-use assets of £53.9 million, largely representing the leases for premises occupied by the group. During 2019, additions of £0.6 million were made.

Right-of-use assets are generally depreciated over the lease term (or the expected life of the asset, if shorter). The total depreciation charge for right-of-use assets in 2019 was £4.9 million.

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.

At 31 December 2019 the combined schemes' liabilities, measured on an accounting basis, had increased to £159.1 million, up 8.6% from £146.5 million at the end of 2018, primarily reflecting the decrease in discount rate during the year. The reported position of the schemes as at 31 December 2019 was a deficit of £8.0 million (2018: deficit of £11.2 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. Funding valuations of the schemes as at 31 December 2019 will be carried out by the scheme actuary during 2020.

Liquidity and cash flow

Table 19. Extracts from the consolidated statement of cash flows

	2019 £m	2018 £m
Cash and cash equivalents at the end of the year	**2,148.0**	1,408.5
Net cash inflows from operating activities	**499.6**	111.1
Net change in cash and cash equivalents	**739.5**	(159.2)

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

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

Cash and balances at central banks was £1.9 billion at 31 December 2019 (2018: £1.2 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 40 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 reflect a £442.6 million increase in banking client deposits (2018: £54.2 million increase), as a result of the migration of cash held in the portfolios of Speirs & Jeffrey clients onto a banking basis and a slight increase in the proportion of funds under management and administration held as cash.

Cash flows from investing activities also included a net inflow of £303.9 million from the proceeds from the sale and redemption of certificates of deposit (2018: purchase of £203.8 million), as we increased the proportion of treasury assets held with the Bank of England.

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

- outflows relating to the payment of dividends of £36.0 million (2018: £32.7 million);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £14.9 million (2018: £15.1 million);
- net cash outflows of £4.3 million from a net repurchase of shares during the year (2018: net issue of £57.4 million); and
- £3.5 million of capital expenditure on property, plant and equipment (2018: £3.2 million).

Risk management and control

During the year, we have continued to evolve and strengthen our risk management framework in support of our 'three lines of defence' model. Our approach to risk governance, risk processes and risk infrastructure ensures that risk management across the group considers both existing and emerging challenges to our purpose, values and strategic objectives. Going forward into 2020, we will continue our approach and focus on managing risk effectively in accordance with our risk appetite and over the long term for all of our stakeholders.

Risk culture

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

Risk appetite

We define risk appetite as the amount and type of risk the group is prepared to take or accept in pursuit of our long-term strategic objectives.

Our appetite is subject to regular review and, at least annually, the board, executive committee and group risk committee formally review and approve the group's risk appetite statement, ensuring it remains consistent with our strategy. In 2019, our appetite framework has developed in line with the group's overall prudential requirements for financial and non-financial risk (conduct and operational). Alongside this, specific appetite measures for each principal risk continue to be set. Risks which have triggered key risk indicators or risk appetite measures are reported and escalated in accordance with our framework to the executive committee, the group risk committee and the board so that risk mitigation can be reviewed and strengthened if appropriate.

Following the strategic update this year, and with consideration to the evolving and future regulatory landscape within the sector, the board remains committed to having a relatively low overall appetite for risk and ensuring that our internal controls mitigate risk to appropriate levels. The board recognises that our performance is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time to time, either as reductions in income or increases in operating costs.

Managing risk

The board is ultimately accountable for risk management and regularly considers the most significant risks and emerging threats to the group's strategy. In addition, the audit and group risk committees exercise further oversight and challenge of existing risk management and internal control. Day to day, the group chief executive and executive committee are responsible for managing risk and the regular review of key risks facing the group. Our executive risk committee provides further challenge and oversight of non-financial risk (conduct and operational risk) complementing the banking committee that oversees financial risk management. Both committees meet monthly, reporting into both the executive committee and the group risk committee.

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

Three lines of defence

Our three lines of defence model operates across the group in support of the risk management framework and outlines our requirements across all employees, with responsibility and accountability for risk management broken down as follows.

Three lines of defence

Overview

External independent assurance

	Executive risk committee	Executive committee	Audit committee and group risk committee
Third line: Internal independent assurance			
Second line: Oversight and challenge functions			
First line: Business operations and support			

First line

Senior management, business operations and support functions are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk in line with risk appetite.

Second line

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

Third line

Our internal audit function is responsible for providing independent assurance to senior management, the board and the board committees as to the effectiveness of the group's governance, risk management and internal controls.

Outside of our internal lines of defence, external independent assurance is obtained, primarily the annual statutory audit along with other ad hoc engagements which may be required during the year.

Identification and profiling of principal risks

We undertake regular reviews to ensure we identify all known material risks which have the potential to impact future performance and delivery of our strategic objectives and business priorities. These risks are classified using a hierarchical approach with our highest level of risk (Level 1) comprising financial, regulatory conduct and operational risks. Our next level (Level 2) contains 17 risk categories, which are allocated to a Level 1 risk and reflect the current and future risk profile of the group. Detailed risks (Level 3) are identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register.

We recognise that some Level 2 and Level 3 risks have features which need to be considered under more than one Level 1 risk, and this is facilitated in our framework through a system of primary and secondary considerations. Our risk exposures and overall risk profile are reviewed and monitored regularly, considering the potential impact, existing internal controls and management actions required to mitigate the impact of emerging issues and likelihood of future events. To ensure we identify and manage our principal risks, reviews take place with risk owners, senior management and business units across the group. The risk function conducts these reviews regularly during the year.

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

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.

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 Level 2 risk categories and detailed Level 3 risks is challenged and reviewed on a regular basis. The board, executive committee and executive risk committee receive regular reports and information from senior management, operational business units, risk oversight functions and specific risk committees.

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

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 likelihood of the underlying risks materialising.

The executive risk committee, executive committee, group risk committee and other key risk-focused committees consider the risk assessments and stress tests, providing challenge on their appropriateness, which is reported through the governance framework and ultimately considered by the board.

Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 17 Level 2 risks and 47 Level 3 risks, all of which form the basis of the group's risk register. Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time. For 2019, the underlying risk profile and ratings for the majority of Level 2 risks remained reasonably stable despite the challenging year faced by the wealth management sector. There were, however, some changes to risk ratings and the following table summarises the most important of these.

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group which could impact the delivery of our strategic objectives have been identified below. These reflect the continuing focus on client suitability, the ongoing cyber threat to the financial services sector, the macroeconomic environment and continuing political challenges for the UK. These were regular areas of focus for the firm in 2019, together with the operational integration of Speirs & Jeffrey. The board remains vigilant to the risks associated with the pension schemes' deficit. Other key risks are operational risks that arise from growth and regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

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

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

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

Emerging risks and threats

Emerging risks, including legislative and regulatory change, which have the potential to impact the group and delivery of our strategic objectives are monitored through our watch list. During the year, the executive committee continued to recognise and respond to a number of emerging risks and threats to the financial services sector as a whole and to our business.

Key changes to risk profile

Risk	Description of change	Risk change in 2019
Business model (including Brexit)	This risk, which includes the impacts arising from changing market conditions as a result of political uncertainty and the global economy, has somewhat stabilised, however it remains a key risk. Although the firm's potential exposure to Brexit remains low risk, business model continues to be a principal risk, as any impact of a disorderly exit from the European Union on investment markets will also affect the value of our funds under management and administration.	⇔
Suitability and advice	In 2018, our forward-looking risk assessment increased, largely reflecting regulatory drivers. This year it has remained stable as process improvements have been implemented to simplify the workflows involved for our clients and employees.	⇔
Change	Following integration of Speirs & Jeffrey, we have reduced our risk assessment, however it remains a principal risk as a reflection of the firm's future change plans.	↓
Information security and cyber	We have maintained our risk rating in this area, cognisant of the continued external threat profile, however we recognise continuing investment and improvements in staff awareness, preparedness and technology.	⇔
People	Having increased in 2018, reflecting industry wide trends, this risk has reduced in 2019 reflecting a number of management actions and our view of the external environment. That said, we continue to recognise the importance of addressing the drivers behind our gender pay gap over the coming years.	↓
Pension	The funding deficit decreased materially due to the closure of the schemes in 2017, with a significant number of members transferring benefits out of the schemes. However, this remains an important risk for the firm to manage.	↓

The board and executive also recognise that actions will be required to better understand longer-term climate change risks, both physical and transitional, along with sustainability risks associated with our strategy, business model and operations. This will be an area of specific focus during 2020.

The group's view is that we can reasonably expect current market conditions and uncertainties to remain throughout 2020, given the implications of Brexit and the UK political environment. Other evolving risks remain stable, however they continue to include cyber threats, changing regulatory expectations and further scenarios potentially arising from geopolitical developments, along with continuing tensions and uncertainty around global trade.

Brexit

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

Principal risks

The most significant risks which could impact the delivery of our strategy and annual business plans are detailed below. The potential impacts (I) the firm might face and our assessment of the likelihood (L) of each principal risk crystallising are included in the table.

Principal risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Financial				
Credit The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	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	High	Low	– Banking committee oversight – Counterparty limits and credit reviews – Treasury policy and procedures – Active monitoring of exposures – Client loan policy and procedures – Annual ICAAP
Pension The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and capital	This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit, including increased life expectancy, falling interest rates and falling asset values	High	Med	– Board, senior management and trustee oversight – Monthly valuation estimates – Triennial independent actuarial valuations – Investment policy – Senior management review and defined management actions – Annual ICAAP
Regulatory conduct				
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	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	High	Med	– 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

Principal risk	How the risk arises	Residual rating		Control environment
		I	L	
Regulatory conduct continued				
Suitability and advice The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios	This risk can arise through failure to appropriately understand the wealth management needs of our clients, or failure to apply suitable advice or investment strategies	High	Med	– 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 independent sampling – Compliance monitoring
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	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	High	Med	– Board and executive oversight – Active involvement with industry bodies – Compliance monitoring programme to examine the control of key regulatory risks – Separate anti-money laundering function with specific responsibility – Oversight of industry and regulatory developments – Documented policies and procedures – Staff training and development
Operational				
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	This risk can arise if the business is too aggressive and unstructured in its change programme to manage project risks, or fails to make available the capacity and capabilities to deliver business benefits	High	Med	– Executive and board oversight of material change programmes – Dedicated change delivery 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
Information security and cyber The risk of a lack of integrity of, inappropriate access to, or disclosure of, client- or company-sensitive information	This risk can arise from the firm failing to maintain and keep secure sensitive and confidential data through its operating infrastructure, including the activities of employees, and through the management of cyber threats	High	Med	– Data security committee oversight – Information security policy, data protection policy and associated procedures – System access controls and encryption – Penetration testing and multi-layer network security – Training and employee awareness programmes – Physical security
People The risk of loss of key staff, lack of skilled resources or of inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives,or to behaviour leading to complaints, regulatory action or litigation	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	High	Med	– 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 – Culture monitoring and reporting

Further detailed discussion of the group's exposures to financial risks is included in note 35 to the financial statements.

Assessment of the company's prospects

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

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

The board's assessment considers all the principal risks identified by the group and assesses the sufficiency of our response to all Pillar 1 risks (credit, market and operational risks) to the required regulatory standards. In addition, the potential crystallisation of the following events were areas of focus for enhanced stress testing: an equity market fall, a loss of business to a competitor, business expansion, pension obligation and a combined market fall and reputational event.

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. The business is almost wholly UK-situated and it does not suffer from any material client, geographical or counterparty concentrations.

While these stress tests do not consider all of the risks that the group may face, the directors consider that these stress testing-based assessments of the group's prospects are reasonable in the circumstances of the inherent uncertainty involved.

Viability statement

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

The board provided a strategic update in October covering a five-year period. The board also 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 recent and expected future changes to the economic and regulatory landscape, along with uncertainties associated with predicting the future impact of investment markets on the business over a longer period, the directors have determined that a three-year period to 31 December 2022 continues to constitute an appropriate and prudent period over which to provide its viability statement. This is also more closely aligned to its detailed stress testing and capital planning activity.

Stress testing analysis shows that under scenarios such as a 42% fall in FTSE 100 levels, the group would remain profitable and is able to withstand the impact of such scenarios. We see these scenarios as also incorporating the potential adverse indirect impact of a disorderly Brexit on the firm. An example of a mitigating action in such scenarios would be a reduction in costs, specifically around change initiatives, along with 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 2022.

Stakeholder engagement

Section 172 Statement

Our board promotes the success of the firm for the benefit of our members as well as a broad range of stakeholders that we recognise are material to the long-term future of our business. We have detailed below how the board have ensured effective engagement with our key stakeholders during the year.

Why they are important to our business	How we engage and consider their interests

Clients

Clients are the central focus of our business. The firm's ongoing success is built upon an ability to understand clients' needs and respond with bespoke solutions. This allows us to anticipate how these needs will evolve and to provide portfolios and services that meet their financial goals and build their future prosperity.

Read more on pages 8, 9, 18 and 19

We engage with our clients through a variety of channels including:

- regular meetings with investment managers and financial planners
- breakfast briefings
- private client investment conferences held across the country

People

The board recognises that the firm's culture and corporate values underpin the effective delivery of its strategy. Our people are central to the ongoing success of the firm and we are proud of our reputation as an employer of choice. Our people strategy aims to develop an agile workforce as we continue to attract, retain, develop and motivate the right people for our current and future business needs.

Read more on pages 54, 78 and 79

We engage with our people through the following activities:

- annual employee opinion survey (further information can be found on page 54)
- 'town hall' meetings across the country
- regular management briefings
- webcast, internal magazine and management blogs
- presentations by the executive team to discuss performance and the firm's new strategic plan

Shareholders

We rely on the support and engagement of our shareholders to deliver our strategic objectives and grow the business. Our shareholder base supports the long-term approach we take in the management of our business.

Read more on pages 7 and 21

We engage with our shareholders through the following activities:

- regular meetings are held with our investors throughout the year with both executive and non-executive directors covering a range of topics
- an investor day was held in 2019 to give investors the opportunity to hear our new strategy and engage with senior management and board members

Society and communities

We recognise the responsibility we have to wider society and other key stakeholders. We believe that demanding high levels of corporate responsibility is the right thing to do.

Read more on pages 50 and 59 to 66

We engage with society and the communities in which we operate through the following activities:

- we encourage high standards of governance as an investment manager. We frequently engage with companies on environmental, societal and corporate governance concerns and have been a signatory to the Principles for Responsible Investment (PRI) for over ten years

Our partners and regulators

We seek to build positive relationships with our regulators. Regulators provide key oversight of how we run our business. Our clients' best interests are served by our working constructively with regulators.

We recognise the importance of our various partners in delivering services to clients and ensure we have shared values.

Read more on pages 58

We engage with regulators and our partners through the following activities:

- we hold regular meetings with all our regulators during the year and have a proactive and transparent relationship with them
- we ensure our payment terms with all suppliers are fair and in compliance with payment practices

	Stakeholder considerations in the development of our new strategy
– external client surveys – invitation to the Rathbones Folio Prize ceremony – financial awareness courses for all generations – conferences for intermediaries and IFAs – various other client functions and events.	Enhancement of the client experience will be achieved through: – providing seamless omni-channel communication with clients, including a new mobile app – utilising our liquidity, equity, and diversifying assets (LED) approach for clients and advisers and fostering our investment culture and research capability – developing our environmental, social, and governance (ESG) and responsible investing capabilities – enhancing our financial planning capabilities. Link to strategic priority
– Colin Clark and Sarah Gentleman were appointed as the designated non-executive directors responsible for gathering workforce feedback – regular formal and informal board and management visits to various teams and offices.	Developing our people through: – increased investment in developing the firm's talent and knowledge pool – creating an investment graduate academy and mentoring scheme – developing diversity and inclusion initiatives across the firm – embedding the firm's purpose and values, and linked these into the firm – ensuring ongoing engagement with staff through regular surveys – continued development of the board's workforce engagement initiatives. Link to strategic priority
– we commissioned an independent investor perception study and the results were presented to the Board – engagement with retail investors at our Annual General Meeting – regular engagement and consultation with investors and proxy voting agencies on executive remuneration.	Continued focus on growth by: – driving organic growth through client development and our advisor channels – continuing growth in our funds and financial planning teams – increasing our brand awareness beyond our existing market segments – penetrating specialist markets – improving efficiency and productivity across the organisation – inorganic opportunities that are aligned with our strategy. Link to strategic priority
– we are proud to support the communities in which we operate and have a long history of contributing through donations and employee volunteering (in 2019 through our GAYE, we raised £360,000) – we have reduced our total carbon emissions over the last three years, which has been recognised by our improved CDP (formerly Carbon Disclosure project) FTSE4Good rating.	Continued focus on growth by: – increased focus on responsible investment and stewardship – development of ESG analysis and data to inform our research process and investment manager decisions – continued focus on reducing our impact on the environment and climate change – ongoing support for communities in which we operate. Link to strategic priorities
– we request all suppliers to conform to the Modern Slavery Act and conduct a risk assessment of our supply chain. Our modern slavery statement is reviewed and updated by the board annually – we maintain ongoing relations with our key suppliers and partners during the year with updates at each board meeting.	Align our outcomes with regulators and our partners by: – Ensuring the strategic plan operates in line with regulatory and capital requirements; – Engaging with regulators on the preparation of the firm's new strategic plan. Link to strategic priority To read more on our new strategy, see pages 10-11

Corporate responsibility report

In 2020 we know that every business must be responsive to the expectations of its stakeholders, that every business will need to demonstrate it is run responsibly and that every business will need to make its contribution to society. Over the last few years, diversity and inclusion, climate change, modern slavery, good governance, responsible investment and resilience to risk have all risen up the corporate agenda. At Rathbones, we take this responsibility seriously and in each of these critical areas we are taking action to ensure that we have a positive and lasting impact, both now and in the future.

As we reported last year, we concluded an in-depth review of our corporate responsibility activities with the aim of developing a framework for promoting responsible business across the firm and ensuring good corporate citizenship. The framework has four pillars:

- consider corporate responsibility and governance issues in the companies in which we invest on behalf of our clients
- develop, motivate and reward our people appropriately and ensure diversity and inclusion are at the heart of our business
- engage with the communities in which we operate
- manage our environmental impact and reduce our carbon footprint through the efficient use of resources.

Through consultation with key stakeholders, we considered these material sustainability issues alongside key drivers for our business. The review was an important first step towards the definition of a longer-term roadmap for corporate responsibility and we have summarised here a number of achievements for this year, with additional commentary later in this report.

Our 2019 highlights

Responsible investing

We consider corporate responsibility and governance issues in the companies in which we invest on behalf of our clients.

PRI annual survey results

Strategy and governance score

Median score: A

Listed equity — active ownership score

Median score: B

Listed equity — incorporation score

Median score: B

Fixed income — corporate financial and non-financial score

B

Median score: B

Direct ESG engagement with companies

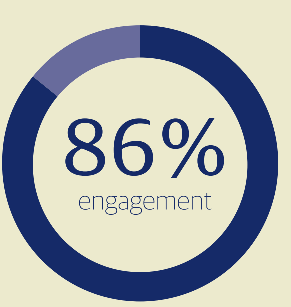
70

companies engaged

People

We engage with our people and invest in their development.

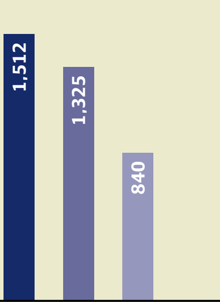
2019 employee engagement survey



Nine points above financial sector

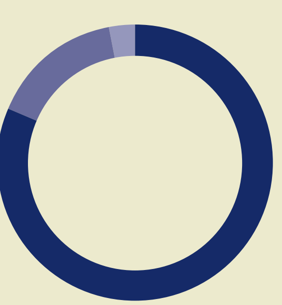
Two points below previous survey

Number of employees and share scheme participation



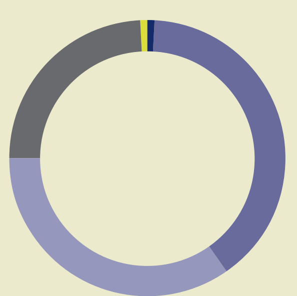
Headcount at 31 December 2019	**1,512**
Number of employees in SIP	**1,325**
Number of employees in SAYE	**840**

Number of employees by length of service (years)



0-15	**1,232**
16-30	**236**
31-45	**44**

Number of employees by age (years)



16-20	**15**
21-35	**594**
36-50	**526**
51-65	**366**
66+	**11**

Society

We take responsibility for our supply chain, contributing to communities and charities, and ensure we uphold the highest standards in our operations.

Volunteering days

80

2018: 25

Charitable donations

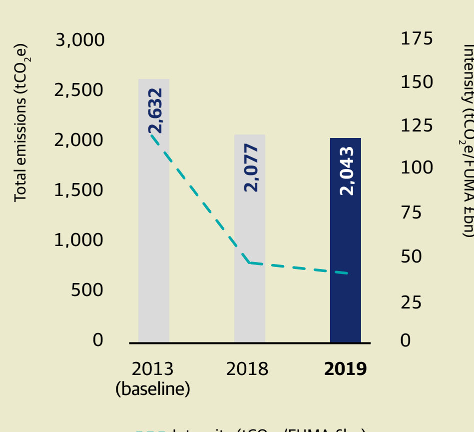
£360,000

2018: £355,000

Environmental impact

We manage and reduce our environmental impact and carbon footprint through the efficient use of resources.

Total emissions (tCO_2e) since baseline year



Our carbon offset programme

We offset over 10% of our carbon emissions by purchasing 2,553 tonnes of carbon credits.

This is equivalent to the CO_2 sequestered by

3,000

acres of forest

This carbon offset represents the equivalent carbon output of more than 725 UK homes. In turn, this offsetting supported community projects around the world, such as renewable energy generation, rainforest protection and safe water initiatives.

Responsible investing

Thinking, acting and investing responsibly

Our purpose is intrinsic to our organisational culture as well as to our investment process. We aim to lead the UK wealth sector by taking an intelligent and active approach to responsible investment through an holistic appraisal of investment opportunity and risk. This incorporates a thorough consideration of relevant environmental, social and governance factors and ongoing engagement with the companies in which we invest on behalf of our clients.

Whilst we have been a leader in responsible investing for many years, 2019 saw several important milestones. Firstly, our first formal responsible investment committee was formed, and secondly, a group responsible investment policy was adopted in late 2019.

Our responsible investment committee defines responsible investment as:

"The purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance."

This important step recognises that ESG factors are material to the performance of companies and sees our group-wide approach take an significant step forward. We retain sector-leading capacity in sustainable and ethical investment through Rathbone Greenbank Investments, and through our specialist sustainable Rathbone Unit Trust Management funds.

Our programme participation

We are a member of the Carbon Disclosure Project (CDP), as well as being a signatory to the CDP sister programmes on water disclosure and forestry. In 2019, we improved our score to a 'B' reflecting our continued focus on environmental performance management and climate-related issues. Rathbone Greenbank Investments is also a leading member of the Institutional Investors Group on Climate Change (IIGCC).

We work with many other organisations which are committed to ethical investment, sustainable development and social justice. Whether through membership, partnership or sponsorship, we are pleased to be involved with the following:

Our PRI membership

2019 marks our tenth year of membership of the UN PRI and the evolution of our rating is detailed below:

2009
9 September 2009 – PRI membership begins

2014
D rating for listed equity – incorporation

2014
C rating for listed equity – active ownership

Our commitment to the UN-backed Principles for Responsible Investment (PRI)

We play an active role in the PRI Collaboration Platform and have made a commitment to and implemented its six principles that are detailed below.

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will each report on our activities and progress.

Our core responsible investment principles

We have developed a core set of guiding principles which apply to our stewardship and governance-related activities:

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

2014

B rating for strategy and governance

2016

A rating for listed equity — active ownership

This is a rating for equity investment, which includes engagement activity as well as strategy.

2016

B rating for listed equity – incorporation

2017

A+ rating for strategy and governance

This is an overall rating for PRI-related policy and activities.

2018

A+ rating for strategy and governance

2019

A+ rating for strategy and governance

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 Principles for Responsible Investment (PRI), and paying 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.

Active voting, informed by ESG risk awareness, is a core part of our responsible investment policy. Our voting policy was strengthened in several areas in 2019, notably in the area of gender diversity on company boards and on company approaches to reporting the risks of modern slavery in their supply chain.

Details of our voting activity for the year is detailed below. Out of 5,291 resolutions, we supported management on 4,759 items, and voted against management on 62 items. We voted against management on resolutions that were related to directors, executive pay and routine/business issues such as approval of accounts and auditors.

Category	Number	Percentage
Number of items voted	4,817	
Number of votes FOR	4,759	98.80%
Number of votes AGAINST	62	1.29%
Number of votes ABSTAIN	70	1.45%
Number of votes WITHHOLD	0	0.00%
Number of votes on shareholder proposals	26	0.54%

Votes against management

Directors related	46%
Executive pay	20.7%
Routine/Business	16.2%
Mergers, aquisitions and takeovers	4.5%
Environmental and social	8.1%
Capitalisation and shareholders rights	1.8%
Antitakeover related	1.8%
Other	0.9%

The data provided are in summary form for general information about voting trends and do not reflect the specific votes entered at a specific company. For example, given our status as a private client asset manager with very close links to our clients, it is entirely plausible (if not frequent) for us to enter three different votes for each votable item, or some combination of for, against or abstain. Hence the percentages given of items voted for, against and abstain as a proportion of items voted are given as an indication of scale, and would not be expected to add up to 100%.

Voting against management is rare, but significant, and we ensure any such vote is followed up by direct engagement. As more attention has been paid to this area in recent years, our proportion of votes against management in 2019 increased.

Company engagement

It is important that we maintain a dialogue with the companies in which we invest, as our clients expect us to use our voice to influence companies towards better, more sustainable long-term performance, which takes account of all stakeholders.

In line with the requirements of the EU Shareholder Rights Directive, a formal engagement policy was adopted in June 2019. As owners of the companies in which we invest on behalf of our clients, we undertake dialogue with companies on a wide range of environmental, social and governance issues. This includes issues of strategy, performance, risk, capital structure, corporate governance (including culture and remuneration), environmental management and human capital management.

In doing so, we recognise that such engagements often present themselves across a spectrum of severity. In order to maximise the effect of our engagements and deliver on our responsibilities to clients, we must be selective and pragmatic. Whilst the specific approach taken to engagement will be decided on an ad hoc, case-by-case basis, the following principles guide the selection of an issue for more active engagement:

1. Exposure: Across our portfolios we may hold stakes in smaller companies which, whilst small in terms of value, may be significant in terms of the proportion of voting rights. We are more likely to engage directly where we hold a material stake in the company, defined as holding in excess of 3% of a company's share capital.

Courageous and resilient
in leading change

Responsibility demands courage. We are not afraid to ask difficult questions or make changes that need to be made. We stand up for what's right, accepting that this can be challenging sometimes. We know that investing for tomorrow and leading the way can take time. We have the discipline and resilience to see things through.

"No matter how tough it gets, you need to be able to bounce back and deal with it."

Naomi Morris
Investment Sales Consultant, London

2. Severity: We are more likely to engage on issues that present an immediate or severe threat to the best interests of our clients.
3. Location: We are more likely to engage with those companies where we have a deeper understanding of the local legal framework.

As signatories to the PRI, we make use of the organisation's Collaboration Platform to participate in engagement on ESG topics with a number of global firms.

PRI engagements

September 2019 marks the 10th anniversary of our PRI membership. In the last year we have been involved in a number of ESG-themed engagement projects as part of this initiative.

- **Responsible sourcing of cobalt:** Rathbones joined a new engagement in 2019 which is focusing on engaging with companies on their responsible sourcing practices around cobalt in line with OECD Due Diligence Guidance. We have taken a lead role with two companies.
- **Transparency in Supply Chains provision of the Modern Slavery Act:** In September 2019 we filed a submission to the 2019 UK Government Consultation on the Transparency in Supply Chain provision of the 2015 Modern Slavery Act. Our submission was put on the PRI Collaboration Platform and was supported by a coalition of investors with a total of £2.4 trillion assets under management. In addition, we integrated concerns on this issue into our proxy voting activities.
- **Tailings Dam Safety:** We are part of the PRI's Investor Mining & Tailings Dam Safety engagement, which is made up of a group of investors representing over $12.5 trillion assets under management. This engagement was formed following the Brumandihno tailings dam collapse in Brazil in January 2019 which killed 19 people.
- **Deforestation and forest fires in the Amazon:** In September 2019 we signed up to a global investor statement calling on a list of companies in the food, apparel and clothing industries to redouble their efforts and demonstrate clear commitment to eliminating deforestation within their operations and supply chains.
- **Just Transition** features in the Paris Agreement and is particularly relevant in the UK after its inclusion in the Government's Green Finance strategy. It covers the social impacts of a transition from fossil fuels to renewables in the UK energy system. We commenced engagement with a major UK power station, the UK's largest single point source of GHG emissions. This engagement seeks an opportunity to discuss with the company its plans for alignment with the UK 'net zero' target for 2050 (the UK Green Finance strategy) in the context of the challenges posed by a just transition and its response to trends in the decentralisation of the grid.

People

Our approach

People are our most important asset in achieving our new five-year corporate strategy, delivering excellent client experience and meeting our commitments to all our stakeholders. To enable our people to do this, during 2019 we made efforts to assess, understand and actively shape our culture. In particular, we focused on the areas of:

– engagement
– investing in our people
– diversity
– wellbeing.

To underpin and drive activities in these four areas of focus, in 2019 we undertook an exercise to refresh our corporate values. Our new values were developed through a series of representative workshops with a large proportion of our employees in multiple locations. We used this approach to ensure the values are reflective of, and demonstrated by, all our people across the firm.

Our new values will act as a yardstick for who we are, what we do and how we act. Across 2020 and 2021 they will be embedded in our core people processes, to ensure we recruit the right people, and measure and reward the right behaviours.

These are the values that guide our behaviour every day:

– Being responsible
– Working together
– Showing courage
– Always professional

Engagement with our people

We understand that critical to having an engaged workforce is ensuring two-way dialogue across the organisation. To achieve this, throughout 2019 we utilised a variety of communications channels including:

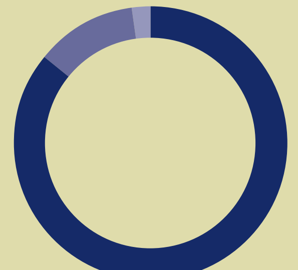
– regular updates from leadership to the whole firm
– a daily 'morning meeting' free for all to join headlining political, economic and market issues
– a weekly internal update focusing on issues affecting our business
– management briefings and town-halls
– a workforce engagement with the board programme
– an engagement survey.

2019 survey highlights

Our 2019 engagement survey was completed by the vast majority of our people, providing them with a secure and anonymous mechanism to feed back on the various elements of their employee experience. Our overall engagement score was 86% which was encouraging and is 9% higher than our financial services comparator group. There were also no pronounced differences when analysed by gender, age, location or employment status.

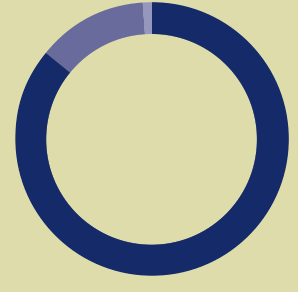
The results identified that our employees care about the organisation, they understand, feel supported in and have the freedom to perform their roles, they feel they can strike a balance between their professional and personal lives, and they have access to the training and development they need. The survey also identified a few specific areas where we can seek to increase engagement.

Overall experience



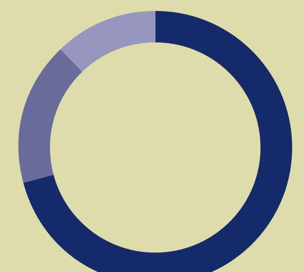
Positive	86%
Neutral	12%
Negative	2%

I am proud to say I work for Rathbones



Agree	86%
Neutral	13%
Disagree	1%

Autonomy



Positive	71%
Neutral	17%
Negative	12%

Workforce engagement with the board

Under the new 2018 Corporate Governance Code, the board is required to agree a mechanism to ensure ongoing engagement with the workforce. Following a detailed review of this requirement by our board to ensure there was effective two-way communication, it was agreed that Colin Clark and Sarah Gentleman will be the designated non-executive directors responsible for gathering employee feedback.

The board's workforce engagement programme has enhanced and developed existing engagement structures and processes to regularly engage with a broad representation of the workforce. The following types of engagement initiatives were conducted during the year:

- non-executive director drop-in sessions across the country
- branch and team visits
- 'town hall' meetings
- review of engagement survey results.

In addition, appropriate reporting frameworks have been implemented to ensure that the feedback from these initiatives is collated. The key themes that have arisen from this exercise are discussed by the board and taken into consideration during its decision-making process. See page 45 for more detail.

Investing in our people

Learning

We actively prioritise the development of our employees by building and delivering high-quality programmes that enable participants to put relevant learning into practice, whichever part of the business they work in. We do this by engaging with line managers and other stakeholders across the business to understand what skills are needed and ensure that the opportunity and support are in place for employees to deploy them. In 2019 we maintained a significant average investment per person of £727 (compared to £710 in 2018). These figures are a conservative estimate because there is much more employee development that has no direct cost and is conducted at the desk. We also delivered online learning across the firm for key issues, including: anti-money laundering, data security and information security.

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 supervision 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. For senior members of staff, a suite of management and leadership courses is available which is designed to enable the firm to support our high-potential employees to ultimately grow into senior leadership roles. During 2019, we also performed cross-functional succession planning and talent mapping exercises to strengthen our bench-strength and developed a new leadership framework.

For our junior members of staff, we provide opportunities for personal and professional development which will help the firm plan for the future. Our apprenticeship programme continues to run successfully in our Liverpool office, and in 2019 we continued an investment operations specialist programme in London, through which participants can earn their Investment Advice diploma. We also launched a new graduate development programme in 2019, on which our eight trainees will participate in a variety of placements across the firm over 16 months, gaining a broad range of experience. We will further develop our mentoring programme in 2020.

Our diversity

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.

Rathbones prides itself on being a 'real Living Wage' employer and pays Living Wage Foundation rates of pay to internal employees and sub-contracted staff. In addition, Rathbones sponsors *Investment Week*'s Women in Investment Awards, which recognise the achievements of women in the sector.

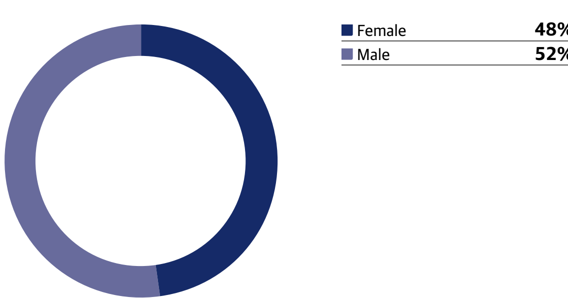
We have three female directors out of eight on the main board and two of them are on the group executive committee (GEC) and have thus exceeded our commitment to meet the 33% of female board representation for FTSE 350 companies.

Historically, women have been less well represented at all levels in the investment management industry and further addressing this imbalance is a key priority. We continue to develop our plans to align with the recommendations published in the Hampton-Alexander review and are working hard to appoint more women in graduate trainee positions. We are also trying to encourage more applications from women to our work experience and financial career programmes. We continue to target the progression and development of existing female employees with opportunities for leadership and management programmes. We are signatories to the Women in Finance Charter and the firm is committed to achieving 25% female senior management representation by 2023. As of 2019, we have reached 20.3%.

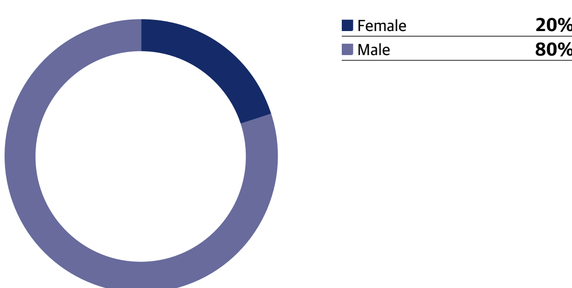
To support our employees who were parents in 2019, we enhanced our shared parental leave offering so that those with two years' service can take the first 24 weeks paid at 100% of their basic salary. Any remaining weeks are paid at the standard rate.

Gender diversity at 31 December 2019

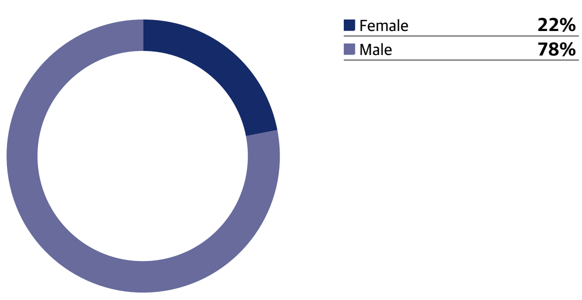
All employees



Senior managers[1]



Group executive members



1. Senior managers includes senior individuals who report directly into the group executive committee

Gender pay gap reporting

The firm published its gender pay gap data in April 2019 and will do so again before April 2020. The report is available on our website.

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

Our wellbeing

Rathbones recognises the importance of an appropriate work-life balance, both to the health and welfare of employees and to the business. Whilst our engagement survey results suggest the vast majority of colleagues feel they strike the right balance between work and home life, we have continued to grow our employee wellbeing offering.

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. Employees continue to have access to a free, independent employee assistance programme (EAP) offering confidential advice and support to them and their families. In 2019, we increased the range and number of training, one-to-one and drop-in sessions available on wellbeing-related topics, including: building resilience, using mindfulness, managing stress, and protecting mental health. We have also introduced trained mental health first aiders in the firm who are go-to people for our employees, helping those who feel stressed or anxious, or have mental health concerns. We continue to provide support for working parents through targeted seminars and training sessions, such as helping new parents prepare for parenthood and learn how to engage with children.

Diversity and inclusion activity

We have launched the Rathbones diversity and inclusion taskforce and the Rathbones Included network. We have also rolled out unconscious bias training across the organisation and are continuing a training programme covering diversity, inclusion and unconscious bias.

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

What we have done to date

- Held employee focus groups to identify issues Established Rathbones Included – a cross-departmental group to drive action in all areas of diversity and inclusion
- Ran voluntary unconscious bias training (outside London) and inclusive leadership training (in all locations)
- Performed annual equal pay audits
- Improved our parental leave policies
- Signed the Women in Finance Charter, committing to 25% female senior management representation by 2023

Our next steps

- Development of culture and diversity dashboards (reviewed by the board)
- Training in inclusive leadership to be rolled out across the firm
- Mentoring of junior female high-performance talent by senior leaders
- Asking questions in the 2020 Pulse survey specifically focused on diversity and inclusion
- Redesigning of recruitment processes to help to eliminate unconscious bias

We offer a comprehensive remuneration package, which is regularly reviewed to ensure that our employees are fairly rewarded, and a wide range of core benefits to our employees, including:

- cycle to work scheme
- flexible holidays
- voluntary leave
- private medical cover
- sight tests and annual health medical
- income protection insurance
- life assurance
- discounted independent financial advice
- discounts on products and services through our 'Reward Board' benefits and wellbeing platform.

Employees can participate in the company's pension arrangement where employees are eligible to receive at least a 9% contribution from the company (on an employee non-contributory basis) to a group personal pension arrangement, rising to 10% with employee contributions. Further, they have the opportunity to join the Share Incentive Plan (SIP), which enables employees to benefit from share matching by the company on a one-to-one basis and receive free shares and dividend shares, as well as the opportunity to join the Save As You Earn (SAYE) share option plan each year.

Our partners and our regulators

Modern slavery

Rathbones is committed to maintaining and improving our practices to tackle slavery and human trafficking violations with respect to our own operations, our supply chain and our services. We welcomed the introduction of the Modern Slavery Act in 2015 and used this as an opportunity to build on our existing policies and develop a focused approach to addressing the risk of modern slavery. Rathbones already has a range of relevant initiatives in place such as our policy on stewardship, being a 'real Living Wage' employer and our equal opportunities and whistleblowing policies. Since 2017, Rathbones has been working towards a set of objectives to improve and refine our approach to ensuring that slavery and human trafficking are not taking place in our supply chains.

To further develop our approach, we set ourselves a set of objectives. These include carrying out a third-party risk assessment, developing prioritised actions based on the results, introducing a modern slavery screening process, training our staff and communicating what we are doing. In 2018, we engaged a third-party sustainability consultancy, Carbon Smart, to carry out a modern slavery risk assessment of our operations and supply chain. This was important to us because, although we are a professional services business in a highly regulated market and therefore low risk, we do know that no supply chain is risk-free. Carbon Smart mapped our annual supplier spend based on sector and location to identify areas of elevated risk in our supply chain. The majority of our spend is in the UK with a small proportion in the US and Canada and the majority is with professional services, which is now confirmed as low risk. However, the risk assessment did show that there was an elevated risk, although still below the UK average, and well below the global average in the following sectors:

- paper and paper-based products
- electrical equipment
- construction
- cleaning products and other chemicals

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

With an understanding of our level of risk and the relevant sectors, we were able to develop a risk-based approach, which allows us to focus our attention and resources where they matter 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 further, we will also communicate more widely to staff what we are doing in this space. At the end of the year, we also plan to review the due diligence checks we have carried out to understand the effectiveness of our approach and update accordingly.

Anti-bribery policy

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

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

Our relationships with regulators

As a UK-based company, we aim to build positive relationships with our regulators. Regulators provide important oversight of how we run our business. Our clients' interests are best served when we work constructively with our regulators. We regularly engage with regulators to ensure that our business understands and contributes to evolving regulatory requirements. Senior management hold regular meetings with regulators to foster healthy working relationships. We also report regularly to the board and the audit and risk committees on engagement with regulators and how changes in regulatory regimes may impact our business processes and procedures. In 2019, these reports included the implementation of MiFID II and the impact of Brexit.

Society and communities

Donations and fundraising highlights

During the year, the group made total charitable donations of £360,000 representing 0.9% of group pre-tax profits (2018: £355,000, representing 0.7% of group pre-tax profits). It also included the matching of employee donations made through the tax-efficient Give As You Earn (GAYE) payroll giving scheme. In 2019, Rathbones employees made payments totalling £195,000 (2018: £199,000) 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 2019, donated £158,000 (2018: £166,000) to causes chosen by employees through this method.

During 2019, the Rathbone Brothers Foundations across the country considered many requests for assistance and met a number of charities. Examples of our donations and volunteering support are below:

- Members of staff from the Winchester office did a charity cycle ride from Winchester office to the Vision Independent Financial Planning office in Falmouth. They were joined by employees from Vision and the team raised over £3,500 for Winchester Hospice (which is Rathbones Winchester's charity of the year) and Pancreatic Cancer Research.
- As part of the Rathbone Foundation regional donation programme, the Edinburgh office supported people from the Edinburgh area on the Outward Bound Trust's flagship three-week Skills for Life course. As part of this course each young person works on their personal development with an instructor/mentor. Outdoor activities and challenges are used as a vehicle to teach skills such as teamwork, resilience and overcoming fear.
- A team of eight employees from the Glasgow office volunteered over two days at Move On's FareShare depot, which saves good-quality surplus food from going to waste and distributes it to organisations working with the most vulnerable people in the community. The aim is to deliver a food service to those who need it most, including homeless people, elderly people, children, refugees and people suffering mental and physical health problems.
- Rathbones employees from the London office hosted a group of 30 students which was organised by Enabling Enterprise, which works with schools and teachers to help students develop essential skills through a range of experiences in British companies.

The Outward Bound Trust

The Outward Bound Trust is an educational charity that helps young people defy their limitations through learning and adventures in the wild. Through circumstances beyond their control, these young people face multiple challenges in life and often do not have the financial means to access the same opportunities as their peers.

The Outward Bound Scotland's Next Generation (SNG) is a life-changing programme for disadvantaged young people in Scotland. Selected participants between the ages of 15-18 take part in the 19-day Outward Bound Skills for Life Award at Loch Eil centre in the Highlands. Participants have a unique opportunity to develop the skills they need to be successful at school, work and beyond. The programme helps to increase their confidence, self-belief, resilience and ambition. The SNG project has been running for over 10 years and is growing stronger each year, helping an increasing number of young people.

Through its Rathbone Foundation, the Edinburgh office supported two young people from the local area, Jennifer and Grant, to attend the Skills for Life program in the summer of 2019. Jennifer and Grant were both selected by their teachers as young people with huge potential. They both completed the course and benefited enormously from the project.

Jennifer said: *"The hardest part of the course was definitely learning to be more independent and to trust myself more. There is no way I thought I'd be at the top of Ben Nevis or jumping off cliffs into water but Outward Bound made me realise that I can do these things if I put my mind to it."*

Grant said: *"This experience has helped me gain confidence in myself and confidence in trying new things, so I now feel better pushing my boundaries and also I can now stand up and speak in front of people, without feeling too nervous."*

We are continuing our partnership with Outward Bound in 2020 by supporting another young person on the Skills for Life programme.

Investing in brighter futures

The Rathbones Folio Mentorships programme, which started in 2017, provides talented young writers from state schools the transformational opportunity to be mentored by published authors, one-on-one, for a year. Alongside this, in 2018 and 2019, Rathbones also piloted a digital reading programme in schools, in association with The Pigeonhole (a digital book club) and HarperCollins publishers.

The Rathbones Financial Awareness programme is another way in which we invest in the future of young people. Investment managers deliver presentations for 16-to-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 the last six years, the programme has been delivered to over 10,000 young people.

Rathbones Folio Prize Mentorships

The Folio Academy, over 250 strong, is the group of outstanding writers and critics who form the Rathbones Folio Prize's unique, de facto governing body. With the launch of the Mentorships programme in 2017, it began to undertake a more dynamic and wide-ranging role – and we're delighted this is continuing into 2020, with the third year of the Rathbones Folio Mentorships.

First Story, founded by former teacher Katie Waldegrave and the writer William Fiennes, brings talented, professional writers into over 70 secondary schools serving low-income communities, to work with teachers and students to foster creativity and communication skills.

The first Rathbones Folio Mentorships programme was launched in September 2017. Four outstanding First Story students were selected and paired with four mentors, who are members of The Folio Academy – AL Kennedy, Kamila Shamsie, Ross Raisin and Evie Wyld.

The four mentors and their mentees met face to face throughout the 2017/18 academic year, in addition to corresponding online. The mentees worked on an agreed writing project, and there was a showcase event for the public held at the British Library, at the conclusion of the programme.

The second Rathbones Folio Mentorships programme paired four more First Story students with Francesca Beard, Joe Dunthorne, Louise Doughty, and Adam Foulds. The mentors worked with their mentees across the 2018/19 academic year on a portfolio of creative writing, and the showcase event was held at the British Library on 19 May 2019 with mentees and mentors sharing the work they'd created with a public audience.

The Rathbones Folio Mentorship scheme has been made possible by the generous funding of Arts Council England and Cockayne Foundation.

Environmental impact

Our approach to taking responsibility for our impact

Climate action dominated the news in 2019. With the UK declaring a climate emergency there is growing pressure for companies to act on this agenda. As a responsible investor, we aim to lead by example in our approach to environmental matters, striving to understand the environmental impacts of our business activities and, wherever possible, acting to reduce them. Since 2007, we have been publicly reporting our environmental impacts and, since 2017, we have increased the frequency of our assessments, producing quarterly internal reporting on our greenhouse gas emissions. This has improved our ability to monitor and manage year-on-year performance.

Our 2019 carbon footprint

In 2019, we reduced our carbon footprint by 2% with total emissions down to 2,043 tCO_2e (from 2,077 tCO_2e) in 2018). With our total funds under management increasing by 14% to £50.4billion, our emissions intensity (tCO_2e/£bn FUMA) has correspondingly decreased by 14%. This reflects that, whilst we are growing, we are doing so in a sustainable way.

With energy from our built estate accounting for nearly half of our annual emissions, the emissions intensity reduction is linked to the occupancy of more energy-efficient buildings, reduced energy consumption across our portfolio and the continued decarbonisation of UK electricity supplies. Business travel and other building activities (such as paper, water and waste activities) account for the remainder of our emissions.

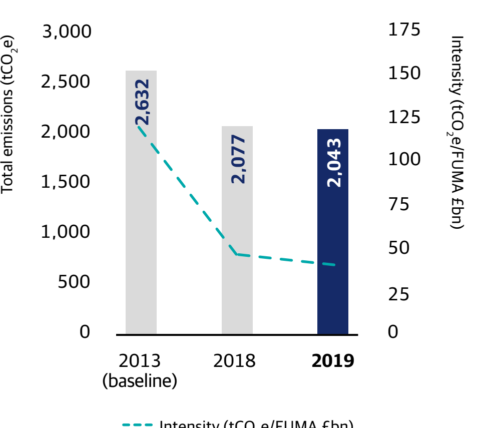
Key achievements in 2019

Rathbones completed several important initiatives in 2019, reflecting our continued focus on reducing our environmental impacts.

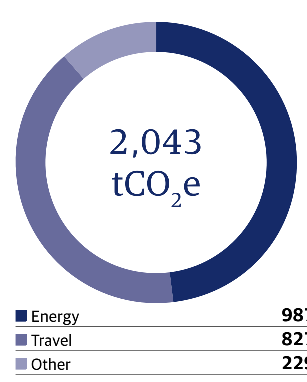
Action on energy efficiency

- Energy Savings Opportunities Scheme (ESOS) compliance: we met the legal requirements of ESOS phase two in 2019, having assessed the total energy consumption of our whole operational estate, company-owned and employee-owned vehicles. We conducted site audits and more detailed energy profiling of our Liverpool and Bristol sites, which has helped us to understand the current energy performance of these two sites in greater depth and develop a list of energy-saving opportunities for investment.
- Rolling replacement of LED lighting: where older lighting systems require repair or upgrade, we are converting to LED. This will reduce the carbon emissions associated with electricity usage.
- Review and upgrade of desktop IT: we are rolling out more energy-efficient hardware. This programme will continue throughout 2020.

Total emissions (tCO_2e) since baseline year



Emissions breakdown by resource type



Energy	987
Travel	827
Other	229

Carbon Disclosure Project (CDP) submission

CDP score

B-

2018: C

In 2019, we continued our policy of voluntary disclosure to CDP. CDP has raised the standard of global climate disclosure, encouraging companies to demonstrate transparency, accountability, measurement and management of their environmental impacts.

We are pleased to have received a 'B-' rating, reflecting our continued efforts to address climate-related issues across our business. This is higher than both the financial services sector and European regional averages. We have improved our scores for our risk management processes, governance of climate related issues and reporting of our emissions according to our CDP scorecard. We understand the importance of this increased transparency to our investors, employees and wider stakeholders and will continue to improve both our action and disclosure surrounding climate-related issues.

Improved performance management and reporting

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

This has delivered the following key benefits to management:

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

Carbon offsetting programme

While continuing to pursue efforts to reduce our carbon footprint, we recognise that there is more that can be done to take action for our residual emissions. Since 2011, we have partnered with ClimateCare to compensate for our emissions, through a process known as carbon offsetting. This is an environmental best-practice mechanism that enables Rathbones to invest in projects around the world. These project investments ensure that for each tonne of carbon we emit, there is one less tonne in the atmosphere than there otherwise would have been. Offsetting by no means solves the problem of carbon emissions, but it is a tool which can be used effectively to act on emissions alongside effective carbon measurement and reduction strategies.

We chose to partner with ClimateCare because, with over 20 years' experience, ClimateCare has offset 34.8 million tonnes of carbon worldwide and improved the lives of 36 million people through working with projects that deliver value not only for the environment, but also for communities. Throughout Rathbones' eight-year partnership with ClimateCare, we have offset over 21,600 tonnes of carbon emissions by supporting 14 projects that have reduced global carbon emissions and improved lives. These projects range from large-scale renewables projects to the LifeStraw Water Filtration and Gyapa Cookstoves projects that support health and development objectives around the world.

To offset our 2019 carbon footprint, we have chosen to support two high-impact projects which provide clean energy and improve lives in India. Each of these exciting projects were selected in line with our support of the UN's Sustainable Development goals and are certified by internationally accredited bodies, including The Gold Standard.

Our solar offsetting programmes

Orb Solar Energy

In rural areas of India, households traditionally use kerosene as a fuel in the home, as grid supply can be unreliable. Orb Energy manufactures, installs, and services a range of high-quality solar energy systems for commercial and residential customers in India. The project has distributed over 160,000 reliable solar power and water heating systems within India over the past nine years.

When solar energy is used to heat water, typical household electricity bills are halved. Saving money on electricity enables individuals to invest in a better quality of life, through schooling, medicine and nutrition. Additionally, improved lighting allows businesses to operate for longer and more consistently, and lighting at home supports children in their studies.

ACME Solar Project

Energy demand in India is rapidly increasing due to population growth and rural communities seeking electricity supply. Currently, this demand is being met with coal power generation. However, the declining price of photovoltaic technology places solar power in prime position to become a leading technology in the transition from fossil fuels to clean energy sources.

Rathbones' carbon offset is helping to ensure that the demand for energy is met with a zero-carbon energy source. Delivering renewable energy at scale, the project supports 11 grid-connected solar projects across India that feed renewable electricity into the national grid. This innovative programme is launching India's first battery swap station for electric vehicle owners and is delivering 380MW of solar electricity generation to the Indian grid. As well as delivering significant carbon emission reductions each year, it is supporting sustainable development for local communities. Nearby residents are employed to construct, maintain and run the large-scale grid solar farms. Additionally, the resulting infrastructural development in the region is promoting business and entrepreneurship through encouraging other suppliers to initiate solar projects.

Collaborative and empathetic
in dealing with people

Managing wealth responsibly takes collaboration: with each client, among colleagues and with professional partners. What matters is not who's best but what's best for our clients. Empathy brings insight. It's important to know what wealth means for our clients as individuals and for their families too. It's our responsibility to understand each generation's changing priorities.

"Empathy helps to build trust with clients and other businesses and helps us to become bigger and better at what we do."

Laura McNally
Operational Tax Reporting Administrator, Liverpool

Compliance with regulations

We continue to work with Carbon Smart to meet and exceed the greenhouse gas (GHG) emissions reporting requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013. We are also aware of our forthcoming obligations under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. In line with our policy of going beyond compliance, we have prepared this report in accordance with the requirements for quoted companies under these new regulations by including our specific energy usage, energy efficiency initiatives and have split out our global and UK emissions. Rathbones continues to report all material GHG emissions across our direct operations.

The methodology used to compile this disclosure is in accordance with Defra's Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019) and the World Resources Institute Greenhouse Gas (WRI GHG) Protocol Corporate Standard. Rathbones uses an operational control approach and has included GHG emissions arising from business activities in the reporting year 1 January 2019 to 31 December 2019.

In August 2018, we completed our acquisition of Speirs & Jeffrey and in adding an additional office to our portfolio have rebaselined all years to reflect this accordingly. 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.

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 2019 to 31 December 2019. It does not represent an independent third-party assurance of Rathbones' management approach to sustainability.

Carbon Smart has been commissioned by Rathbones for the eleventh consecutive year to calculate Rathbones' carbon footprint for all offices in its 2019 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 Defra's Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019) and the WRI GHG Protocol Corporate Standard principles of relevance, completeness, consistency, transparency and accuracy.

Carbon Smart's work has included interviews with key Rathbones personnel, a review of internal and external documentation and interrogation of source data and data collection systems, including comparison with the previous years' data. Carbon Smart has concluded the following:

Relevance

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

Completeness

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

Consistency

To ensure comparability, we have used the same calculation methodologies and assumptions as for the previous year, or stated any updates made across all years. In 2019, emissions were rebaselined to include Speirs & Jeffrey.

Transparency

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

Accuracy

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

Carbon footprint by scope (tCO_2e)

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

Location-based emissions[1]	2013 (baseline)	2018	**2019**	% change
Scope 1	306	328	**322**	↓ (2)
Natural gas	276	328	**322**	↓ (2)
Refrigerant	30	0	**-**	↔ 0
Company cars	0	0	**-**	↔ 0
Scope 2	1,424	680	**657**	↓ (3)
Purchased electricity	1,424	680	**657**	↓ (3)
Scope 3	902	1,069	**1,064**	↓ (1)
Business travel	496	741	**827**	↑ 12
Data centres[2]	150	182	**135**	↓ (26)
Paper[3]	117	81	**87**	↑ 7
Waste	9	7	**7**	↔ 0
Electricity T&D[4]	130	58	**8**	↓ (87)
Total location-based	2,632	2,077	**2,043**	↓ (2)
UK emissions[5]	2,609	2,055	**2,024**	↓ (2)
Global emissions (excl. UK)[5]	23	22	**19**	↓ (14)
Total energy consumption (kWh)[6]	4,748,931	4,117,966	**4,320,690**	↑ 5
UK consumption (kWh)	4,678,559	4,045,881	**4,247,556**	↑ 5
Global consumption (excl. UK) (kWh)	70,372	72,085	**73,134**	↑ 1
Intensity ratio				
FUMA (£bn)	22.0	44.1	**50**	↑ 14
Emissions intensity (tCO_2e/FUMA £bn)	120	47	**41**	↓ (14)

1. In accordance with best practice introduced in 2015, we report two numbers to reflect emissions from electricity. Location-based emissions are based on average emissions intensity of the UK grid and market-based emissions to reflect emissions from our specific suppliers and tariffs. Total market-based emissions from 2019 are 2,505 tCO_2e
2. Data centre emissions are reported as Scope 3, as per the WRI GHG Protocol
3. Paper emissions have been recalculated and restated for all years using Defra conversion factors to ensure comparability with 2019. This is due to a revision in the underlying methodology in the conversion factors applied this year
4. Electricity transmission and distribution (T&D) reflects emissions from line losses associated with electricity transmission and distribution
5. Under the new regulation we are required to split our global and UK emissions. Our global emissions (excl. UK) and global consumption (excl. UK) reflect electricity emissions and consumption (respectively) from our Jersey office. It is not possible to split out travel and allocate to our Jersey office
6. Total energy consumption (kWh) of our Scope 1 and Scope 2 emissions (electricity and natural gas)

Looking forward

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

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

Already we see a growth in related regulation and the need for transparency on social and environmental issues. The advent of millennials as employees and clients of our business will serve to accelerate interest both in acting responsibly as a business and in responsible investment opportunities. For these reasons, Rathbones will continue to increase its focus on sustainability issues.

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

Paul Stockton
Chief Executive

Jennifer Mathias
Group Finance Director

19 February 2020

Non-financial information statement

Reporting requirement	Some of our relevant policies	Where to read more in the report about our impact	Page
Environmental matters	Group sustainability policy	Responsible investing	50
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		Carbon offsetting programme	62
		Environmental reporting	65
Employees	Code of conduct	Leadership and management development	55
	Health and safety policy	Diversity and inclusion	57
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		Women in Finance Charter	56
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Governance

Governance

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Corporate governance report

One of the key responsibilities of the board is to ensure effective leadership, long-term sustainability of the firm and creation of value for our stakeholders. The board recognises that sustainable business success is not possible without a clear purpose and that good governance is about more than complying with rules and compliance; it is also about culture, behaviours and how we service our clients. The board is therefore committed to ensuring that the firm's purpose, values and culture are set by the whole board and embedded throughout the firm. The executive directors and management team play an integral role in this, ensuring that our people understand the firm's culture and what is expected of them to achieve our purpose. I believe that this, together with our strong governance framework, allows the board to ensure that the whole firm is moving in the right direction as we develop and execute our new strategy.

An engaged board

With the launch of a new strategy that looks to ensure long-term and sustainable success for the firm, it is essential for us to be engaged with all our stakeholders and able to support and challenge senior management. We also continue to fulfil our other core duties to oversee the firm's culture, governance, financial controls, risk and change management.

This year saw the completion of the board's executive director succession plans with Paul Stockton and Jennifer Mathias being appointed as chief executive and finance director respectively. The leadership transition and the handover process went well.

The board has long championed the benefits of diversity across the firm as well as in the composition of the board. I am pleased that as at the date of this report, female directors comprise over 30% of our board membership. As discussed in the corporate social responsibility report, the firm is taking steps to continue improving diversity across the organisation through a variety of initiatives.

The board strongly believes that robust corporate governance is essential to the long-term success of the firm and the achievement of its strategy.

UK Corporate Governance Code

The board strongly believes that robust corporate governance is essential to the long-term success of the firm and the achievement of its strategy. A good governance framework creates a solid foundation, which enables us to act in the best interests of our clients, shareholders and other stakeholders. Our corporate governance report for 2019, which includes commentaries from me and the other committee chairs, explains how we applied the principles of good governance including the new principles and provisions of the 2018 UK Corporate Governance Code[1] (the 'Code'). The Code places increased emphasis on culture, purpose and values, which are vital to ensuring long-term sustainable success.

In light of the introduction of the new Code, the board has taken the opportunity to review and refresh existing processes against the provisions of the Code. We have not had to change our approach to any significant degree, the emphasis being on articulating better what we do rather than introducing fundamental change, and we continue to believe that a strong corporate governance framework is vital to good decision making and the continued success of the company.

Nevertheless, we have expanded the responsibility and scope of the nomination committee to take on greater responsibility and oversight for the development of the wider talent pipeline together with diversity and succession below the group executive committee (GEC) level. These changes and those for the remuneration committee are reflected in revised terms of reference which are available on our website. Also, the board has focused extensively on the firm's purpose during the year.

Culture

As a board, we place great importance on the firm's culture, which has developed over many years and represents a key competitive advantage. The firm's client focus and integrity are fundamental to achieving the best results for clients, colleagues and shareholders over the long term. As a board, we are responsible for setting the tone and for championing a healthy, responsible culture that will promote long-term sustainable success for all of our stakeholders.

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

In order to achieve this goal, the board has continued to monitor and analyse the firm's risk culture dashboard which contains data from clients, employees and other stakeholders. In addition, non-executives assess the firm's culture through informal engagement, branch visits to teams as well as workforce engagement initiatives that are discussed on page 78.

Board and committee 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 focus on any challenges. We receive written reports on the development of the business and key performance indicators, together with detailed updates on the progress of agreed strategic initiatives. Each board meeting is attended for relevant items by members of the executive committee so that we can discuss their areas of responsibility in greater depth.

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

The board's five committees continue to play an important role in the governance of the group and in helping the board operate effectively and efficiently. Reports from each of the committees, describing their activities during the year, are set out later in this report.

Executive remuneration

The board and the remuneration committee continue to recognise that executive remuneration remains an important topic and I was pleased that the firm's Directors' Remuneration Report (DRR), was approved by 84% at the AGM last year. Nevertheless, recognising that the level of opposition to the firm's DRR had increased, the remuneration committee agreed to conduct an investor engagement programme during the year to understand the concerns of investors. Further details can be found in the remuneration report.

Board evaluation

This year, in line with the Code, the board conducted an internal review of its effectiveness and performance. The review concluded that the board is strong and effective but some areas can be improved. We will work to consider opportunities for incremental improvements during the year ahead. Further details of the evaluation can be found on page 76.

Engagement with our employees

In addition to the requirements of the new Code, the board recognises its obligations under section 172 of the Companies Act and details of how the board has engaged with its various stakeholders are provided in the strategic report. With regards to workforce engagement, the board reviewed the various mechanisms that could be used to engage with members of staff and concluded that this was best carried out by two non-executive directors. Accordingly, Colin Clark and Sarah Gentleman were appointed as the designated non-executive directors responsible for workforce engagement. This role will ensure the views of members of staff are collected and presented to the board on a regular basis. To ensure this is achieved, a number of engagement initiatives were put in place across the firm and details can be found on page 78. In addition, both I and my non-executive director colleagues use formal and informal opportunities to talk to members of staff across all offices and functions which includes regular team visit programmes.

Engagement with our shareholders

I and other non-executive director colleagues have been pleased to meet with a number of our shareholders during the year and we found these meetings to be most constructive. They allowed us to provide useful feedback to the whole board.

Looking forward

Following the launch of the firm's new strategy and purpose, the board's focus will be on embedding these initiatives during 2020. In addition, the board and the remuneration committee will need to analyse the implications of capital conservation measures (CRD V) on the firm and the impact these will have on our remuneration policy going forward. Finally, the nomination committee will continue to focus on talent management and succession planning.

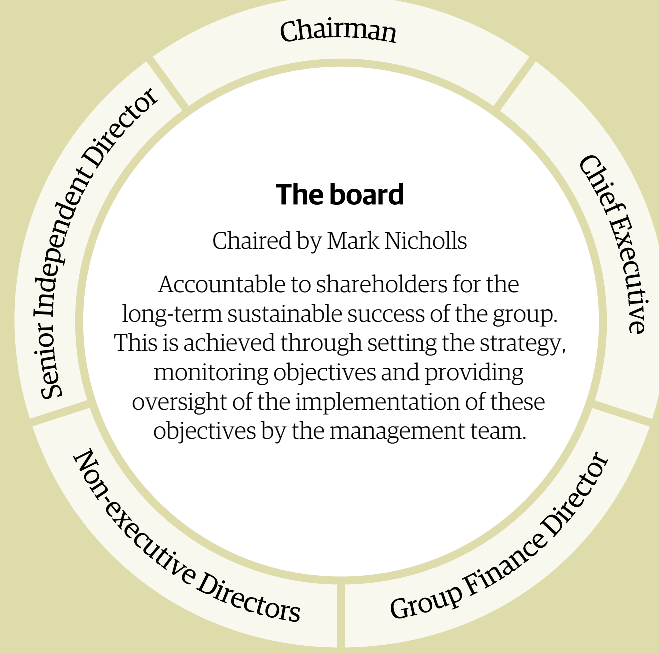
This report, in its entirety, has been approved by the board of directors and signed on its behalf by:

Mark Nicholls
Chairman

19 February 2020

Governance at a glance

Corporate governance framework



Group risk committee

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

Read more on page 80

Audit committee

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

Read more on page 83

Nomination committee

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

Read more on page 88

Remuneration committee

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

Read more on page 92

Group executive committee

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

Read more on page 90

Chairman

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

Chief Executive

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

Group Finance Director

- Oversees the financial position of the group
- Together with the chief executive, leads discussions with investors
- Responsible for the management of the capital structure of the company
- Contributes to the management of group's operation

Non-executive Directors

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

Senior Independent Director

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

Board activities in 2019

Strategy
- Reviewed and approved the new strategy including the financial and communication plan
- Reviewed and approved the firm's purpose statement and values
- Held strategy day with group executive team to discuss implementation of the new strategic plan
- Focused on delivery of organic growth initiatives
- Oversight of integrating Speirs & Jeffrey

Risk management
- Approved the firm's risk framework and appetite
- Monitored the firm's principal risks and compliance programme
- Received detailed reports on significant regulatory risks and management's mitigating actions
- Reviewed the implications of Brexit for the organisation
- Oversight and review of the firm's whistleblowing report

Performance review
- Oversaw financial performance against the plan and market expectations
- Reviewed and approved capital requirements of the firm
- Approved interim and full-year financial statements, interim dividend and recommended final dividend

Governance
- Implemented the new UK Corporate Governance Code
- Discussed the various workforce engagement mechanisms and approved the appointment of two designated non-executive directors
- Approval of new auditors following tender process
- Assessed and oversaw the firm's culture and how it was monitored
- Conducted an internal board evaluation

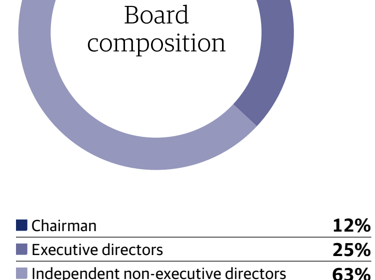
Operational
- Reviewed executive management succession and transition plans
- Oversight of client data migration from Speirs & Jeffrey
- Assessed the firm's change management processes and project delivery
- Assessed and approved 2020 budget and firm's regulatory returns

Strategy	40%
Risk management	10%
Performance review	20%
Governance	20%
Operational	10%

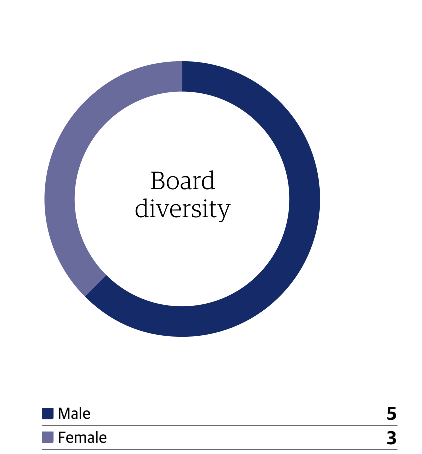
Board structure

Board tenure

0-2 years	50%
3-5 years	17%
6-8 years	17%
9+ years	17%



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



Male	5
Female	3

Our leadership

Chairman

Mark Nicholls
Chairman

Appointment:
01/12/2010

Board committees:
N, Re

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

Current external non-executive director roles
West Bromwich Building Society

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

Bold in biographies indicates committee chairman

Executive directors

Paul Stockton
Chief Executive

Appointment:
09/05/2019

Board committees:
E

Background and career
Paul was appointed chief executive in May 2019, having served as managing director of Rathbone Investment Management from May 2018. He was previously group finance director from 2008 to April 2019.

Paul qualified as a chartered accountant with PriceWaterhouse in 1992, subsequently taking up a position in New York before returning to London in 1996. In 1999 he joined Old Mutual Plc as group financial controller, becoming director of finance of Gerrard Limited in 2001. In 2005, two years after the sale of Gerrard, he left to work initially for Euroclear and, subsequently, as a divisional finance director of the Phoenix Group. He was formerly a non-executive director of the Financial Services Compensation Scheme.

Current external non-executive director roles
None

Jennifer Mathias
Group Finance Director

Appointment:
01/04/2019

Board committees:
E

Background and career
Jennifer Mathias was appointed to the board on 1 April 2019.

She began her career on the Lloyds TSB Finance graduate scheme following her graduation in 1995, and qualified as chartered management accountant in 1999. At Lloyds, Jennifer held a number of senior management roles and worked closely with the board-level team of the Lloyds TSB Group, and was a member of the Corporate Banking and Wholesale Finance Executive Committees. In addition to her position as a finance director of Corporate Banking, Jennifer spent three years as head of Credit Risk & Compliance for the Commercial Banking division of Lloyds TSB. In 2012, she joined Coutts as the global chief finance officer, and in 2015, she moved to EFG Private Bank (UK), where she was chief finance officer and deputy chief executive officer.

Current external non-executive director roles
None

Non-executive directors

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

Appointment:
06/03/2017

Board committees:
A, N, Re, Ri

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

He is a chartered accountant and was formerly president of ICAS, chief executive officer of CMC Markets plc, chief operating officer of Ashmore Group plc, and group finance director of ICAP plc. He was previously a non-executive chairman of Miton Group Plc and RBC Europe Ltd. Jim was also a non-executive director of Scottish Financial Enterprise, 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
Virgin Money UK Plc (name changed from CYBG Plc)

James Dean
Non-executive Director
(Independent)

Appointment:
01/11/2013

Board committees:
A, N, Re, Ri

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

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

Current external non-executive director roles
The Stafford Railway Building Society

Sarah Gentleman
Non-executive Director
(Independent)

Appointment:
21/01/2015

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

Background and career
Sarah was appointed as a non-executive director in 2015 and is chair of our remuneration committee. She was appointed as a designated non-executive director for our workforce engagement in 2019 along with Colin Clark.

She started her career as a consultant at McKinsey & Company and then worked for several years in the telecoms and digital sectors, latterly as chief financial officer of the LCR Telecom Group. In 1999, she joined the internet bank Egg, the internet banking subsidiary of Prudential, where she was responsible for business development and strategy. In 2005, she joined Sanford C. Bernstein & Co, the institutional research and trading arm of Alliance Bernstein, as a banking analyst covering the European banking sector. Sarah is also an adviser to early-stage technology companies.

Current external non-executive director roles
None

Terri Duhon
Non-executive Director
(Independent)

Appointment:
02/07/2018

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

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

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

Current external non-executive director roles
Morgan Stanley International Ltd
Morgan Stanley Investment Management Ltd

Colin Clark
Non-executive Director
(Independent)

Appointment:
24/10/2018

Board committees:
A, N, Re, Ri

Background and career
Colin was appointed as a non-executive director in October 2018 and a designated non-executive director for our workforce engagement programme in 2019.

He is currently chairman of Merchants Trust Plc and a non-executive director of AXA Investment Management SA, and AXA Investment Managers UK. Previously, Colin worked at Mercury Asset Management and Merrill Lynch Investment Managers for over 20 years. In 2004, he was appointed a non-executive director at Standard Life Investments, and in 2010, he was appointed as an executive director of Standard Life Investments. He was appointed to the Standard Life Plc board as an executive director with responsibility for the Global Wealth Group and retired from this position in 2017. He was previously a non-executive director of Alpha Strategic Plc, and the Royal Marsden NHS Foundation Trust.

Current external non-executive roles
Merchants Trust Plc
AXA Investment Managers SA
AXA Investment Managers UK

The role of the board and its committees

The board has collective responsibility for the management, direction and performance of the company. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. In discharging its responsibilities, the board takes appropriate account of the interests of our wider stakeholders including clients, employees, regulators and society as a whole. To achieve this goal, the board requires a diverse and talented membership with a range of skills and experiences and the ability to challenge and support the executive management. The board has a strong non-executive membership, which 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 the 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 group 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.

Operations of the board

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

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

Board attendance

Director	Meetings attended (eligible to attend)
M P Nicholls	7(7)
J W Dean	7(7)
S F Gentleman	7(7)
J N Pettigrew	7(7)
J M Mathias[1]	4(4)
R P Stockton	7(7)
T L Duhon	7(7)
C M Clark[3]	6(7)

Former director	
P L Howell[2]	4(4)

1. Jennifer Mathias joined the board on 1 April 2019
2. Philip Howell retired as a director on 9 May 2019
3. Colin Clark was unable to attend one meeting due to prior commitments agreed ahead of his appointment as non-executive director

Independence

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

Board induction

Our executive and 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

Professional and high performing
in all our actions

We take our professional responsibilities seriously. We are accountable for what we do: to our clients, to each other and to the future. Investment in our people and the fabric of our firm renews our culture of high performance. Never compromising on quality because we have a responsibility to be here tomorrow.

"We act with integrity and do the best that we can in every situation."

Susie Dingley
Assistant Investment Manager, Lymington

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 corporate values 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. The knowledge and familiarity of non-executive directors with the firm is enhanced by full access to senior management and visits to teams in London and offices across the country.

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

- Client Assets and Money (CASS)
- Securities and Exchange Commission (SEC) obligations
- Internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)

During the year, the board received presentations on the impact of the Capital Requirement Directive V (CRD V) and regulatory investment requirements including the associated change programmes that will be required. Committee members also receive regular updates on technical developments at scheduled meetings.

Board diversity

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

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

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

Board and board committee evaluation

Each year, the board undertakes an annual review of its effectiveness with an external review taking place every three years.

The 2019 board effectiveness review was devised internally, as permitted by the Code, and supported by Independent Audit Limited. The board was keen for the evaluation to highlight learnings from the past and build on these for the future. The review consisted of a focused questionnaire on composition, diversity and how effectively members work together to achieve objectives, as well as key topics such as:

- requirements of the new UK Corporate Governance Code
- oversight of culture
- executive management transitioning
- stakeholder engagement
- long-term succession planning
- effectiveness of the board committees.

Independent Audit Limited provided a report, based on responses to this questionnaire, which was presented to the board. The chairman followed up with one-to-one meetings with each director. Overall, the board effectiveness review was positive on the following areas:

- board composition and skills
- clarity on the firm's strategy and purpose
- oversight of the firm's culture
- positive engagement with the firm's employees and other stakeholders
- strong board committees.

Suggestions for improvement included:

- greater focus on development of our people, diversity and potential talent in the firm, including succession planning for executives and senior management
- additional focus on the competitive landscape and the future of the industry
- continuing to focus on the various requirements of our stakeholders.

The board will conduct an externally-facilitated evaluation in 2020.

In addition to the board evaluation process, the senior independent director led a separate performance review in respect of the chairman which involved a discussion with the non-executive directors, excluding the chairman, and separate consultation with the chief executive. The senior independent director subsequently provided feedback to the chairman on his appraisal which confirmed his effectiveness. The chairman also conducted a performance review of each individual director, holding one-to-one meetings to discuss contribution in and outside the boardroom and any training and development needs.

Succession planning

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

Board committees

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

Accountability

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

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

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

Risk management

In accordance with the Code, the board is required to monitor the firm's risk management and internal control systems on an ongoing basis and carry out a review of their effectiveness and report on this review to shareholders. Details of the company's ongoing process for identifying, assessing and managing the principal risks, including any emerging risks, faced by the firm are contained in the risk management section on pages 40 to 45, together with details of those principal risks and their related mitigating factors. Whilst the board retains overall responsibility for the firm's risk management and internal control systems, it has delegated oversight to the audit and group risk committees.

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

The board receives regular reports from the chairman of the group risk committee and chief risk officer on the key risks facing the firm that impact on operational and financial objectives. This assessment is completed together with assurance that the level of risk retained is consistent with

and is being managed in accordance with the board's risk appetite. These reports include current and forward-looking assessments of capital and liquidity adequacy and a summary 'risk dashboard' is presented. Also, during the year the board reviewed and approved the operational risk assessment process for the 2019 ICAAP document, which includes a capital assessment of financial, conduct and operational risks.

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

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

Relations with shareholders

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

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

Investor relations activity in 2019 included the following:

- 2018 year-end results – UK investor roadshow and analyst presentations
- Q1 trading update – analyst call
- AGM – all directors were available for questions
- 2019 interim results – UK investor roadshow and analyst presentations
- launch of the firm's new strategic plan.

During the year, the chairman of the remuneration committee contacted our top 15 shareholders to update them on the proposed adjustments to the 2018 EIP awards for our executive directors. Also, following our 2019 AGM, a shareholder engagement exercise was conducted to understand the reasons why a small number of investors had voted against the Directors' Remuneration Report.

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 2020 AGM in May this year.

Compliance with the 2018 UK Corporate Governance Code

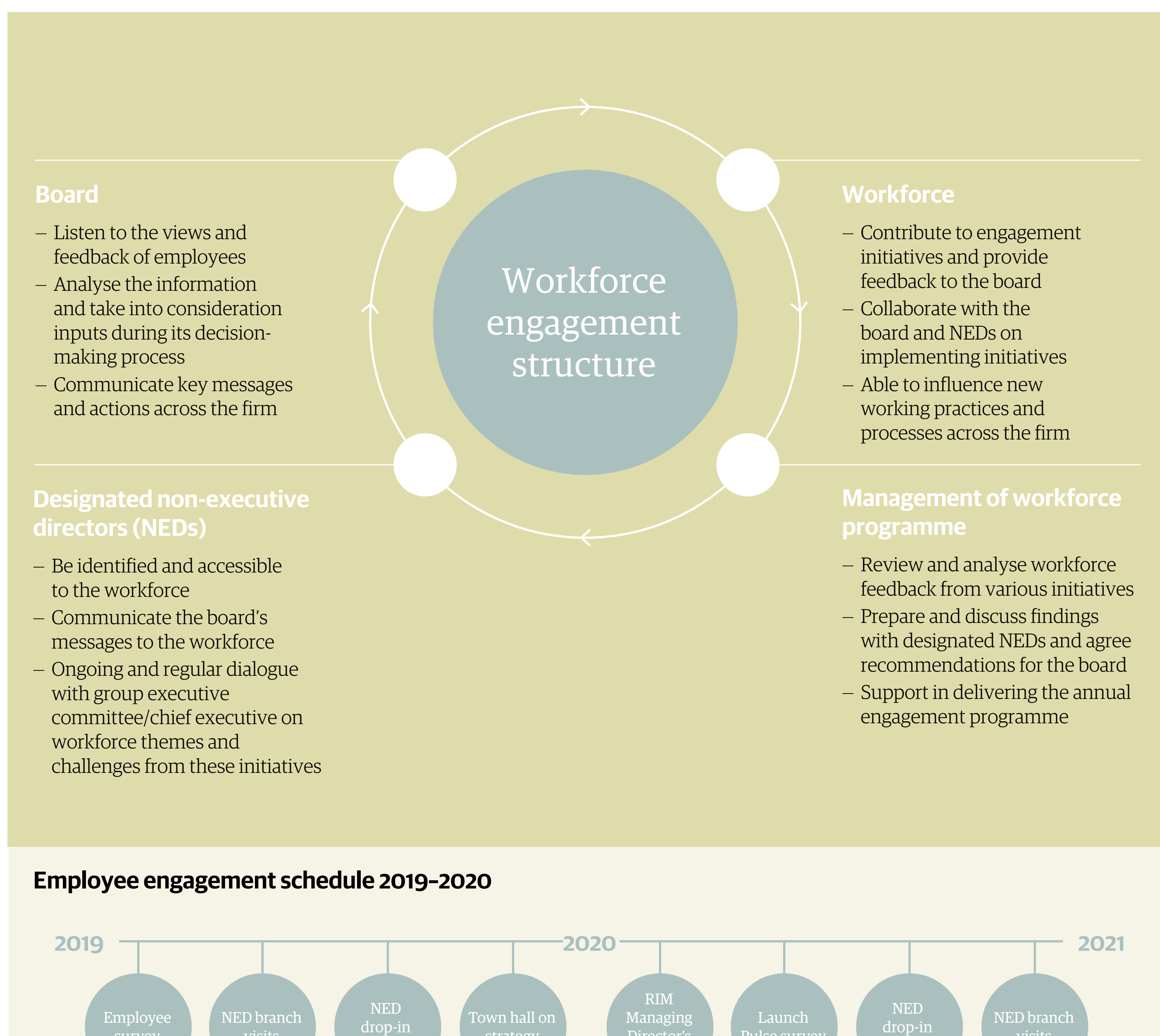
In relation to compliance with the 2018 UK Corporate Governance Code (the 'Code'), which applies to the firm, this report together with the directors' report states the position as at 19 February 2020. The directors have considered the contents and recommendations of the Code and confirm that throughout the year the company has applied the main principles and complied with the provisions of the Code with the exception of provision 19 relating to the tenure of Mark Nicholls . The board has reviewed and considered this new requirement under the Code and believe that it was important for there to be an orderly succession following the recent appointments of Paul Stockton as chief executive in May 2019 and Jennifer Mathias as group finance director in April 2019. The nomination committee has started the process to identify and appoint a successor to the chairman.

Details of how we have applied the main principles of the Code and further information can be found as follows:

Leadership and purpose	
Company's purpose, corporate values, culture and strategy	1 to 20
Relations with our stakeholders	46 to 47
Engagement with shareholders	77
Workforce engagement	54 and 78
The role of the board and its committees	70 to 71
Division of responsibilities	
The chairman	70 to 71
Non-executive directors	70 to 71
Operations of the board	74
Composition, succession and evaluation	
Composition of the board	74 to 76
Appointments to the board	74 to 76
Independence	74 to 76
Board development	74 to 76
Board evaluation	74 to 76
Board diversity	74 to 76
Succession planning	74 to 76
Audit, risk and internal control	
Financial reporting	85 to 86
Risk management and internal controls	40 to 45
Audit committee and auditors	83 to 87
Remuneration	
Remuneration policy (available on our website)	
2019 performance and remuneration outcomes	92 and 94
Annual report on remuneration	92 to 107

Workforce engagement with the board

Under the new 2018 Corporate Governance Code, the board is required to agree a mechanism to ensure ongoing engagement with the workforce. Following a detailed review of this requirement and to ensure there was effective two-way communication, the board agreed that this would be best carried out by two non-executive directors and that Colin Clark and Sarah Gentleman be the designated non-executive directors responsible for gathering employee feedback. The board approved the framework below for this initiative, which will ensure there is effective ongoing communication with the workforce.



Q&A with Sarah Gentleman and Colin Clark

Q Why has the board decided to appoint two designated NEDs to better understand the views of employees?

A SG: The board decided that appointing two designated NEDs with differing management experiences gained across various financial organisations was the best way to engage with the employees. Colin and I between us have a strong grasp of board matters and a very good understanding of the financial industry and the people who work within it, which has enabled us to reflect the views of the workforce effectively in the boardroom.

Q Why is it important to give those outside the boardroom a stronger voice?

A CC: Having worked in a number of financial companies, my experience has taught me that listening to people and having an understanding of their interests and their experience helps the board make informed decisions. Regular engagement with the workforce encourages employees to participate in delivering our strategy and they add value to our decision-making process.

Q How did the workforce respond to the dialogue sessions held in 2019 ?

A SG: The feedback we received was helpful – employees were open, forthcoming and cared about the future of the group. A wide range of areas were discussed, including strategy, culture, leadership, rewards, training and development. We will continue to hold a two-way dialogue with our workforce to improve how we operate and engage with wider stakeholders.

Q How will you ensure that employee views are integrated into board's decision-making process?

A CC: During the year, we have been directly involved in a range of workforce engagement initiatives, as detailed above, which have allowed us to ensure the views and feedback from a range of employees have been reflected during the board's decision-making process. We thank all members of staff who took part in these initiatives, which will continue in 2020.

Group risk committee report

Membership and attendance

Director	Meetings attended (eligible to attend)
T L Duhon (chairman)	5(5)
C M Clark	4(5)
J W Dean	5(5)
S F Gentleman	5(5)
J N Pettigrew	4(5)

Roles and responsibilities

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

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

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

Group risk committee chairman's annual statement

On behalf of the board, I am pleased to present the group risk committee report as its chairman.

The identification, management and mitigation or acceptance of risk is essential to the success of the firm. The group risk committee recognises it has a vital role in helping support the firm's governance structure and the ongoing monitoring of the firm's risk management framework. The committee plays a fundamental role in setting the tone and culture that promotes effective risk awareness across the firm.

Similar to last year, the macroeconomic environment, political challenges and heavy regulatory agenda coupled with firm-specific risks have kept the committee fully occupied.

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

The following sections set out the committee's responsibilities and the principal areas of risk upon which we have focused during the year.

Committee meetings

Our current members are the independent non-executive directors who met formally on five occasions during the year and informally once to review some of the inputs to key regulatory reports.

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 frequently meet with the chief risk officer in a combination of formal and informal sessions throughout the year. I also meet with senior management across all divisions of the group including the risk and compliance division throughout the year to discuss the business environment and to gather their views of emerging risks.

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

We have spent some time this year focusing on the material that is produced for the committee and the order of the agenda. While this is still a work in progress, we now have a standard agenda which starts with the chief risk officer report which provides an overview of the key risks impacting the firm and reports on the management actions and timelines required to address higher-rated risk items. Next, the committee receives regular reports and presentations from management on key risk issues like suitability, liquidity and investment management process. This gives the committee the perspective of the first line. Finally, the committee looks at the financial risks that the firm manages such as capital and liquidity ratios and credit risk. The committee receives a regular report from the banking committee and also reviews the inputs, outputs and the process followed to produce key regulatory reports such as:

– Internal Liquidity Adequacy Assessment Process (ILAAP)
– Internal Capital Adequacy Assessment Process (ICAAP)
– Pillar 3
– Resolution and Recovery

Committee effectiveness

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

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

Committee activity in 2019

This year, given the new strategy, we performed a more in-depth review of the risk management and risk appetite frameworks also taking into account lessons learned from using the frameworks over the past few years.

We reviewed the activities and skillsets of the risk organisation with the help of an external third party to provide us with benchmarking and make sure we are adopting best practice. We will continue to work on some process enhancements throughout 2020.

During the year, the committee regularly reviewed the firm's suitability risks and mitigating actions to ensure progress and improvement. At each meeting, a progress report was presented by management that would be reviewed and challenged by the committee. In addition, the committee requested a third-party review of the firm's suitability programme and monitored at each meeting the areas of improvement which were implemented by management.

Relative to other UK financial services businesses, the firm's potential exposure to and disruption from the potential impact of Brexit is considered low given the firm's geographical footprint, with no material dependencies on goods or services from other EU countries and a predominantly UK client base. However, the firm has continued to develop appropriate contingency plans, with the committee being updated on status and any changes at each meeting.

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

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

Our focus on cyber crime has accelerated during the year, as the number of industry attacks continues to increase, which reinforces the importance of strong cyber defences to protect client data and assets. As a result, the firm implemented a number of tangible standard operating processes, developed key structures to support the firm's response to a cyber attack and organised regular specialist training for members of staff. In addition, the committee receives regular updates from the head of cyber security about the implementation of the firm's cyber strategy to ensure this important risk is managed appropriately.

The committee reviewed the outcomes of the following spotlight reviews during the year:

– change risk
– operational resilience
– cyber risk.

In relation to the integration of Speirs & Jeffrey, the committee monitored the key risks of the plan at each meeting during the year.

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

Committee activity in 2019

In addition to reviewing the risk register and emerging risks at each meeting, the list below summarises the key issues that the committee considered at each of its meetings during the year in addition to any other standing reports.

February 2019
- Review of ICAAP operational risk factors
- Monitor progress on suitability and review results of third party suitability review
- Review the firm's contingency plans for Brexit
- Monitor anti-money laundering (AML) progress on a major review project

April 2019
- Discussion and approval of the ILAAP
- Monitor progress on Speirs & Jeffrey integration plans
- Review and consider the firm's suitability programme
- Review the risks and mitigation plans
- Review of the firm's change portfolio for the year
- Review the firm's contingency plans for Brexit

June 2019
- Monitor progress on suitability and Speirs & Jeffrey integration plans
- Review investment risk procedures
- Review of the firm's risk culture dashboard
- Review the firm's contingency plans for Brexit
- Discussion and approval of the ICAAP
- Review cyber plans and progress for the year and plans for 2020

September 2019
- Monitor progress on suitability and Speirs & Jeffrey integration plans
- Review of the risk management policy
- Review the firm's contingency plans for Brexit
- Review the recovery plan and triggers
- Discuss and review liquidity risk profiles

November 2019
- Monitor progress on suitability and Speirs & Jeffrey integration plans
- Approval of risk management policy statement
- Review and consider the firm's suitability programme
- Review the firm's contingency plans for Brexit
- Review of the firm's risk culture dashboard
- Review of remuneration policy and associated risks with executive remuneration
- Annual approval of the firm's risk appetite
- Approval of 2019 ICAAP and ILAAP stress testing proposals

Looking ahead to 2020

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

- focus and monitoring of the firm's liquidity policy for investment portfolios across the firm
- continued oversight of the firm's investment processes and suitability
- continued assessment of the firm's risk culture and conduct against the firm's purpose and values
- continued focus on the development of operational resilience and continued oversight of the firm's change and cyber risks
- increased focus on climate change risk to the firm.

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

- In the first line, we expect to see delivery continue on a number of projects currently underway that should strengthen further the sustainability of good client outcomes. Also, we will continue to work through the results of the third-party review of the second line activities and organisation.
- Full details of our risk management framework are included in the strategic report on pages 40 to 45.

Terri Duhon
Chairman of the group risk committee

19 February 2020

Audit committee report

Membership and attendance

Director	Meetings attended (eligible to attend)
J W Dean (chairman)	7(7)
C M Clark	6(7)
T L Duhon	7(7)
S F Gentleman	7(7)
J N Pettigrew	6(7)

Roles and responsibilities

The key activities of the committee are as follows:

- Provide oversight of the firm's financial performance and reporting, announcement of results and significant judgements areas
- Review the firm's whistleblowing arrangements and ensure appropriate and independent investigations on matters
- Review the effectiveness of the firm's internal controls and 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 2019, the committee has continued to provide independent scrutiny of the processes in place to monitor the company's financial and non-financial reporting. This included oversight of the viability statement process and ensuring that this report and accounts meets the criteria for fair, balanced and understandable reporting. We have also overseen the effectiveness of the firm's systems of internal controls and have placed particular focus on the transition to a new external auditor following the tender process in 2018. 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 judgements made during the preparation of the financial statements
- review of the firm's client assets sourcebook (CASS) audit and submissions
- impact of the reporting standards relating to IFRS 16 'Leases'
- new audit transition.

Committee meetings

Our current members are the independent non-executive directors who met on seven occasions in 2019 (2018: seven).

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

In addition to the members of the committee, standing invitations are extended to the chairman, executive directors, chief risk officer, head of internal audit, group financial controller, and the external audit partner and manager. Other executives and external advisers are invited to attend the committee from time to time as required to present and advise on reports commissioned. During 2019, the audit committee met with the external auditor and head of internal audit without management present. These meetings provided an opportunity for any matters to be raised confidentially.

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

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

Committee effectiveness

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

Committee activity in 2019

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

February 2019
- Approval of the report and accounts
- Assessment of the report and accounts being fair, balanced and understandable
- Review of the firm's distributable reserves and dividend policy for 2019
- Year-end external audit report and audit opinion
- Review and approval of representation letter
- Review of external auditor's letter of independence

May 2019
- Review and approval of the firm's CASS submission
- Review and approval of the Q1 interim management statement
- Adoption of IFRS 19 and accounting for Speirs & Jeffrey
- Ongoing review of auditor transitional arrangements
- Review and approval of the external auditor's letter of engagement and audit fee
- Review of internal audit plan for 2019 and completed assessments across the firm
- Approval of the internal audit charter
- Assessment of conformity with International Literacy Association standards and the financial services code

July 2019
- Approval of half-year report for 2019
- Assessment of the firm's statement of going concern
- Review of proposed restatement of results
- Review of audit fees for 2019
- 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 the FRC audit quality inspection report
- Annual review of audit and non-audit fee policy
- Review of internal audit plan for 2019 and completed assessments across the firm
- Annual review of the whistleblowing report
- Annual review of the whistleblowing policy
- Approval of committee's terms of reference

October 2019
- Review and approval of the Q3 interim management statement
- Review of internal audit plan for 2019 and completed assessments across the firm
- Review of and input to the development of the internal audit plan for 2020
- Review of the firm's ISAE3402 report

November 2019
- Review of key judgements and provisioning for the year end
- Review of audit and non-audit fees for the year
- Review of internal audit plan for 2019 and approval of the 2020 internal audit plan
- Review of corporate governance changes for the year

January 2020
- Review of the report and accounts
- Review of key judgements for the annual report
- Assessment of going concern and the viability statement
- Annual review of audit fees
- Review of 2019 internal audit plan and 2020 internal audit cycle

Financial reporting

Accounting judgements

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

Fair, balanced and understandable statement

A key focus of the committee is its work in assisting the board in ensuring that the annual report and accounts, when taken as a whole, is fair, balanced and understandable and assessing whether it provides the information necessary for various stakeholders to assess the firm's position and performance, business model and strategy. The committee considered the key messages in the interim statement and the report and accounts. The committee reviewed the interim and annual financial statements in conjunction with the narrative sections of the reports to ensure that there was consistency in the information reported, that appropriate weight had been given to both positive and negative aspects of business performance and that key messages had been presented coherently. The committee concluded that, taken as a whole, the interim statement and the report and accounts were fair, balanced and understandable.

Viability and going concern

The committee considered the requirements contained in the Code regarding the company's viability statement, including the proposed three-year assessment period. After significant discussion, and having considered the firm's current position and impact of potential risks, the committee concluded that the three-year assessment period continued to be appropriate and recommended the viability statement (as set out on page 45) to the board for approval. The committee also reviewed the going concern disclosure (as set out on page 110) 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.

Defining cash generating units (CGUs) for goodwill impairment testing

The committee acknowledged the review of CGUs across the firm and the conclusion that they should be defined at a service level rather than a segment level. Although the group will continue to test goodwill for impairment at a similar level to which it has done so historically, the accounting policies make clear that impairment testing is carried out at the level of a group of CGUs rather than at subsidiary level.

Review of capitalised software

Following a review of the firm's IT infrastructure during the year, it was decided that the development of a number of IT systems was no longer required. This has resulted in an impairment charge of £3.1 million being recognised in profit and loss. The committee has reviewed this impairment charge and was satisfied that it reflected the reduced value in use of the systems.

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 31 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 £8.7 million, which have been summarised in note 28 to the financial statements. The main areas of provisions relate to the Speirs & Jeffrey acquisition, deferred payment for acquired business and client compensation.

Speirs & Jeffrey consideration

We considered the judgement and estimates made by management in accounting for the earn-out consideration payable for Speirs & Jeffrey. In particular, we reviewed and challenged the estimated level of qualifying funds under management transfer to the firm as this was a significant judgement area for management that would lead to a wide range of potential payouts. The committee regularly reviewed management estimates of the expected payouts and the profit and loss charge.

Also, the committee reviewed the restatement relating to the treatment of the premium recognised on issuance of the Speirs & Jeffrey initial consideration.

Brexit

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

New accounting standard

During the year, the committee reviewed the below accounting standard that was implemented during the year and impacted on the financial statements.

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 the committee reviewed the discount rate which would need to be applied to the future cash flows and an appropriate borrowing cost was assessed and agreed.

For further information, please refer to note 29 to the financial statements.

Internal audit

Internal audit function

The internal audit function is an independent and objective team designed to add value and improve the firm's operations by bringing a systematic and 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.

As noted in last year's report, a tender process was initiated for a new co-source partner and EY was appointed during the year. Its role is to assist with audits which require specialist knowledge and provide support to the internal audit planning process.

Reporting and performance review of internal audit

The committee reviews the firm's combined assurance map which links the significant risks to first line controls, second line monitoring and oversight and internal audit work. The committee has authority to appoint or remove the head of internal audit, who reports directly to the chairman of the committee. The chairman of the committee sets the objectives of the head of internal audit, appraising her performance against those objectives and recommending her remuneration to the remuneration committee, with advice from the chief executive.

Internal audit effectiveness

The committee instructed EY to review the effectiveness of the internal audit function during the year and assess whether the function continued to meet key stakeholder objectives. The review assessed the internal audit function against three separate standards: the International IIA standards, the UK Financial Services Certified Institute of Internal Audit Code and the EY comparison with standards at peer functions across the wealth management sector. The outcome of this review indicated that the internal audit function generally met these professional standards and continued to be effective. The team is well respected across the firm and has direct access to the executive team. EY did recommend a small number of enhancements to the team and its approach that the committee have discussed with the head of internal audit.

In addition, the committee ensures the internal audit function has appropriate resources and it provides effective assurance to the firm.

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.

Internal audit plan

The 2019 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 2019 plan. Reporting to the committee focuses on any significant issues identified in the audits and highlights any overdue items. A number of improvements to certain processes and controls were implemented in response to the recommendations put forward.

External audit

Audit work 2019

As outlined in my report last year, the committee conducted an audit tender in 2018 and Deloitte LLP was subsequently appointed at the 2019 AGM with Manbhinder Rana as the firm's lead audit partner. The committee has spent significant time with management overseeing the transition from KPMG to Deloitte during the year. In particular, the committee reviewed the audit plan which outlines Deloitte's risk assessment including its proposed materiality level for the performance of the annual audit. The committee also had the opportunity to discuss the new auditor's initial assessment of the firm and its control environment.

The committee confirms that the company has complied with the provisions of the Statutory Audit Services Order 2014 relating to the UK audit market for large companies throughout the year under review and as at the date of this report.

External audit effectiveness and appointment

The committee will assess the independence, qualification and effectiveness of Deloitte after the completion of its first audit. The committee did review the annual FRC Audit Quality Inspection report prepared on Deloitte and discussed this report with the audit partner.

Auditor independence and non-audit services

We discussed the independence of the external auditor, the nature of non-audit services supplied by it and non-audit fee levels relative to the audit fee. As a result of the EU Audit Directive and Audit Regulations, the non-audit services policy was updated and approved. The revised policy includes prohibited services and sets a fee guide that aims to achieve a cap of 70% of the statutory audit fee in any year by 2022 following the appointment of a new auditor. 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 2019 were £224,000. This represents 45% of the three-year average statutory audit fee of £495,000.

Prior to undertaking any non-audit service, Deloitte 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 Deloitte continued to be independent and objective.

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

Whistleblowing policy

Under the new Code, responsibility for whistleblowing sits with the full board but the committee provides oversight of the firm's whistleblowing policy. It is reviewed annually and the committee approves any changes to the document.

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.

Looking forward

As well as considering the standing items of business, the committee will also focus on the following areas during 2020:

- continued monitoring of the new internal audit co-source partner
- Speirs & Jeffrey earn-out consideration.

Approval

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

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

19 February 2020

Nomination committee report

Membership and attendance

Director	Meetings attended (eligible to attend)
M P Nicholls (chairman)	2(2)
C M Clark	2(2)
J W Dean	2(2)
T L Duhon	2(2)
S F Gentleman	2(2)
J N Pettigrew	2(2)

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

This report sets out an overview of the Committee's roles and responsibilities and its key activities during the year.

The nomination committee's primary focus this year has been on implementing the changes required by the new UK Corporate Governance Code, succession planning, taking an active role in overseeing talent management and various diversity initiatives. The committee will play an increasing role in ensuring the effective operation and development of the board, executive team and the wider workforce, which will be important in the delivery of our strategy.

UK Corporate Governance Code

The new 2018 UK Corporate Governance Code (the 'Code') introduced a number of significant changes to the responsibilities of the nomination committee as well as expanding the reporting requirements to include our approach to succession planning for both board and senior management positions and overseeing a diverse pipeline of talent across the firm. In line with the recommendations from the Hampton-Alexander review, the nomination committee will review the gender balance of senior management and their direct reports. This increased focus will lead to more consistency in the data reported and consequently more balanced assessments on whether the attempts to improve gender equality are succeeding. The committee terms of reference have been updated to ensure they are fully compliant with the new Code.

In addition, the new Code has introduced a new provision relating to the independence of the chair and that their tenure should not exceed nine years from the date of first appointment to the board. Thus, in this aspect, the firm is not in compliance with the Code. I have now served as a director for more than nine years and, in recognition of this requirement, Jim Pettigrew, senior independent director, has started the process to identify and appoint my successor. Subject thereto, and taking into account the guidance in the new Code, the nomination committee have assessed and confirmed my independence and concluded that I shall remain as chairman to ensure the smooth transition of the new chief executive and group finance director during 2020 and a orderly handover to my successor in due course.

Succession planning

The committee spent time during the year reviewing our talent pipeline and considering the firm's succession planning at board and senior management level. This included a formal review by the committee of senior management succession planning, looking at the capability and potential of incumbents in key roles and the succession pipeline, emergency cover arrangements and external market for those roles.

Non-executive directors' skills

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

Talent development

The committee also takes a keen interest in executive succession plans, which include executive directors, the group executive committee members and management roles across the business. Potential successors have been identified for many senior management positions and non-executive directors have met key individuals as part of normal board interactions and their visits to various teams in London and offices across the country. The committee continues to receive reports on the talent pipeline, which identifies high-calibre individuals with management potential. The committee 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 positions. At Rathbones, we are fortunate to have such non-executives. I maintain a dialogue with each of them on potential conflicts of interest and time commitments. I am quite satisfied that in each case any conflicts of interest are likely to be rare and will be handled appropriately by the individual concerned.

All non-executive directors will be standing for re-election at the 2020 AGM.

Board diversity

We aim to have a board that represents a wide range of skills and experiences and we value a diversity of outlook, approach and style. A balanced board is better equipped to consider matters from a broader perspective, understanding the views of our shareholders as well as other stakeholders and therefore makes decisions that fully take into consideration a wide range of issues. A board needs a range of skills and experience including knowledge of industry, culture of the firm, challenges of change and the regulatory environment we operate in. It needs some members with a long corporate memory and others who bring fresh insights from other fields and background.

There needs to be both support and challenge on the board as well as a balance of gender and commercial experience. When selecting new board members, we take these factors into account as well as professional background. A new board member needs to work well with their fellow colleagues but also be able to provide constructive challenge.

Throughout 2019, over 33% of our Board was female which ensures that we have exceeded the minimum requirements of the Hampton-Alexander review. However, the committee recognises that, due to the relatively small size of the board, the appointment or departure of a single director can have a significant impact on its ability to achieve recommendations in relation to the composition and diversity of the board as a whole at a particular point in time.

During the year, the committee has ensured that the firm's diversity and inclusion framework was a key element of the people section of the new strategy. For further information on our diversity initiatives, please refer to the corporate responsibility report on pages 55 to 57.

Board effectiveness review

A formal and rigorous evaluation of the committee's effectiveness was undertaken during the year as part of the internal board effectiveness review. The review found that the committee operated well during the year. Please see page 76 for more detail.

Looking forward

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

Mark Nicholls
Chairman of the nomination committee

19 February 2020

Group executive committee report

Membership and attendance

Director	Meetings attended (eligible to attend)
R P Stockton (chairman)	12(12)
R N K Baron	11(12)
M T Bolsover	11(12)
J A Butcher	12(12)
I D Darnley	11(12)
J E Mathias[1]	9(9)
A T Morris	11(12)
S Owen-Jones	11(12)
R I Smeeton	10(12)
M M Webb	10(12)

Former member	
P L Howell	3(4)

1. Jennifer Mathias joined the GEC on 1 April 2019

Roles and responsibilities

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

Please see the chief executive's review on pages 12 to 17. Biographies for the group executive committee members are available on our website.

Executive committee chairman's annual statement

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

Following the retirement of Mike Bolsover (head of strategy and organisation development) in December 2019, and the upcoming retirement of Andrew Butcher (chief operating officer) later this year, the firm will be welcoming Andy Brodie as our new chief operating officer (subject to regulatory approval) in the second quarter of 2020. On behalf of Rathbones, I would like to thank Mike and Andrew for their valuable contribution to the firm and wish them well in their retirements.

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 and prioritise key issues and themes 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 2019 were as follows:

- preparation and approval of the firm's strategic plan and purpose statement
- implementation of planned enhancements to our investment process and development of relevant policies
- review and analysis of the employee survey results
- review and development of distribution channels
- contingency plans for Brexit
- ongoing review of the firm's change programme
- review of investment processes and development of the client journey
- approval of the firm's diversity champion and initiatives
- review and approval of the firm's regulatory documents
- review and approval of the firm's responsibility map

- review and assessment of the annual budget
- monitor the integration of Speirs & Jeffrey and client migration process.

Our people are our main asset and HR matters as well as learning and development are important agenda items that are discussed at each meeting. 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 by the GEC.

In managing and minimising our risk, 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, business continuity and investor relations.

Overview of priorities for 2020

As well as considering the standing items of business, the committee will also focus on the following areas during 2020:

- implementing the firm's strategic plan
- leveraging the Speirs & Jeffrey acquisition
- continuing to engage with employees
- developing our diversity initiatives and succession planning across the firm
- seeking inorganic opportunities for growth that fit our culture

Paul Stockton
Chairman of the executive committee

19 February 2020

Executive committee members

Our current members and their responsibilities are below.

Paul Stockton
Chief Executive

Jennifer Mathias
Finance Director

Rupert Baron
Head of Investment Management in London

Andrew Butcher
Chief Operating Officer

Ivo Darnley
Head of Specialist and Charity Business

Andrew Morris
Head of Investment Management outside London

Sarah Owen-Jones
Chief Risk Officer

Richard Smeeton
Head of Investment Management Special Projects and Recruitment

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

Remuneration committee report

Membership and attendance

Director	Meetings attended (eligible to attend)
S F Gentleman (chairman)	4(4)
C M Clark	4(4)
J W Dean	4(4)
T L Duhon	4(4)
M P Nicholls	4(4)
J N Pettigrew	3(4)

Roles and responsibilities

The committee's responsibilities are to:

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

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

Remuneration committee chairman's annual statement

On behalf of the board, I am pleased to present the directors' remuneration report for the year ended 31 December 2019.

During 2019, we welcomed Jennifer Mathias to the board as group finance director (appointed in April 2019) and Paul Stockton was promoted to chief executive (appointed in May 2019), following the retirement of Philip Howell. The remuneration arrangements for all three individuals were fully disclosed in last year's remuneration report and there have been no further material changes to their remuneration in 2019.

2019 performance and remuneration outcomes

Our remuneration framework for our executive directors is closely aligned with the financial performance of the firm and in 2019 we saw the first full year in which the acquisition of Speirs & Jeffrey (S&J) has been reflected in the firm's results. The integration of the S&J business is on track and we have provided a progress update in the chief executive's report. The firm's funds under management and administration reached £50.4 billion at 31 December 2019 and profit before tax was £39.7 million with underlying profit before tax of £88.7 million which represents an underlying operating margin of 25.5%. As noted above, the firm's results were impacted by an unplanned increase of 66% in the FSCS charge for 2019 and also a software impairment charge. These items have been included in the financial outcomes for the 2019 EIP award. For further details on the financial performance of the firm, please see page 26.

Executive Incentive Plan (EIP) outcomes

The EIP performance metrics are chosen by the committee as key indicators of performance used by the firm and investors. The committee reviews the specific metrics on an annual basis at the beginning of each financial year to ensure the nature and weightings are appropriate to ensure alignment between the interests of our executive directors, our strategy and the interests of our stakeholders. These targets are set to encourage stretching levels of performance and to align with the firm's annual budget. We indicated to the market a year ago that following a number of successful acquisitions over the last few years, a number of investments relating to our IT infrastructure were required for the long-term benefit of the firm. The board considered these factors when setting and approving the final budget for 2019, resulting in the remuneration committee approving slightly lower targets for the one-year financial elements of the EIP than in 2018. The committee was comfortable that these targets were equally as stretching as those in previous years and ensured the three-year financial targets, which account for half of the overall award, remained unchanged and will also be unchanged for the 2020-2022 EIP cycle. In addition, good progress was made during the year on the non-financial objectives which address the firm's critical projects, stakeholder measures and client experience.

Given the strong alignment between our remuneration framework and the financial performance of the firm, the financial outcomes for 2019 are directly reflected in the respective elements of the EIP. As reported in last year's directors' remuneration report, we explained how we had to make some adjustments to our statutory results for EIP purposes in order to fairly reflect the S&J transaction. In summary, the board approved that the acquisition be de-risked by ensuring a substantial proportion of the consideration paid for S&J was deferred and subject to the sellers remaining in employment. This meant that the deferred consideration was treated as an expense in the profit and loss accounts rather than as a capital payment and was therefore at odds with the commercial substance of the transaction. As a result, the basic earnings per share (EPS) and return on capital employed (ROCE) figures have been adjusted to fairly reflect this situation, exactly as outlined last year. There have been no further adjustments to the EIP.

The EIP vesting outcome for 2019 was 47% and the overall pay out level was lower than in 2018, which reflects the financial measures and overall business performance for the year. We have set out in more detail the EIP results for 2019 on page 100.

Jennifer Mathias' EIP award for 2019 has been pro-rated to reflect the fact that she joined the firm part way through the year.

Shareholder engagement in 2019

Our 2019 directors' remuneration report was supported by 84.3% of our investors. The committee remains keen to understand the concerns of shareholders who voted against the remuneration report and how the committee could address these concerns in the future. Following my meetings with our major shareholders who voted against the remuneration report I would like to thank them personally for their time and engagement. I was pleased to be able to explain further the rationale for the decisions the remuneration committee made last year in order to address their concerns and I was encouraged by the response of those shareholders I spoke to.

Fees and salaries

The 2020 budget for salary increases for employees across the firm was set at around 3.3%. In setting directors' remuneration, the committee takes into account workforce pay and policies as per the Code, the firm's performance and the views of shareholders. Also, the remuneration arrangements of other firms of similar size and complexity are reviewed for guidance. However, due to both Paul Stockton and Jennifer Mathias' short time in their respective roles, the committee decided not to award an increase in base salary. Both executive directors remain eligible to participate in EIP awards annually with a maximum opportunity of 300% of base salary and receive pension benefits of 12% of base salary, in line with our approved policy. Full details of remuneration arrangements are provided on page 98. The non-executive directors' fee was reviewed and increased in the year. Full details of the change to this fee can be found on page 101.

Workforce engagement 2020

Following my appointment in 2019, Colin Clark and I, as the designated non-executive directors for the firm's workforce engagement, are looking forward to engaging with our workforce further and seeking to understand their views on remuneration. Further details are set out on page 78.

Looking forward

During the year, the Capital Requirements Directive V (CRD V) regulations were being finalised and may have a significant impact on remuneration at the firm from 2021 onwards. Based on our current understanding the most significant change is likely to be the introduction of a cap on variable remuneration of 100% of fixed pay or 200% with shareholder approval. This would have an impact on both our executive directors, where the maximum EIP is 300% of salary, as well as many other key employees who participate in a variety of incentive plans.

The committee has therefore been considering the impact that CRD V may have on the remuneration of all our staff. For executive directors significant changes may be needed to our next remuneration policy in 2021. The committee has begun to assess what changes may be appropriate and we will consult with shareholders on this topic during 2020.

The committee will of course be reviewing the remuneration policy in full, but we are pleased that in many ways our current remuneration policy is already in line with investors' expectations and the UK Corporate Governance Code. There are, however, some areas where our current policy is not fully aligned with the latest investor guidelines. For example, we introduced a post-cessation shareholding requirement policy at the start of 2018, being one of the first FTSE350 companies to do so. However this policy is not in line with the latest guidelines to hold 100% of the in-role shareholding requirement for two years post departure. Similarly, our maximum pension contribution for executives is 12% of salary, which is already one of the lowest in the FTSE350, however this is slightly higher than the rate offered to the majority of the workforce. As such the committee will be reviewing all of these factors and the latest investor guidance as we commence our policy review in 2020.

Conclusion

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

Sarah Gentleman
Chairman of the remuneration committee

19 February 2020

Remuneration outcomes for 2019

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

Our remuneration philosophy

Our remuneration policy is designed to be:

- linked to our strategy
- aligned with shareholders' interests with significant, long-term equity participation
- simple and transparent
- compliant with financial services rules and regulations for both annual and long-term components
- in line with the market, having regard to the size and complexity of the group's operations
- fair for both the director and the company with some element of discretion
- aligned with the board's approved risk appetite
- flexible, recognising that the business is evolving and responsibilities change.

Overview of our 2019 remuneration framework

Key features

Salary

- The core, fixed component of the package is designed to enable the recruitment and retention of high-calibre individuals

Pensions and benefits

- Defined contribution benefit or a fixed maximum pension allowance

Shareholding requirement

- Executive directors and executive committee members are required to build and maintain a shareholding of at least 200% of base salary

Executive Incentive Plan

- 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 97

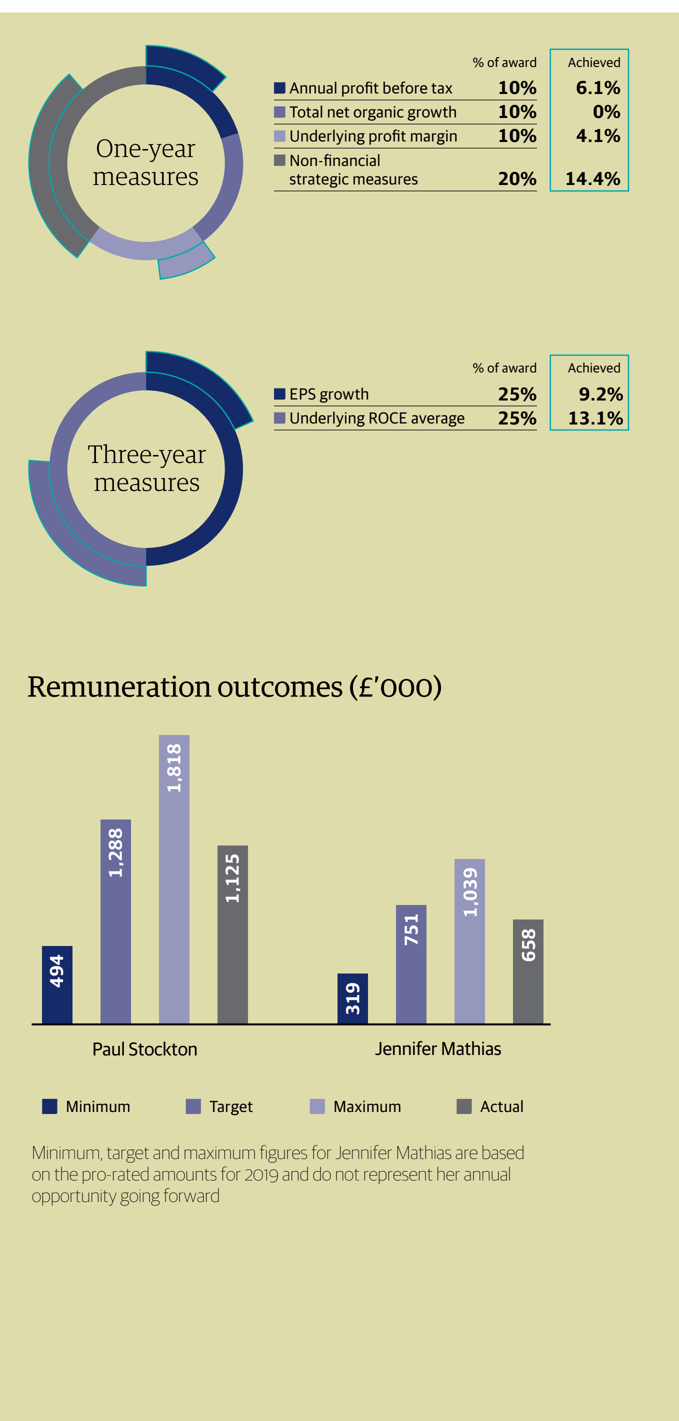
Executive Incentive Plan performance targets

One-year financial (30% of award)
- Underlying profit before tax compared to the budget
- Net organic growth in funds under management and administration compared to the target
- Underlying operating profit margin compared to target range

Three-year financial (50% of award)
- Compound annual growth in EPS over three years
- Average ROCE over three years

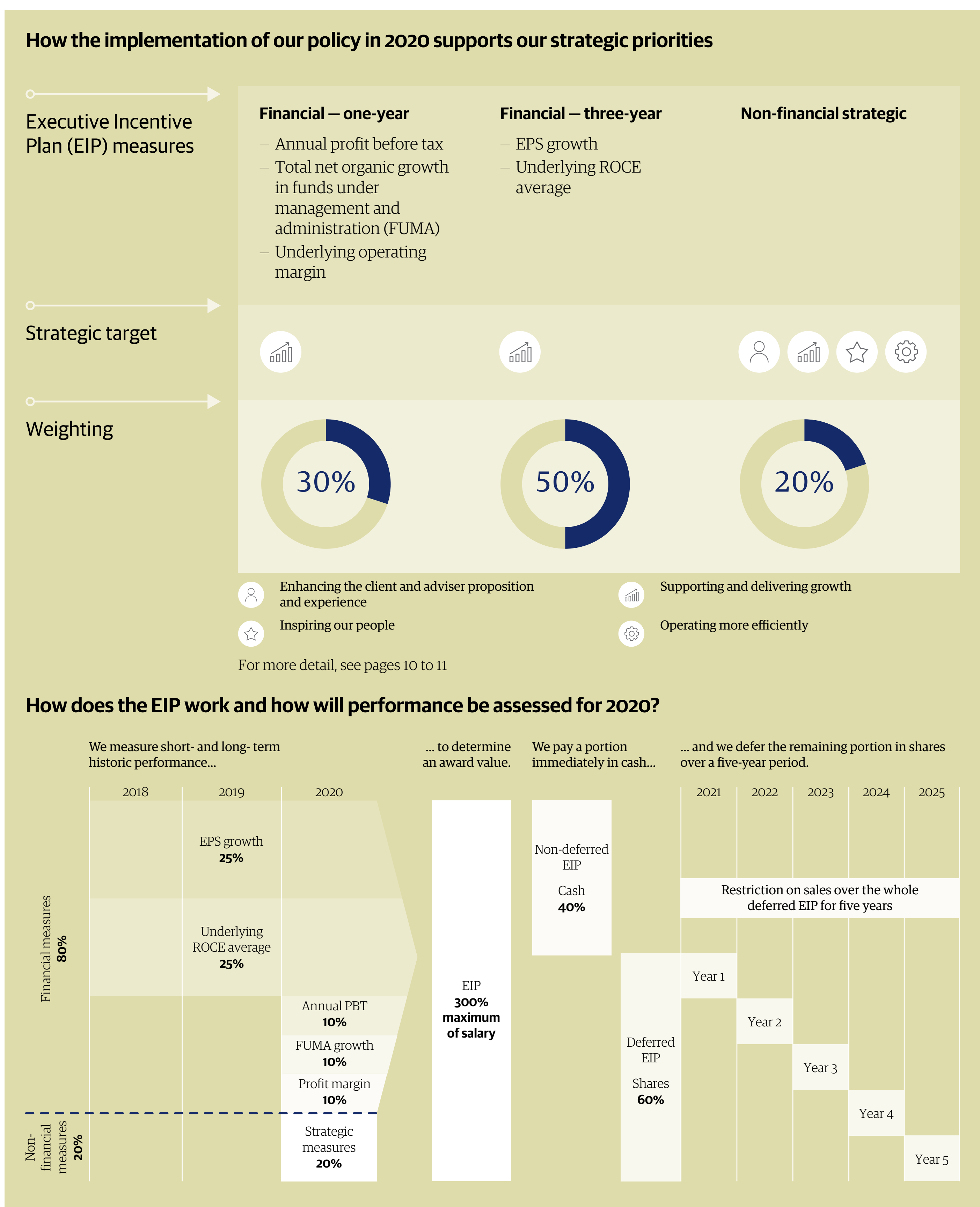
Non-financial metrics (20% of award)
- Performance relating to delivery of strategic objectives
- Assessed and approved by remuneration committee

Executive Incentive Plan achievement summary 2019



Minimum, target and maximum figures for Jennifer Mathias are based on the pro-rated amounts for 2019 and do not represent her annual opportunity going forward

Implementation of remuneration policy in 2020



Remuneration policy

The remuneration policy ('Policy') was approved at the AGM in May 2018 and can be found on our website. No further changes have been made to the remuneration policy since its agreement in 2018.

Annual report on remuneration

This part of the directors' remuneration report explains how we have implemented our remuneration policy during the year. This annual report on remuneration is subject to an advisory vote at the 2020 AGM, and the financial information in this part of the remuneration report has been audited where indicated.

Role of remuneration committee

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

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

Committee activity in 2019/20

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

January 2019

- Assess and approve the 2018 EIP award for executive directors and members of the executive committee
- Review and approve EIP performance measures for 2019
- Review and approve the directors' remuneration report for shareholder approval

April 2019

- 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 regulatory developments on remuneration and their implications for the firm

September 2019

- Annual review of the remuneration policy statement for the PRA
- Review regulatory developments on remuneration and their implications for the firm, including CRD V implications
- Review remuneration landscape and implications for executive remuneration
- Initiate a shareholder consultation on executive remuneration
- Review progress against financial and non-financial EIP targets for the current year

December 2019

- Review and approve executive director and GEC members' salaries for 2019
- Review progress against financial and non-financial EIP targets for 2019
- Review and approve the company secretary's salary for 2020
- Review and approve the committee's terms of reference
- Re-appointment of the advisers to the committee

February 2020

- Review annual risk report on variable pay targets to ensure alignment with the firm's risk appetite
- Review information on wider workforce pay including salary budgets and forecast incentive outcomes for 2019
- Assess and approve the 2019 EIP award for executive directors and members of the executive committee
- Approve EIP performance measures for 2020
- Review and approve the firm's CEO to employee pay ratio
- 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 2019 and the prior year:

	Salary £'000	Taxable benefits and allowances £'000	Other £'000	EIP award for the year – cash £'000	EIP award for the year – unvested deferred shares £'000	Pensions £'000	SIP £'000	SAYE £'000	Total £'000
R P Stockton									
2019	**441**	**2**	**–**	**248**	**373**	**53**	**4**	**4**	**1,125**
2018	353	6	–	251	376	42	5	–	1,033
J E Mathias[1]									
2019	**240**	**1**	**50**	**135**	**203**	**29**	**–**	**–**	**658**
P L Howell									
2019	**172**	**1**	**-**	**108**	**163**	**21**	**2**	**–**	**467**
2018	477	2	–	339	509	57	5	–	1,389

1. Jennifer Mathias received a £50,000 award as part of her recent appointment in lieu of forfeiting a cash bonus from her previous employer on joining the firm. She received no further buy-outs as part of her appointment

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

Paul Stockton was appointed chief executive on 9 May 2019 and, at this point, his base salary was increased to £477,000 per annum. His base salary in the above table is the salary received in the 12 months to 31 December 2019. Jennifer Mathias joined as group finance director on 1 April 2019. Her base salary in the above table is the salary received in the nine months to 31 December 2019. Her annual salary is £320,000 per annum. Philip Howell retired on 9 May 2019 as chief executive of the firm. His base salary is the salary received during January 2019 to May 2019.

Taxable benefits

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

Executive Incentive Plan

The Executive Incentive Plan (EIP) was approved by shareholders at the 2015 AGM and subsequently at the 2018 AGM. The overall maximum award level achievable under the existing policy is 300% of base salary, with 60% of awards made in deferred shares, which must be held for a minimum period of five years.

Executive Incentive Plan award 2019

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

	Weight %	% of base salary
One-year financial	**30**	**90**
Three-year financial	**50**	**150**
Non-financial strategic	**20**	**60**
Total	**100**	**300**

1) One-year financial

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

	% of base salary	Threshold 75% of base salary	On target 180% of base salary	Maximum 300% of base salary	Actual	Speirs & Jeffrey adjusted	Weighted payout (% of base salary)
Financial one-year							
Annual profit before tax (£m)	30.0	57.3	63.7	70.1	**39.7**	**63.8**	**18.3**
Total net organic growth in funds under management and administration (%)	30.0	2.5	5.0	6.5	**0.8**	**0.8**	**0.0**
Underlying operating margin (%)	30.0	24.8	26.3	27.8	**25.5**	**25.5**	**12.3**
	90.0						**30.6**

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

2) Three-year financial

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

	% of base salary	Threshold 75% of base salary	On target 180% of base salary	Maximum 300% of base salary	**Actual**	**Speirs & Jeffrey adjusted[1]**	**Weighted payout (% of base salary)**
Financial three-year							
EPS growth (% CAGR)	75.0	4 .0	9.0	14.0	**(13.9)**	**5.7**	**27.6**
ROCE average (%)	75.0	14.0	17.0	20.0	**16.6**	**16.3**	**39.3**
	150.0						**66.9**
Total one- and three-year financial	**240.0**						**97.5**

1. The adjustments for Speirs & Jeffrey are disclosed on page 93, and in further detail in last year's directors' remuneration report. The key adjustment impacting the EIP outcomes for 2019 is the costs in relation to deferred consideration payable to the sellers of Speirs & Jeffrey. As a means of de-risking the transaction, these payments are subject to the sellers remaining in employment until the end of the deferral period and are therefore treated as an expense under accounting standards. For the purposes of assessing the EIP, costs of £24.1million have been reclassified as a capital item (as if paid upon completion of the transaction), to more fully reflect the commercial substance of the transaction

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 2019	Extent to which objective has been met
Quality service	– Complete industry standard client survey – Integrate Speirs & Jeffrey and ensure successful migration of clients to Rathbones – Upgrade systems to support the firm's suitability programme – Continue to build the firm's financial planning capabilities	– Client survey results received from an independent third party indicated the firm scored above the industry average in all KPIs – Successful Speirs & Jeffrey integration process with all clients migrated to Rathbones' systems – Some challenges with implementing a system to support the firm's suitability programme – Financial planning capability grew as planned. Client service delivery times have materially improved over the last three years	Largely achieved
Earnings growth	In addition to the financial targets set for 2019: – Launch the Rathbones Select product – Deliver growth in Rathbone Unit Trust Management, distribution and Vision Independent Financial Planning ('Vision')	– Progress made on the Rathbone Select project with the design complete – The Unit Trusts business had an exceptional year with gross inflows of £2.3 billion – Vision delivered strong funds under management of £1.9 billion – Inflows from our distribution team and IFA networks increased to £255 million	Largely achieved
Employee value	– Continue to ensure engagement and development of employees across the firm	– A positive engagement score of 86% in the employee survey – High-quality training for employees – Low levels of staff turnover with voluntary attrition levels below the EIP threshold of 7% – Level of employee share ownership increased to 8% of total holding – High levels of staff engagement at the firm's strategy 'town hall' meetings	Achieved
Risk conduct and compliance	– Maintain a proactive and effective relationship with regulators, committing to maintaining high standards in managing conduct and prudential matters	– Positive relationship with regulators with numerous responses to industry thematic questionnaires – Operational risk issues were managed effectively during the year	Achieved

Total 2019 EIP award

In addition to the above specific measures, the committee also considered direct client feedback, investment performance and other feedback from the risk and audit committees. After taking this into account, the committee concluded that an overall score for this element of the EIP of 14.4% out of 20% was appropriate, which corresponds to 43.2% of base salary.

Target	Weighting	Award achieved
Financial — one-year total	30%	10.2%
Financial — three-year trailing	50%	22.3%
Non-financial strategic measures	20%	14.4%
Total award	**100%**	**46.9%**

Director	Total award (£)	Delivered in cash (£)	Deferred in shares (£)
R P Stockton	620,700	248,300	372,400
J E Mathias	337,700	135,100	202,600
P L Howell	270,900	108,400	162,500

Pensions

Paul Stockton and Jennifer Mathias are paid a cash allowance of 12% of salary and neither are in receipt of a defined benefit pension.

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

Share Incentive Plan (SIP)

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

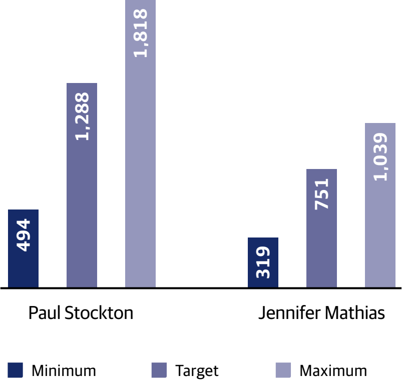
Save As You Earn (SAYE)

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

Remuneration outcomes under different performance scenarios

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

Value of package in 2019 (£'000)



Minimum, target and maximum figures for Jennifer Mathias are based on the pro-rated amounts for 2019 and do not represent her annual opportunity going forward

Payments for loss of office (audited)

There were no payments made to directors for loss of office during the year except as disclosed in last year's annual report.

Payments to past directors (audited)

As announced on 27 November 2018, Philip Howell retired from the board on 9 May 2019 and details of his outstanding EIP awards were disclosed in last year's annual report and will continue to vest at their normal time. These awards have been fully disclosed in the single total figure of remuneration tables in the relevant years. There have been no other payments to past directors.

Implementation of the remuneration policy in 2020

In 2020, the remuneration policy will be applied in a similar way to 2019.

EIP 2020 — forward-looking targets

The 2020 EIP (which will be awarded in 2021), subject to performance, will be delivered in line with the remuneration policy. While the committee is able to make awards up to the new maximum award level of 300%, actual award levels will continue to be determined by the committee based on a robust assessment of performance measures.

Incentive awards under the EIP will continue to be linked to a scorecard of short- and longer-term financial metrics, and annual objectives covering financial and non-financial criteria. Annual targets set for 2020 will take into account the amount of expenditure and investment approved by the board in the 2019 budget to develop the business and support its growth initiatives. The committee will not, at this time, disclose any of the remaining one-year measures on a prospective basis as these are considered commercially sensitive. Full disclosure of targets and performance against these will be disclosed retrospectively in 2021.

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

Long-term targets for the 2020-22 award period have accordingly been set as outlined in the table below:

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

Non-executive director fees

The non-executive director fees were reviewed in the year and it was agreed to increase the base fee from £55,000 to £60,000 from 1 January 2020. It was agreed to maintain the chairman's fee and committee chair fees.

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:

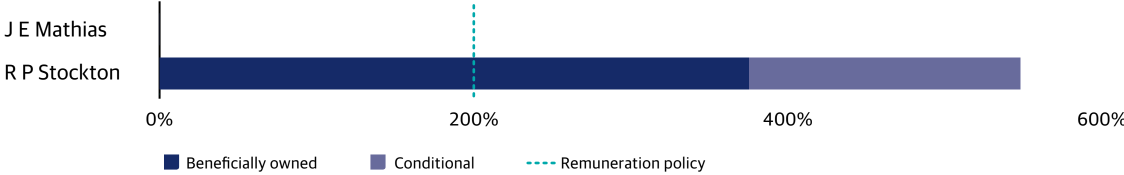
	Beneficially owned shares			Subject to relevant holding period			
Executive directors	Private shares	SIP[1]	Total	EIP	SIP (not yet beneficially owned)[1]	SAYE	Total
R P Stockton	74,126	3,070	77,196	34,422	563	958	35,943
J E Mathias	–	–	–	–	–	–	–
P L Howell	47,437	–	47,437	50,650	–	–	50,650
Total	**121,563**	**3,070**	**124,633**	**85,072**	**563**	**958**	**86,593**

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.

Share ownership versus policy



Executive Incentive Plan

				At 1 January 2019	During 2019		At 31 December 2019		
Executive directors / Grant date	Type of security	Face value of award at grant[1] (£)	Number of securities originally granted	Number of unvested securities	Securities granted[2]	Vested but unexercised (subject to sales restriction period)	**Unvested securities**	**Vested but unexercised (subject to sales restriction period)**	**Normal exercise date (end of sales restriction period)[3]**
R P Stockton									
22/03/2016	Nil paid options	272,722	12,229	7,339	–	2,445	**4,894**	**7,335**	**22/03/2021**
22/03/2017	Conditional shares	232,105	10,103	8,082	–	2,021	**6,061**	**4,042**	**21/03/2022**
23/03/2018	Conditional shares	226,485	8,864	8,864	–	1,773	**7,091**	**1,773**	**23/03/2023**
22/03/2019	Conditional shares	376,157	16,376	–	16,376	–	**16,376**	**–**	**22/03/2024**
P L Howell									
22/03/2016	Nil paid options	434,670	19,491	11,695	–	3,898	**7,797**	**11,694**	**22/03/2021**
22/03/2017	Conditional shares	365,201	15,897	12,718	–	3,179	**9,539**	**6,358**	**21/03/2022**
23/03/2018	Conditional shares	356,357	13,947	13,947	–	2,789	**11,158**	**2,789**	**23/03/2023**
22/03/2019	Conditional shares	508,923	22,156	–	22,156	–	**22,156**	**–**	**22/03/2024**

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

Share Incentive Plan

	At 1 January 2019	During 2019				At 31 December 2019
	Total number of SIP shares[1]	Partnership shares acquired	Matching shares acquired	Dividend shares acquired	Free shares received	Total number of SIP shares[1]
R P Stockton	**3,369**	**81**	**81**	**102**	**–**	**3,633**
J E Mathias	**–**	**–**	**–**	**–**	**–**	**–**
P L Howell	**1,189**	**32**	**32**	**22**	**–**	**–**
Total	**4,558**	**113**	**113**	**124**	**–**	**3,633**

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

		Number of shares								
Executive directors	Grant date	At 1 January 2019	Granted in 2019	Exercised in 2019	Lapsed in 2019	At 31 December 2019	Earliest exercise date	Latest exercise date	Market price on grant (p)	Exercise price (p)
R P Stockton	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
	18/04/19	**–**	**248**	**–**	**–**	**248**	01/06/22	01/12/22	2,266	1,813
J E Mathias		**–**	**–**	**–**	**–**	**–**				
P L Howell	01/05/14	**578**	**–**	**578**	**–**	**–**	01/06/19	01/12/19	1,945	1,556
	28/04/15	**365**	**–**	**298**	**67**	**–**	01/06/20	01/12/20	2,051	1,641
Total		**1,926**	**248**	**1,149**	**67**	**958**				

Scheme interest awarded in the year

The table below details the grant of share awards without performance conditions that were made to Jennifer Mathias on 10 May 2019 as part of her appointment, in relation to remuneration she would have forfeited from her previous employer. Subsequently, Jennifer waived her rights to this award on 5 August 2019 and will not benefit from this plan in the future.

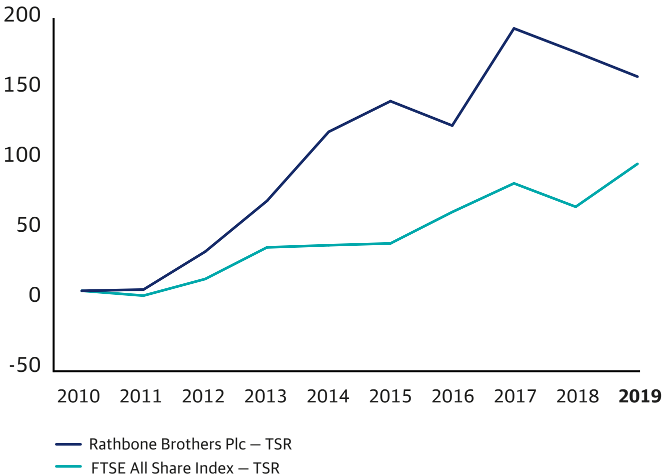
Executive director	Type of award	Grant date	Number of ordinary shares granted[1]	Lapsed award	Awards waived by Jennifer Mathias
J E Mathias	Nil cost options	10/05/19	389	389	05/08/19
		10/05/19	2,223	2,223	05/08/19
		10/05/19	1,719	1,719	05/08/19
Total			**4,331**	**4,331**	

1. Ordinary shares of 5p each were granted. The share price on the grant date, 10 May 2019, was £23.35, which has been used to calculate the face value above

Performance graph

The chart below shows the company's total shareholder return (TSR) against the FTSE All Share Index for the 10 years to 31 December 2019. TSR is calculated assuming that dividends are reinvested on receipt. The FTSE All Share Index has been selected as a comparator as it is a suitably broad market index and has been used as a performance comparator for long-term incentive plan (LTIP) cycles since 2005-07.

Performance graph (unaudited)



Chief executive officer single figure

During the 10 years to 31 December 2019, Andy Pomfret was chief executive until 28 February 2014. Philip Howell was chief executive until 9 May 2019 when he was succeeded by Paul Stockton.

Year	Chief executive	Chief executive single figure of total remuneration £'000	EIP award or short-term bonus as % of maximum opportunity	Long-term incentive vesting as % of maximum opportunity
2019	**Paul Stockton**	**1,125**	**47**	**–**
2019	**Philip Howell**	**467**	**52**	**–**
2018	Philip Howell	1,389	59	–
2017	Philip Howell	1,104	64	–
2016	Philip Howell	1,398	66	67
2015	Philip Howell	1,608	78	100
2014	Philip Howell	999	89	n/a
2014	Andy Pomfret	342	n/a	96
2013	Andy Pomfret	1,204	59	100
2012	Andy Pomfret	1,046	38	100
2011	Andy Pomfret	678	46	–
2010	Andy Pomfret	736	52	24

Percentage change in the remuneration of the chief executive and employees

The table below shows the percentage year-on-year change in salary, benefits and bonus in 2019 for the chief executive compared with the average Rathbones employee.

	Salary	Benefits	Annual bonus
Chief executive[1]	**(0%)**	**18%**	**(16%)**
Average pay based on all Rathbones employees	**(4%)**	**3%**	**7%**

1. Chief executive salary excludes Philip Howell's payment in lieu of notice of £293,631

Chief executive and employee pay ratio

Year	Method	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
1 January to 31 December 2019	B	42:1	23:1	13:1

The chief executive pay ratio provides a comparison of total remuneration paid to the chief executive in the year ended 31 December 2019 with total remuneration paid to the three employees whose pay is at the 25th, 50th and 75th percentile of the group's UK workforce (P25, P50 and P75 respectively). Where multiple employees are at these percentiles we have selected the most representative job role from across the group.

The pay data for the chief executive is taken from the total single figure of remuneration on page 98 of this report for both Paul Stockton and Philip Howell for the year ended 31 December 2019, apportioned as appropriate. The three employees have been identified from our 2019 gender pay gap data under 'Option B' of the three methodologies provided under the regulations, as the equivalent figures to the single figure table for each of the group's UK employees ('Option A') are not available at the time of producing this report.

Total pay for P25, P50 and P75 has been based on actual earnings for the nine months to 30 September 2019, projected forward for the remainder of the financial year. Variable remuneration has been calculated using the group's forecast financial performance. Total pay and benefits for the three employees includes the following: base salary, employer pension contributions, taxable benefits, bonuses, share-based payment awards and profit share. The total pay and benefits for these individuals is as follows:

- P25 42:1 (£30,161)
- P50 23:1 (£52,142)
- P75 13:1 (£110,100)

The group believes the median pay ratio for the year to be consistent with the group's pay, reward and progression policies for its UK workforce.

The committee will review these ratios on an annual basis.

Chairman and non-executive directors' fees (audited)

Fees paid to the non-executive directors were increased for the 2019 financial year. Any future increases will depend upon a rigorous assessment of the burden of responsibilities and market rates.

	2019 £'000	2018 £'000
Chairman		
M P Nicholls	**180**	160
Non-executive directors		
J W Dean	**70**	60
J N Pettigrew	**70**	60
S F Gentleman	**70**	60
T L Duhon	**70**	28
C M Clark	**55**	9
Total	**515**	377

Non-executive directors' share interests

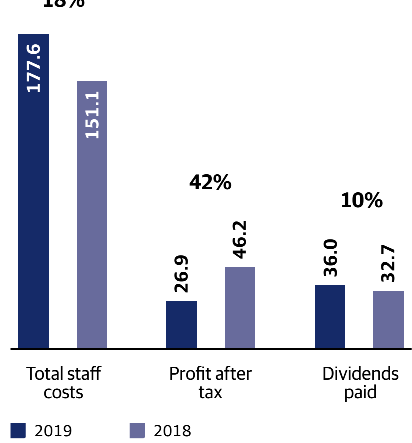
The interest of the directors in the ordinary shares of the company are set out below:

	Private shares	SIP	Total
Chairman			
M P Nicholls	**3,000**	**749**	**3,749**
Non-executive directors			
C M Clark	–	–	–
J W Dean	**1,000**	–	**1,000**
T L Duhon	–	–	–
S F Gentleman	–	–	–
J N Pettigrew	–	–	–
Total	**4,000**	**749**	**4,749**

Relative importance of spend on pay

The chart below shows the relationship between total employee remuneration, profit after tax and dividend distributions for 2019 and 2018. The reported profit after tax has been selected by the directors as a useful indicator when assessing the relative importance of spend on pay.

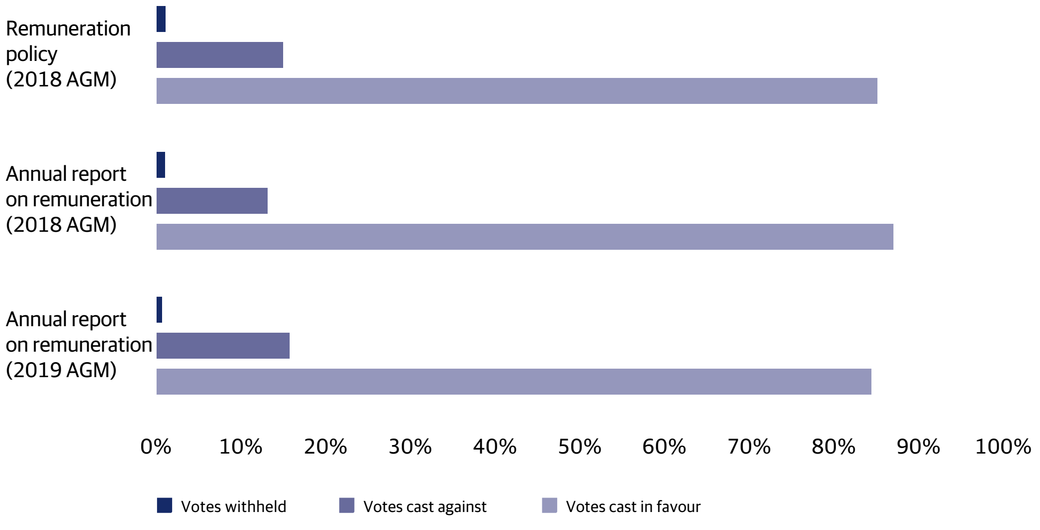
Relative importance of spend on pay (£m)



Statement of shareholder voting

At the 2018 AGM, shareholders approved the remuneration policy, to apply for three years from the date of the AGM. At the 2019 AGM, shareholders also approved the remuneration report that was published in the 2018 report and accounts and the results are detailed on the opposite page.

Votes on remuneration



	Annual report on remuneration (2019 AGM)	Annual report on remuneration (2018 AGM)	**Remuneration policy (2018 AGM)**
Votes cast in favour	**84.33%**	86.91%	**85.07%**
Votes cast against	**15.67%**	13.09%	**14.93%**
Total votes cast	**82.41%**	79.20%	**79.17%**
Votes withheld	**348,910**	409,995	**428,216**

Advisers to the committee and their fees

PwC were appointed as advisers to the committee in August 2017. They are members of the Remuneration Consultants Group and advise the committee on a range of matters including remuneration package assessments, scheme design and reporting best practice. PwC also provide professional services in the ordinary course of business, including advisory work to the group. The committee is of the opinion that the advice received is objective and independent. PwC's fees are charged on a time cost basis and fees for services to the remuneration committee were £82,450 in 2019. The appointment of advisers is reviewed annually.

Evaluating the performance of the committee

The annual evaluation of the committee's effectiveness was undertaken as part of the board's internal evaluation process during the year. The committee and senior management attendees were invited to respond to questions on the content, management, and quality and focus of discussion during meetings. I am pleased that responses indicated that the committee is performing well with no particular concerns.

Approval

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

Signed on behalf of the board

Sarah Gentleman
Chairman of the remuneration committee

19 February 2020

Directors' report

The directors present their report for the year ended 31 December 2019.

The directors' report includes the following sections of the annual report and accounts which forms part of the directors' report:

Section	DTR Rule	Page
Strategic report	DTR 4.1.5R	1 to 66
Financial statements	DTR 4.1.5R	114 to 190
Responsibility statements	DTR 4.1.5R	112
Corporate governance statements	DTR 7.2	68

Statement by the directors under section 172 Companies Act 2006 in performance of their statutory duties

Directors consider that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so having regard to the stakeholders and matters set out in section 172(1)(a-f) of the Act in the decisions taken during the year ended 31 December 2019. This is demonstrated in the strategic report on pages 45 to 46.

Annual General Meeting (AGM)

The 2020 AGM will be held on Thursday 7 May 2020 at 2pm at 8 Finsbury Circus, London EC2M 7AZ. Full details of all resolutions and notes are set out in the separate notice of AGM.

Group results and company dividends

The Rathbone Brothers Plc group profit after taxation for the year ended 31 December 2019 was £26,923,000 (2018: £46,169,000).

The directors recommend the payment of a final dividend of 45.0p per share, if approved by shareholders at 2020 AGM, be paid on 12 May 2020 to shareholders on the register on 24 April 2020.

	2019		2018	
	Pence	£m	Pence	£m
Interim dividend	**25.0**	**13.5**	24.0	13.1
Final dividend	**45.0***	**24.2***	42.0	22.4
Total	**70.0***	**37.7***	66.0	35.5

* Subject to shareholder approval at the AGM on 7 May 2020

See note 14 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.

Substantial shareholdings

As at 31 December 2019, 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 19 Feb 2020	% held at 19 Feb 2020
Lindsell Train Ltd.	7,844,197	14.92
Mawer Investment Management Ltd.	5,111,142	9.07
Heronbridge Investment Management	2,830,266	5.02
MFS Investment	2,811,874	4.99
Aviva Investors	1,885,852	3.35
Kabouter Management	1,847,260	3.28
Baillie Gifford & Co	1,823,853	3.24

Share capital

The company's share capital comprises one class of ordinary shares of 5p each. At 31 December 2019, 55,361,986 shares were in issue (2018: 55,206,957). No shares were held in treasury. Details of the movements during the year are set out in note 32 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 18,413,870 shares (approximately one third of the issued share capital at 31 March 2019). The existing authorities given to the company at the last AGM to allot shares will expire at the conclusion of the forthcoming AGM. Details of the resolutions renewing these authorities are included in the notice of AGM.

Awards under the company's employee share plans are satisfied from a combination of shares held either in treasury or in the employee benefit trust and by newly issued shares. During the year, the company issued 294,268 shares to satisfy share awards and issued 256,848 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 2019 AGM, resolution to purchase own shares, the board currently has the authority to buy back up to 2,800,000 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.

Employee share trust

On 4 April 2017, Equiniti Trust (Jersey) Limited was appointed as trustee of the second employee benefit trust. The trust is independent and holds shares for the benefit of employees and former employees of the group. The trustee has agreed to satisfy awards under the Executive Incentive Plan, Share Incentive Plan and the Savings Related Share Option Plan. As part of these arrangements, the company issued shares to the trust to enable the trustee to satisfy these awards. Further details are set out in note 33 to the financial statements. During the year, the number of shares issued by trust totalled 19,963 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.

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.

Directors

All those who served as directors at any time during the year are listed on page 74. The directors' interests in the share capital of the company at 31 December 2019 are set out on pages 102 to 103 of the remuneration committee report.

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 2019 and remain in force at the date of this 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 54 to 57.

Corporate responsibility

Information about greenhouse gas emissions and our corporate social responsibility are set out in the corporate responsibility report on pages 61 to 65.

Financial instruments and risk management

The risk management objectives and policies of the group are set out in note 35 to the financial statements.

Auditor

The audit committee reviews the appointment of the external auditor and its relationship with the group, including monitoring the group's use of the auditor for non-audit services. Note 8 to the financial statements sets out details of the auditor's remuneration. Deloitte LLP was appointed as external auditor at the 2019 AGM. Having reviewed the independence and effectiveness of the external auditor, the audit committee has recommended to the board that the existing auditor, Deloitte LLP, be reappointed and a resolution appointing them as auditor and authorising the directors to set their remuneration will be proposed at the 2020 AGM.

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

Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's review, financial performance and segmental review. In addition, note 1.6 to the financial statements provides further details.

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

The directors believe that the company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Charitable donations

As at 31 December 2019, the group made total charitable donations of £360,000 representing 0.9% of group pre-tax profits (2018: £355,000, representing 0.7% of group pre-tax profits). It also included the matching of employee donations made through the tax efficient Give As You Earn (GAYE) payroll giving scheme. In 2019, Rathbones employees made payments totalling £195,000 (2018: £199,000) 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 2019, donated £158,000 (2018: £166,000) to causes chosen by employees through this method.

Political donations

No political donations were made during the year (2018: nil).

Post-balance sheet events

Details of post-balance sheet events are set out in note 41 to the financial statements.

On behalf of the board of directors

Ali Johnson
Company Secretary

19 February 2020

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 2019, and the group and parent company financial statements in accordance with applicable law and regulations.

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

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

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

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

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

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

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

Responsibility statement of the directors in respect of the report and accounts

We confirm that to the best of our knowledge:

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

We consider the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

By order of the board

Paul Stockton
Chief Executive

19 February 2020

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Financial statements

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Rathbone Brothers Plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 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 (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 63.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – impairment of client relationship intangibles and goodwill; – defined benefit pension scheme liability; – investment management fee revenue; and – Speirs & Jeffrey deferred consideration.
Materiality	The materiality that we used for the group financial statements was £3,580,000 which was determined on the basis of 5% of normalised profit before tax.
Scoping	The scope of our audit covered substantially the entire group, with both the investment management and unit trust business segments being subject to a full scope audit.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in the directors' report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 43 to 44 that describe the principal risks, procedures to identify emerging risks, and explain how they are being managed or mitigated;
- the directors' confirmation on page 45 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 45 as to how they have assessed the prospects of the group, over what period they have done so and why they consider 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.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of client relationship intangibles and goodwill

Key audit matter description

The group holds client relationship intangibles of £124.5 million (2018: £134.6 million) and goodwill of £90.4 million (2018: £91.0 million), comprising both relationships acquired through business combinations and those through acquisition of individual investment managers and their client portfolios.

As detailed in the summary of principal accounting policies in note 1 and note 24, client relationships are reviewed for indicators of impairment at each balance sheet date and, if an indicator of impairment exists, an impairment test is performed. Goodwill is tested for impairment at least annually, whether or not indicators of impairment exist. These judgements have also been considered by the Audit Committee as set out on page 85.

For client relationship intangibles, in determining the appropriate impairment triggers for each portfolio, there is a degree of significant management judgement. This assessment is based on movements in the value of funds under management and the loss of client relationships in advance of the amortisation period.

For goodwill, the impairment assessment is performed by comparing the carrying amount of each cash generating unit ('CGU') to its recoverable amount from its value-in-use, calculated using a discounted cash flow method. In determining the value-in-use for the CGUs management is required to make assumptions in relation to an appropriate income growth rate, expenditure growth rate and the discount rate. Management must also make a judgement on the CGUs that are appropriate to recognise.

How the scope of our audit responded to the key audit matter

We evaluated the design and implementation of the key controls in relation to the impairment review process for client relationship intangibles for both acquired portfolios and individual relationships and for goodwill. We assessed the design and implementation and tested the operating effectiveness of the controls in place over FUM values which form the basis of the impairment assessment.

For client relationship intangibles, we specifically tested the calculations prepared by management as part of the impairment review exercise to assess whether they meet the requirements of IAS 36 'Impairment of Assets' and that the relevant assumptions and judgements made were appropriate. We agreed a sample of FUM for capitalised client relationships through to third party sources. We challenged the completeness and appropriateness of the impairment trigger thresholds used by management and independently considered whether there is indication of an impairment event as at the year-end.

For goodwill, we challenged the completeness of the CGU's identified by management through independently assessing what CGUs should be recognised, in line with IAS 36. In order to challenge the appropriateness of the income and expenditure growth assumptions used in the value-in-use calculation, we have back-tested the assumptions used by management against historical performance and challenged the appropriateness of forward looking assumptions, checking consistency with forecasts used elsewhere in the business.

We independently challenged the determination of the discount rate applied by benchmarking to appropriate market rates of interest.

We have also performed sensitivity analysis to assess the risk that reasonably possible changes in assumptions used by management could give rise to an impairment and if relevant, ensured that appropriate disclosures are provided in the notes to the financial statements.

Furthermore, we have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for client relationship intangibles and goodwill.

Key observations

For client relationship intangibles, through our testing, we concluded that no impairment was required.

As set out in note 24 to the financial statements, based on our challenge, management updated their methodology for defining a CGU during the year. Following this update, through our testing, we concluded that no impairment of goodwill was required given the amount of headroom available against the carrying value.

We observed that the underlying assumptions applied by management in determining whether any impairment of client relationship intangibles or goodwill should be recognised are conservative.

Defined benefit pension scheme liability

Key audit matter description

The group has recognised a net defined benefit pension scheme liability of £8.0 million (2018: £11.2 million). The net liability comprises assets of £151.1 million (2018: £135.3 million) and liabilities of £159.1 million (2018: £146.5 million).

The calculation of the liability is sensitive to changes in underlying assumptions and is considered to be a key source of estimation uncertainty for the group as detailed in note 3, disclosed in note 31 to the financial statements, and has been considered by the Audit Committee on page 85.

The key assumptions are in respect of the discount rate, inflation rate and mortality rate where small changes to these assumptions could result in a material change to the valuation of the pension scheme liability.

How the scope of our audit responded to the key audit matter

In order to evaluate the appropriateness of the assumptions used by management, we assessed the design and implementation of controls over the appropriate determination of assumptions and the calculation of the liability to be recognised in the financial statements.

With the involvement of our in-house actuarial specialists, we made direct enquiries of the group's actuary to review and challenge each of the key assumptions used in the IAS 19 ('Employee Benefits') pension valuation. In particular, we compared each assumption used by management against independently determined benchmarks derived using market and other data.

Key observations

We concluded that each of the assumptions used by management to estimate the defined benefit pension scheme liability are consistent with the requirements of IAS 19 and fall within the middle of a reasonable range when compared to our internal benchmarks.

Investment management ('IM') fee revenue

Key audit matter description

As detailed in the summary of principal accounting policies in note 1 and in note 4, total operating income comprises net investment management fee income of £260.2 million (2018: £233.4 million), net commission income of £51.1 million (2018: £41.4 million), net interest income of £16.4 million (2018: £15.3 million) and fees from advisory services and other income of £20.3 million (2018: £21.8 million).

Investment management fees from the IM segment account for approximately 64% of total operating income and are based on a percentage of an individual client's funds under management ('FUM'). Due to its many long standing client relationships and history of acquisitions, the number of fee schedules managed by the group is high. This means that fee amendments can require a degree of manual intervention.

During the year ended 31 December 2018, the group acquired a new subsidiary, Speirs & Jeffrey Limited, also an investment management company. The clients of Speirs & Jeffrey Limited have been migrated onto Rathbones' core platform.

As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, incorrect rates could be used to calculate management fees, or that manual amendments are inaccurate, incomplete or invalid.

How the scope of our audit responded to the key audit matter

We evaluated the design and implementation and tested the operating effectiveness of controls over the calculation of investment management fees. This included controls relating to the set-up of client fee rates, rate card amendments, the valuation of FUM and the system generated investment management fees, including associated IT controls.

We used data analytics to recalculate the system generated amount for the total fee population. We agreed a sample of client fee rates through to client contracts and the value of FUM to third party sources.

We inspected evidence of authority and rationale for a sample of manual amendments made to system generated fees.

We also performed specific testing on the migration of Speirs & Jeffrey Limited clients onto Rathbones' core platform, to check that their fees were calculated in line with their contractual terms.

Key observations

We concluded that the investment management fee revenue is appropriately recognised for the year ended 31 December 2019.

Speirs & Jeffrey deferred consideration

Key audit matter description

On 31 August 2018, the group acquired a 100% equity interest in Speirs & Jeffrey Limited ('Speirs & Jeffrey').

The consideration includes a variable element which is dependent on certain operational and financial targets linked to the value of Speirs & Jeffrey FUM which is determined to be 'qualifying' under the terms of the sale and purchase agreement. The determination of the total deferred consideration will be set based on the qualifying FUM as at 31 December 2020 and 31 December 2021. If qualifying FUM does not exceed £4.5 billion no deferred consideration is payable.

The estimate of what the level of qualifying FUM will be requires significant management judgement. The assumptions underpinning this estimate are considered to be a key source of estimation uncertainty for the group, as detailed in note 3, disclosed in note 9 to the financial statements and considered by the audit committee on page 86.

The expected pay-out of the consideration is accrued over the period from acquisition up until pay-out in 2022, therefore spreading the P&L charge over this period.

At each reporting date, management update their estimate of the expected pay-out of the consideration and prospectively adjust the P&L charge. As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, management's estimate of the expected pay-out of the consideration at each financial reporting date may be materially misstated.

How the scope of our audit responded to the key audit matter

We evaluated the design and implementation of key controls over the determination of the key assumptions in the FUM conversion model.

We held targeted meetings with management and key personnel within the business, including a sample of Investment Managers, to challenge the appropriateness of the qualifying FUM estimate.

We challenged the consistency and validity of management's estimate by checking it was consistent with forecasts used elsewhere in the business.

We have also performed focused benchmarking against the investment management market, in order to challenge the potential impact of external factors on achieving management's estimate of qualifying FUM.

We independently re-performed the calculation of the estimate for deferred consideration and we assessed the appropriateness of the related disclosures including the sensitivity assumptions for the range of estimates included in the disclosure.

Key observations

The determination of the deferred consideration that could be payable is a critical accounting estimate. We concluded that the assumptions used by management to estimate the expected level of qualifying FUM as at 31 December 2020 and 2021 are reasonable as at the current reporting date.

As more experience and empirical data becomes available during 2020, these assumptions may need to be updated. The disclosure in respect of this critical accounting estimate for deferred consideration payable, as set out in note 3.3, shows the sensitivity, for each £100 million movement in qualifying FUM, to the eventual amount that could be payable.

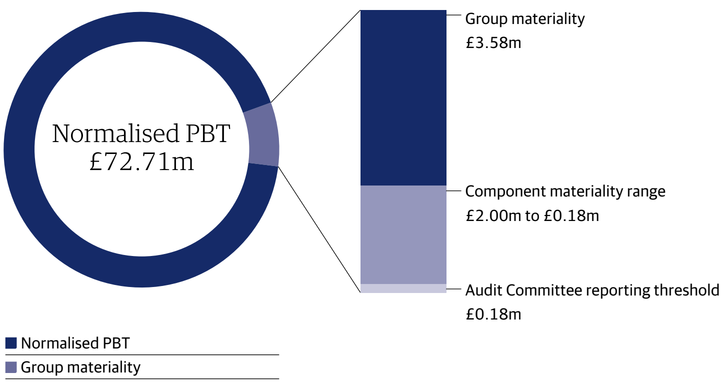
Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£3,580,000	£1,754,000
Basis for determining materiality	5% of normalised pre-tax profit. Pre-tax profit has been normalised to exclude the non-recurring acquisition-related costs of £33.1 million.	Parent company materiality equates to 1% of net assets, which is capped at 70% of group materiality.
Rationale for the benchmark applied	Normalised profit before tax (PBT) was used as the basis for determining materiality as this is the key metric used by members of the parent company and other relevant stakeholders in assessing financial performance. In determining normalised profit before tax, we have removed from statutory profit before tax, the acquisition-related costs on the basis that they are non-recurring and provides a consistent basis for determining materiality year on year.	The parent company primarily holds the investments in group entities and, therefore, net assets is considered to be the key focus for users of the financial statements.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality has been set at £2.5 million for the year ended 31 December 2019, 70% of group materiality. In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our review of the work performed by our predecessor auditor, which indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the audit committee that we would report to the committee all audit differences in excess of £180,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls and assessing the risks of material misstatement at the group level.

The group consists of the main trading subsidiary Rathbone Investment Management Limited along with the following entities that we have identified to be significant for the group audit: Rathbone Brothers Plc, Speirs & Jeffrey Limited, Rathbone Unit Trust Management Limited and Rathbone Investment Management International Limited. All such entities were subject to a full scope audit.

Our full scope audits and audits of specified balances covered 96% of the group's revenue and profit before tax. Our audit of Rathbone Investment Management Limited, the main trading subsidiary, used a component materiality of £2.73 million.

All audit work was performed by the group engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider 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, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors 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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: investment management ('IM') fee revenue and the determination of the Speirs & Jeffrey deferred consideration. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the Prudential Regulation Authority's and Financial Conduct Authority's regulations, the UK Companies Act, Listing Rules, relevant pensions legislation and relevant tax legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulatory solvency requirements.

Audit response to risks identified

As a result of performing the above, we identified investment management ('IM') fee revenue recognition and Speirs & Jeffrey deferred consideration as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – 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 are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders on 9 May 2019 to audit the financial statements for the year ended 31 December 2019 and therefore this is the first period of our appointment as external auditor.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Manbhinder Rana FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19 February 2020

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest and similar income		**28,553**	20,968
Interest expense and similar charges		**(12,141)**	(5,647)
Net interest income	5	**16,412**	15,321
Fee and commission income		**352,519**	314,013
Fee and commission expense		**(23,547)**	(22,903)
Net fee and commission income	6	**328,972**	291,110
Net trading income	7	**170**	3,405
Other operating income	7	**2,517**	2,127
Operating income		**348,071**	311,963
Charges in relation to client relationships and goodwill	8	**(15,964)**	(13,188)
Acquisition-related costs	10	**(33,057)**	(19,925)
Head office relocation costs	11	**–**	2,861
Other operating expenses		**(259,398)**	(220,405)
Operating expenses	8	**(308,419)**	(250,657)
Profit before tax		**39,652**	61,306
Taxation	13	**(12,729)**	(15,137)
Profit after tax		**26,923**	46,169
Profit for the year attributable to equity holders of the company		**26,923**	46,169
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability	31	**310**	1,219
Deferred tax relating to net remeasurement of defined benefit liability	23	**(53)**	(207)
Other comprehensive income net of tax		**257**	1,012
Total comprehensive income for the year net of tax attributable to equity holders of the company		**27,180**	47,181
Dividends paid and proposed for the year per ordinary share	14	**70.0p**	66.0p
Dividends paid and proposed for the year		**37,714**	35,204
Earnings per share for the year attributable to equity holders of the company:	15		
– basic		**50.3p**	88.7p
– diluted		**48.7p**	86.2p

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

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018		2,566	143,089	31,835	(4,864)	198,947	371,573
Profit for the year						46,169	46,169
Net remeasurement of defined benefit liability	31					1,219	1,219
Deferred tax relating to components of other comprehensive income	23					(207)	(207)
Other comprehensive income net of tax		–	–	–	–	1,012	1,012
Dividends paid	14					(32,691)	(32,691)
Issue of share capital	32	194	87,134				87,328
Prior period adjustment (note 1.3)			(24,950)	24,950			–
Share-based payments:							
– value of employee services						20,279	20,279
– cost of own shares acquired	33				(29,888)		(29,888)
– cost of own shares vesting	33				2,015	(2,015)	–
– tax on share-based payments						358	358
At 31 December 2018 (restated)		**2,760**	**205,273**	**56,785**	**(32,737)**	**232,059**	**464,140**
Profit for the year						**26,923**	**26,923**
Net remeasurement of defined benefit liability	31					**310**	**310**
Deferred tax relating to components of other comprehensive income	23					**(53)**	**(53)**
Other comprehensive income net of tax		**–**	**–**	**–**	**–**	**257**	**257**
Dividends paid	14					**(35,959)**	**(35,959)**
Issue of share capital	32	**58**	**5,666**	**14,971**			**20,695**
Share-based payments:							
– value of employee services						**19,387**	**19,387**
– cost of own shares acquired	33				**(10,033)**		**(10,033)**
– cost of own shares vesting	33				**799**	**(799)**	**–**
– tax on share-based payments						**(17)**	**(17)**
At 31 December 2019		**2,818**	**210,939**	**71,756**	**(41,971)**	**241,851**	**485,393**

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

Strategic report
Governance
Consolidated financial statements
Company financial statements

Consolidated balance sheet

as at 31 December 2019

	Note	2019 £'000	2018 £'000 (restated – note 1.3)
Assets			
Cash and balances with central banks	16	**1,932,997**	1,198,479
Settlement balances		**52,520**	39,754
Loans and advances to banks	17	**177,832**	166,200
Loans and advances to customers	18	**138,412**	138,959
Investment securities:			
– fair value through profit or loss	19	**105,967**	79,797
– amortised cost	19	**600,261**	907,225
Prepayments, accrued income and other assets	20	**95,390**	81,552
Property, plant and equipment	21	**15,432**	16,838
Right-of-use assets	22	**49,480**	–
Net deferred tax asset	23	**2,636**	–
Intangible assets	24	**227,807**	238,918
Total assets		**3,398,734**	2,867,722
Liabilities			
Deposits by banks	25	**28**	491
Settlement balances		**57,694**	36,692
Due to customers	26	**2,668,645**	2,225,536
Accruals, provisions and other liabilities	27	**93,263**	103,393
Lease liabilities	29	**61,004**	–
Current tax liabilities		**4,766**	5,985
Net deferred tax liability	23	**–**	481
Subordinated loan notes	30	**19,927**	19,807
Retirement benefit obligations	31	**8,014**	11,197
Total liabilities		**2,913,341**	2,403,582
Equity			
Share capital	32	**2,818**	2,760
Share premium	32	**210,939**	205,273
Merger reserve	32	**71,756**	56,785
Own shares	33	**(41,971)**	(32,737)
Retained earnings		**241,851**	232,059
Total equity		**485,393**	464,140
Total liabilities and equity		**3,398,734**	2,867,722

The financial statements were approved by the board of directors and authorised for issue on 19 February 2020 and were signed on their behalf by:

Paul Stockton
Chief Executive

Jennifer Mathias
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 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before tax		**39,652**	61,306
Change in fair value through profit or loss		**(410)**	185
Net interest income		**(16,412)**	(15,321)
Impairment losses on financial instruments	35	**103**	44
Net charge/(credit) for provisions	28	**3,572**	(1,498)
Loss on disposal of property, plant and equipment		**428**	1
Depreciation, amortisation and impairment		**33,799**	21,673
Foreign exchange movements	19	**2,152**	(2,297)
Defined benefit pension scheme charges	31	**255**	491
Defined benefit pension contributions paid	31	**(3,128)**	(3,673)
Share-based payment charges		**31,012**	19,838
Interest paid		**(11,421)**	(3,892)
Interest received		**28,264**	21,362
		107,866	98,219
Changes in operating assets and liabilities:			
– net increase in loans and advances to banks and customers		**(31,076)**	(10,482)
– net (increase)/decrease in settlement balance debtors		**(12,765)**	7,030
– net increase in prepayments, accrued income and other assets		**(13,725)**	(3,887)
– net increase in amounts due to customers and deposits by banks		**442,646**	54,191
– net increase/(decrease) in settlement balance creditors		**21,002**	(17,760)
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**2,802**	(222)
Cash generated from operations		**516,750**	127,089
Tax paid		**(17,133)**	(14,697)
Net cash inflow from operating activities		**499,617**	112,392
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(72,914)
Purchase of property, plant, equipment and intangible assets		**(17,705)**	(18,338)
Proceeds from sale of property, plant and equipment		**(239)**	–
Purchase of investment securities	19	**(754,958)**	(1,051,150)
Proceeds from sale and redemption of investment securities	19	**1,058,874**	847,323
Net cash generated from/(used in) investing activities		**285,972**	(295,079)
Cash flows from financing activities			
Net (repurchase)/issue of ordinary shares	40	**(4,340)**	57,440
Dividends paid	14	**(35,959)**	(32,691)
Payment of lease liabilities		**(4,623)**	–
Interest paid		**(1,171)**	(1,283)
Net cash (used in)/generated from financing activities		**(46,093)**	23,466
Net increase/(decrease) in cash and cash equivalents		**739,496**	(159,221)
Cash and cash equivalents at the beginning of the year		**1,408,537**	1,567,758
Cash and cash equivalents at the end of the year	40	**2,148,033**	1,408,537

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

Notes to the consolidated financial statements

1 Principal accounting policies

Rathbone Brothers Plc ('the company') is a public company limited by shares 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 187 to 206.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (notes 1.13 and 1.17). The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the consolidated financial statements.

1.2 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 Prior period adjustment

Following the issue of contingent consideration shares to the vendors of Speirs & Jeffrey, the group revisited the terms attaching to the initial consideration shares issued in the prior year (note 9). Having concluded that both share issuances were, in fact, in pursuance of the arrangement to acquire the shares in Speirs & Jeffrey, any premiums on the issuance of these shares should be recognised within the merger reserve. Premiums on issuance of the initial consideration shares were previously reported as share premium. The group has restated comparative information as at 31 December 2018 to report this amount within merger reserve. As at 31 December 2018, merger reserve has increased by £24,950,000 and share premium has decreased by the same amount. There is no impact on total equity as at that date and no impact on profit before tax or earnings per share for the period then ended.

1.4 Developments in reporting standards and interpretations

Standards and interpretations affecting the reported results or the financial position

This is the first set of the group's financial statements where IFRS 16 has been applied. This new standard was adopted from 1 January 2019. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 2.

The following amendments to standards have also been adopted in the current period, but have not had a significant impact on the amounts reported in these financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015-2017 Cycle.

Future new standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The below standards are not yet effective and have not yet been endorsed by the EU. None of these are expected to have a material impact on the group's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRS 14 Regulatory Deferral Accounts

1.5 Business combinations

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities assumed and equity instruments issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values may arise as a result of additional information obtained after this date about facts and circumstances that existed at the acquisition date. Provided they arise within 12 months of the acquisition date, these changes are measurement period adjustments and are reflected against the cost of acquisition. Changes in the fair value of contingent consideration resulting from events occurring after the acquisition date are charged to profit or loss or other comprehensive income, except for obligations that are classified as equity, which are not remeasured. Such changes are irrespective of the 12-month period from acquisition.

1.6 Going concern

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

1.7 Foreign currencies

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

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

1.8 Income

Net interest income

Interest income or expense are recognised within net interest income using the effective interest method.

The effective interest method is the method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the group estimates cash flows considering all contractual terms of the financial instrument but excluding the impact of future credit losses.

Dividends received from money market funds are included in net interest income when received.

Net fee and commission income

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

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

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

The group has made an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, then these fees can be recognised when the relevant performance obligation has been satisfied; if not, then the fees can only be recognised in the period in which the services are provided.

A breakdown of the timing of revenue recognition can be found in note 4.

1 *Principal accounting policies continued*

Net trading income

Net trading income comprises net dealing profits on the sale and redemption of units in the Unit Trusts business and is recognised when received.

Dividend income

Dividend income from final dividends on equity securities is accounted for on the date the security becomes ex-dividend. Interim dividends are recognised when received.

1.9 Leases

The group has applied IFRS 16 with effect from 1 January 2019, using the modified retrospective approach. Comparative information has not been restated. More details on the approach to transition are provided in note 2.

Policy applicable from 1 January 2019

The group has applied the practical expedient to grandfather the definition of a lease at the date of transition. Therefore, this policy applies to all contracts entered into on or after 1 January 2019.

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16.

The group recognises a right-of-use asset and a lease liability at the inception date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU assets are subsequently depreciated on a straight line basis over the shorter of the expected life of the asset and the lease term, adjusted for any remeasurements of the lease liability. At the end of each reporting period, the ROU assets are assessed for indicators of impairment in accordance with IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. The group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee and
- the exercise price under a purchase option that the group is reasonably certain to exercise, lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the group is reasonably certain not to terminate early.

The group's incremental borrowing rate is derived with reference to the group's subordinated loan notes (note 30), which is the only external financing on the consolidated balance sheet.

The lease liability is subsequently measured by adjusting the carrying amount to reflect the interest charge, the lease payments made and any reassessment or lease modifications. The lease liability is remeasured if the group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Where the group is an intermediate lessor in a sub-lease, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Policy applicable before 1 January 2019

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

1.10 Share-based payments

The group engages in 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.

1.11 Taxation

Current tax

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

Deferred tax

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

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

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

Current and deferred tax are recognised, in the same or a different period:

- in other comprehensive income if they relate to items recognised in other comprehensive income
- directly in retained earnings if they relate to items recognised directly in retained earnings.

1.12 Cash and cash equivalents

Cash comprises cash in hand.

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

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

1 *Principal accounting policies continued*

1.13 Financial assets

Initial recognition and measurement

Financial assets, excluding trade debtors, are initially recognised when the group becomes party to the contractual provisions of the asset. Trade debtors are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition (except those assets classified at fair value through profit or loss). Trade debtors without a significant financing component are initially measured at the transaction price.

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Classification and subsequent measurement

Financial assets are classified and measured in the following categories:

– amortised cost

  Financial assets are measured at amortised cost if their contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and they are held within a business model whose objective is to hold assets to collect contractual cash flows.

  Assets are measured at amortised cost using the effective interest rate method (note 1.8), less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

– at fair value through other comprehensive income (FVOCI)

  Debt instruments are measured at FVOCI if their contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and they are held within a business model whose objective is both to hold assets to collect contractual cash flows and to sell the assets.

  For debt instruments, interest income is calculated using the effective interest method. For equity instruments, dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains and losses on assets at FVOCI are recognised in OCI.

– at fair value through profit or loss (FVTPL)

  All equity instruments are measured at FVTPL unless, provided the instrument is not held for trading, the group irrevocably elects to measure the instrument at FVOCI. This election is made on an investment-by-investment basis.

  All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

  Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Business model assessment

The group assesses the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes:

– the objectives for the portfolio and how those tie in to the current and future strategy of the group
– how the performance of the portfolio is evaluated and reported to the group's management
– the risks that could affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
– how group employees are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected and
– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Payments of principal and interest criterion

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers:

- the contractual terms of the instrument, checking consistency with a basic lending criteria
- the impact of the time value of money
- features that would change the amount or timing of contractual cash flows
- other factors, such as prepayment or extension features.

Derecognition

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

Impairment of financial assets

The group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and FVOCI and loan commitments held off balance sheet.

A financial asset will attract a loss allowance equal to either:

- 12 month expected credit losses (losses resulting from possible defaults within the next 12 months) or
- lifetime expected credit losses (losses resulting from possible defaults over the remaining life of the financial asset).

The latter applies if there has been a significant deterioration in the credit quality of the asset, albeit lifetime ECLs will always be recognised for assets without a significant financing component.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

The group measures loss allowances at an amount equal to lifetime ECLs, except for treasury book and investment management loan book exposures for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trust and financial planning debtors are always measured at an amount equal to lifetime ECLs.

When assessing whether the credit risk of a financial asset has increased significantly between the reporting date and initial recognition, quantitative and qualitative indicators are used. More detail can be found in note 35.

Measurement of ECLs

Treasury book and investment management loan book

The group has developed a detailed model for calculating ECLs on its treasury book and investment management loan book (which includes loan commitments held off balance sheet). The group has applied considerable judgment in developing three different economic scenarios: a base case, an upside and a downside.

The base case is assigned a 60% probability of occurring with the upside and downside each assigned a 20% probability of occurring.

The economic scenarios are based on the projections of GDP, inflation, unemployment rates, house price indices, financial markets and interest rates as set out in the banking system stress testing scenario published annually by the Prudential Regulation Authority (PRA).

Management adjust the projections for the economic variables in arriving at the upside and downside scenarios.

Under each resultant scenario, an expected credit loss is forecast for each exposure in the treasury book and investment management loan book. The expected credit loss is calculated based on management's estimate of the probability of default, the loss given default and the exposure at default of each exposure taking into account industry credit loss data, the group's own credit loss experience, the expected repayment profiles of the exposures and the level of collateral held. Industry credit loss information is drawn from data on credit defaults for different categories of exposure published by the Council of Mortgage Lenders and Standard & Poor's.

The model adopts a staging allocation methodology, primarily based on changes in the internal and/or external credit rating of exposures to identify significant increases in credit risk since inception of the exposure.

The group has not rebutted the presumption that if an exposure is more than 30 days past due, the associated credit risk has significantly increased.

More detail on the group's staging criteria is provided in note 35.

ECLs are discounted back to the balance sheet date at the effective interest rate of the asset.

1 *Principal accounting policies continued*

Trust and financial planning debtors

The group's trust and financial planning debtors are generally short term and do not contain significant financing components. Therefore, the group has applied a practical expedient by using a provision matrix to calculate lifetime expected credit losses based on actual credit loss experience over the past four years.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The group's definition of default is given in note 35.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost and FVOCI are deducted from the gross carrying amount of the assets.

Impairment losses related to the group's treasury book and investment management loan book are presented in 'interest expense and similar charges' and those related to all other financial assets (including trust and financial planning debtors) are presented under 'other operating expenses'. No losses are presented separately on the statement of the comprehensive income and there have been no reclassifications of amounts previously recognised under IAS 39.

1.14 Property, plant and equipment

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

- Leasehold improvements: over the lease term
- Plant, equipment and computer hardware: over three to 10 years

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

1.15 Intangible assets

Goodwill

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

Goodwill is recognised as an asset and measured at cost less accumulated impairment losses. It is allocated to groups of cash generating units, which represent the lowest level at which goodwill is monitored for internal management purposes. A cash generating unit is identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets and are no larger than the group's operating segments, as set out in note 4.

On disposal of a subsidiary the attributed amount of goodwill that has not been subject to impairment is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 January 2004, being the date of the group's transition to IFRS, has been retained at the previous UK GAAP carrying amounts and is tested for impairment annually.

Client relationships

Client relationships acquired as part of a business combination are initially recognised at fair value (note 1.5). Determining whether a transaction that involves the purchase of client relationships is treated as a business combination or a separate purchase of intangible assets requires judgement. The factors that the group takes into consideration in making this judgement are set out in note 3.1.

Individually purchased client relationships are initially recognised at cost. Where a transaction to acquire client relationship intangibles includes an element of variable deferred consideration, an estimate is made of the value of consideration that will ultimately be paid. The client relationship intangible recognised on the balance sheet is adjusted for any subsequent change in the value of deferred consideration. Note 3.1 sets out the approach taken by the group where judgement is required to determine whether payments made for the introduction of client relationships should be capitalised as intangible assets or charged to profit or loss.

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

Computer software and software development costs

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

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

1.16 Impairment of goodwill and intangible assets

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

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

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

If the recoverable amount of any asset other than goodwill, client relationships is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Any impairment loss is recognised immediately in profit or loss.

1.17 Financial liabilities

Initial recognition and measurement

Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to their issue.

Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or at fair value through profit or loss.

The group has not designated any liabilities as fair value through profit or loss and holds no liabilities as held for trading. Financial liabilities are measured at amortised cost using the effective interest method (note 1.8). Amortised cost is calculated by taking into account any issue costs and any discounts or premiums on settlement. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The group derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

1.18 Provisions and contingent liabilities

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

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

1 *Principal accounting policies continued*

1.19 Retirement benefit obligations on retirement benefit schemes

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

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

Past service 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.

1.20 Segmental reporting

The group determines and presents operating segments based on the information that is provided internally to the group executive committee, which is the group's chief operating decision maker. Operating segments are organised around the services provided to clients; a description of the services provided by each segment is given in note 4. No operating segments have been aggregated in the group's financial statements.

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

1.21 Fiduciary activities

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

1.22 Financial guarantees

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

1.23 Fair value measurement

The fair values of quoted financial instruments in active markets are based on current bid prices. If an active market for a financial asset does not exist, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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

2 Changes in significant accounting policies

The group has adopted IFRS 16 'Leases' with effect from 1 January 2019.

IFRS 16 'Leases'

IFRS 16 removes the classification of leases as either operating leases or finance leases for lessees. The standard introduces a single, on-balance sheet accounting model, which requires:

- recognition of a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which the group is the lessee, except for short-term leases and leases of low-value assets
- recognition of a depreciation charge on the right-of-use asset on a straight line basis over the shorter of the expected life of the asset and the lease term
- recognition of an interest charge arising from the unwinding of the discounted lease liability over the lease term and
- recognition of a finance lease in respect of the group acting as an intermediate lessor in a sub-lease agreement.

Transition

On transition to IFRS 16, the group was permitted to choose from the following transition approaches:

- full retrospective transition method, whereby IFRS 16 is applied to all of its contracts as if it had always applied; or
- a modified retrospective approach with optional practical expedients.

The group has chosen to apply IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance sheet. There is no restatement of the comparative information which continues to be reported under IAS 17 and IFRIC 4.

On adoption, lease agreements have given rise to both a right-of-use ('ROU') asset and a lease liability. For leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate as at 1 January 2019. The group's weighted average lessee's incremental borrowing rate as at 1 January 2019 was 5.86%. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on the group balance sheet at the date of transition. There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application.

The group has identified the leases for which it holds an option to terminate the contract early. The group has assessed the likelihood of exercising these options and has concluded that it is reasonably certain to exercise this option on one of these leases. The group has reflected these revised lease terms in its calculation of the lease liabilities.

The lease liability and the ROU asset are subsequently measured in accordance with the accounting policy described in note 1.9.

The group has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the practical expedient to grandfather the assessment of which contracts are leases and applied IFRS 16 only to those that were previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. The identification of a lease under IFRS 16 was therefore only applied to contracts entered into (or modified) on or after 1 January 2019;
- applied a single discount rate to a portfolio of leases with similar characteristics; and
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than a 12-month lease term and leases of low-value assets. The group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

2 *Changes in significant accounting policies continued*

As a lessor

Accounting requirements for lessors are largely unchanged from IAS 17 'Leases'. The group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for instances in which it acts as a sub-lessor. The group sub-leases a property in Jersey.

At the date of application to IFRS 16 the group is required to assess the classification of a sub-lease with reference to the ROU asset. As the sub-lease is for the whole of the remaining term of the head lease, the group reassessed the classification of its sub-lease contract, previously classified as an operating lease under IAS 17, to a finance lease under IFRS 16 from the date of initial application.

The tables below show the impact on each financial statement line item affected by the application of IFRS 16 at the date of transition.

Impact on the consolidated balance sheet as at 1 January 2019

	As reported 31 December 2018 £'000	Adjustments £'000	**As restated 1 January 2019 £'000**
Assets			
Prepayments, accrued income and other assets	81,552	(174)	**81,378**
Right-of-use assets	–	53,846	**53,846**
Total assets	2,867,722	53,672	**2,921,394**
Liabilities			
Accruals, deferred income, provisions and other liabilities	103,393	(11,486)	**91,907**
Lease liabilities	–	65,158	**65,158**
Total liabilities	2,403,582	53,672	**2,457,254**
Equity			
Retained earnings	232,059	–	**232,059**
Total equity	464,140	–	**464,140**
Total liabilities and equity	2,867,722	53,672	**2,921,394**

The adjustments to the consolidated balance sheet reflect the initial application of IFRS 16.

An analysis of ROU assets is presented in note 22. The group makes fixed payments and variable payments depending on the usage of the asset during the contract period.

The below table presents the impact of IFRS 16 on profit and on one of our key performance indicators during the year.

Impact on profit for the year	£'000
Increase in finance costs	3,640
Increase in depreciation	4,895
Expenses relating to short-term leases and low-value assets	371
Increase in finance income	75
Decrease in other expenses	7,124

Impact on earnings per share	
Decrease in earnings per share	
basic	3.2p
diluted	3.2p

Lease liabilities

The group is required to identify the difference between the present value of its operating lease commitments disclosed at 31 December 2018 under IAS 17, discounted by using the group's incremental borrowing rate, and its lease liabilities recognised at the date of initial application to IFRS 16. This reconciliation has been presented below:

	£'000
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	90,548
Impact of discounting at the incremental borrowing rate	(27,027)
Discounted using the incremental borrowing rate at 1 January 2019	**63,521**
Recognition exemption for:	
– Leases of low-value assets	**(18)**
– Extension options reasonably certain to be exercised	**1,655**
Lease liabilities at 1 January 2019	**65,158**

3 Critical accounting judgements and key sources of estimation and uncertainty

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

The following key accounting policies involve critical judgements made in applying the accounting policy and involve estimations; care has been taken to distinguish between the two.

3.1 Client relationship intangibles (note 24)

Critical judgements

Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business combination in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction and whether ownership of a corporate entity has been acquired, among other factors.

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If these payments are incremental costs of acquiring investment management contracts and are deemed to be recoverable (i.e. through future revenues earned from the funds that transfer), they are capitalised as client relationship intangibles (note 24). 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.

Estimation uncertainty

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations that these will continue in the future. During the year, client relationship intangible assets were amortised over a 10-to-15-year period.

Amortisation of £15,369,000 (2018: £12,919,000) was charged during the year. At 31 December 2019, the carrying value of client relationship intangibles was £124,456,000 (2018: £134,556,000).

A reduction of three years in the amortisation period of those client relationship intangible assets currently amortised over 15 years would increase the annual amortisation charge by £4.5 million.

3 *Critical accounting judgements and key sources of estimation and uncertainty continued*

3.2 Retirement benefit obligations (note 31)

Estimation uncertainty

The principal assumptions underlying the reported deficit of £8,014,000 (2018: £11,197,000 deficit) are set out in note 31.

In setting these assumptions, 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 subjective 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 sensitivity of the retirement benefit obligations to changes in all of the underlying estimates are set out in note 31. Of these, the most sensitive assumption is the discount rate used to measure the defined benefit obligation. Increasing the discount rate by 1.0% would decrease the schemes' liabilities by £28,701,000 (2018: £25,610,000). A 1.0% decrease would have an equal and opposite effect.

3.3 Business combinations (note 9)

Critical judgement

Treatment and fair value of consideration transferred

On 31 August 2018, the group acquired the entire share capital of Speirs & Jeffrey ("S&J"). The group accounted for the transaction as a business combination.

As described in note 9 to the financial statements, the purchase price payable for the acquisition is split into a number of different parts. The payment of certain elements has been deferred. At 31 December 2019, two elements of deferred consideration remained unvested and subject to ongoing vesting conditions.

Vesting of the £25,000,000 initial share consideration is contingent on continued employment of the vendors and this amount is being charged to profit or loss as a share-based payment for employee services over the vesting period.

Vesting of earn out consideration is also payable in shares and conditional on achieving certain operational and financial targets and the continued employment of the vendors.

Estimation uncertainty

Valuation of the earn-out consideration and incentivisation awards

The value of earn-out consideration, as well as related incentivisation awards to other staff, is variable, dependent on performance by the acquired business against certain operational and financial targets by 31 December 2020 and 31 December 2021. The estimated value of earn-out consideration and incentivisation awards that will be payable at these dates is £26.4 million, based on projections of growth in qualifying funds under management over that period. As a result, accumulated charges of £12.9 million have been recognised since acquisition with a corresponding credit to equity, based on forecast qualifying funds under management of £4.8 billion at the end of 2020; with an associated charge to profit or loss during 2019 of £9.7 million (note 9).

If qualifying funds under management do not exceed £4.5 billion then no earn-out consideration or incentivisation awards are payable. If qualifying funds under management at 31 December 2020 are £100 million higher or lower than management's estimate then the accumulated charges as at 31 December 2019 for earn-out consideration and incentivisation awards would be £1.5 million higher or lower and the charge to profit or loss in 2019 would be £1.5 million higher or lower.

Under the terms of the agreements, the maximum possible payment under the earn-out and incentivisation awards is capped at £128,750,000; which represents qualifying funds under management of approximately £10 billion at the end of 2021.

4 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Unit Trusts. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure, principally, the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and administration and the segment's total revenue. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the group executive committee, which is the group's chief operating decision maker.

31 December 2019	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	224,135	36,073	–	260,208
Net commission income	51,132	–	–	51,132
Net interest income	16,412	–	–	16,412
Fees from advisory services and other income	19,247	1,072	–	20,319
Underlying operating income	310,926	37,145	–	348,071
Staff costs – fixed	(78,562)	(3,783)	(28,477)	(110,822)
Staff costs – variable	(49,711)	(8,710)	(8,353)	(66,774)
Total staff costs	(128,273)	(12,493)	(36,830)	(177,596)
Other direct expenses	(40,392)	(7,299)	(34,111)	(81,802)
Allocation of indirect expenses	(63,842)	(7,099)	70,941	–
Underlying operating expenses	(232,507)	(26,891)	–	(259,398)
Underlying profit before tax	78,419	10,254	–	88,673
Charges in relation to client relationships and goodwill (note 24)	(15,964)	–	–	(15,964)
Acquisition-related costs (note 10)	(28,246)	–	(4,811)	(33,057)
Segment profit before tax	34,209	10,254	(4,811)	39,652
Profit before tax attributable to equity holders of the company				39,652
Taxation (note 13)				(12,729)
Profit for the year attributable to equity holders of the company				26,923

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	3,303,691	89,937	3,393,628
Unallocated assets			5,106
Total assets			3,398,734

4 *Segmental information continued*

31 December 2018 (re-presented*)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	200,530	32,865	–	233,395
Net commission income	41,439	–	–	41,439
Net interest income	15,321	–	–	15,321
Fees from advisory services and other income	18,019	3,789	–	21,808
Underlying operating income	275,309	36,654	–	311,963
Staff costs — fixed	(66,512)	(3,300)	(26,152)	(95,964)
Staff costs — variable	(40,656)	(7,552)	(6,886)	(55,094)
Total staff costs	(107,168)	(10,852)	(33,038)	(151,058)
Other direct expenses	(27,629)	(6,950)	(34,768)	(69,347)
Allocation of indirect expenses	(61,676)	(6,130)	67,806	–
Underlying operating expenses	(196,473)	(23,932)	–	(220,405)
Underlying profit before tax	78,836	12,722	–	91,558
Charges in relation to client relationships and goodwill (note 24)	(13,188)	–	–	(13,188)
Acquisition-related costs (note 10)	(16,228)	–	(3,697)	(19,925)
Segment profit before tax	49,420	12,722	(3,697)	58,445
Head office relocation costs (note 11)				2,861
Profit before tax attributable to equity holders of the company				61,306
Taxation (note 13)				(15,137)
Profit for the year attributable to equity holders of the company				46,169

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	2,786,718	81,004	2,867,722
Unallocated assets			–
Total assets			2,867,722

* In 2018, the cost of the Staff Equity Plan (note 34) for Investment Management staff was originally reported within the allocation of indirect expenses. In 2019, these costs are reported as variable staff costs directly incurred by the segment. Accordingly, the 2018 comparative figures have been re-presented to show the costs on a consistent basis

Underlying operating income is equal to operating income for the year ended 31 December 2019 (2018: equal).

The following table reconciles underlying operating expenses to operating expenses:

	2019 £'000	2018 £'000
Underlying operating expenses	**259,398**	220,405
Charges in relation to client relationships and goodwill (note 24)	**15,964**	13,188
Acquisition-related costs (note 10)	**33,057**	19,925
Head office relocation costs (note 11)	**–**	(2,861)
Operating expenses	**308,419**	250,657

Geographic analysis

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

	2019 £'000	2018 £'000
United Kingdom	**335,732**	301,029
Jersey	**12,339**	10,934
Operating income	**348,071**	311,963

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

	2019 £'000	2018 £'000
United Kingdom	**239,056**	251,429
Jersey	**4,183**	4,327
Non-current assets	**243,239**	255,756

Timing of revenue recognition

The following table presents operating income analysed by the timing of revenue recognition of the operating segment providing the service:

	2019		2018	
	Investment Management £'000	**Unit Trusts £'000**	Investment Management £'000	Unit Trusts £'000
Products and services transferred at a point in time	**53,599**	**172**	44,392	3,431
Products and services transferred over time	**257,327**	**36,973**	230,917	33,223
Underlying operating income	**310,926**	**37,145**	275,309	36,654

Major clients

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

5 Net interest income

	2019 £'000	2018 £'000
Interest income		
Cash and balances with central banks	**11,383**	7,634
Fair value through profit or loss investment securities	**1,299**	1,102
Amortised cost investment securities	**8,557**	6,503
Loans and advances to banks	**3,328**	2,209
Loans and advances to customers	**3,986**	3,520
	28,553	20,968
Interest expense		
Banks and customers	**(7,122)**	(4,323)
Lease liabilities	**(3,640)**	–
Subordinated loan notes (note 30)	**(1,290)**	(1,283)
Credit impairment charges	**(89)**	(41)
	(12,141)	(5,647)
Net interest income	**16,412**	15,321

With the exception of credit impairment charges, which are calculated as described in note 35, all net interest income is calculated using the effective interest method (note 1.8).

6 Net fee and commission income

	2019 £'000	2018 £'000
Fee and commission income		
Investment Management	**308,119**	272,700
Unit Trusts	**44,400**	41,313
	352,519	314,013
Fee and commission expense		
Investment Management	**(18,258)**	(16,987)
Unit Trusts	**(5,289)**	(5,916)
	(23,547)	(22,903)
Net fee and commission income	**328,972**	291,110

7 Net trading and other operating income

Net trading income

Net trading income of £170,000 (2018: £3,405,000) comprised Unit Trusts net dealing profits, which ceased from mid-January 2019.

Other operating income

Other operating income of £2,517,000 (2018: £2,127,000) comprises dividend income from fair value through profit or loss equity securities, rental income from sub-leases on certain properties leased by group companies and sundry income.

8 Operating expenses

	2019 £'000	2018 £'000
Staff costs (note 12)	**177,596**	151,059
Depreciation of property, plant and equipment (note 21)	**4,036**	3,817
Depreciation of right-of-use assets (note 22)	**4,895**	–
Amortisation of internally generated intangible assets (note 24)	**919**	686
Amortisation and impairment of purchased software (note 24)	**7,985**	3,983
Auditor's remuneration (see below)	**968**	793
Impairment charges on loans and advances to customers (note 35)	**4**	33
Rental charge	**2,147**	8,952
Other	**60,848**	51,082
Other operating expenses	**259,398**	220,405
Charges in relation to client relationships and goodwill (note 24)	**15,964**	13,188
Acquisition-related costs (note 10)	**33,057**	19,925
Head office relocation costs (note 11)	**–**	(2,861)
Total operating expenses	**308,419**	250,657

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

	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the company's annual financial statements	**100**	118
Fees payable to the company's auditor and its associates for other services to the group:		
– audit of the company's subsidiaries pursuant to legislation	**395**	314
– audit-related assurance services	**469**	299
– tax compliance services	**–**	23
– other services	**4**	39
	968	793

Of the above, audit-related services for the year incurred by the prevailing statutory auditor totalled £899,000 (2018: £731,000).

Fees payable for the audit of the company's annual financial statements include £91,000 (2018: £19,000) relating to prior year audit work undertaken by the previous statutory auditor.

9 Business combinations

Speirs & Jeffrey

On 31 August 2018, the group acquired 100% of the ordinary share capital of Speirs & Jeffrey Limited ('Speirs & Jeffrey').

Contingent consideration

Contingent consideration of £15,000,000 was paid in May 2019, following the satisfaction of certain operational targets. Of this, £1,050,000 was treated as consideration in the acquisition accounting, as it was paid to vendors who were not required to remain in employment with the group (note 28). The amount paid was equal to what was provided for as at the date of acquisition; therefore, no measurement period adjustment has been reflected against the cost of acquisition. The remaining £13,950,000 was paid to vendors required to remain in employment with the group until the targets were met. Hence, it has been treated as remuneration for post-combination services and the grant date fair value charged to profit and loss. The contingent consideration payment was made 100% in shares (note 33).

Other deferred payments

The group continues to provide for the cost of other deferred and contingent payments to be made to vendors for the sale of the shares of Speirs & Jeffrey, as well as related incentivisation awards for other staff. These payments require the vendors to remain in employment with the group for the duration of the respective deferral periods. Hence, they are being treated as remuneration for post-combination services and the grant date fair value charged to profit and loss over the respective vesting periods.

These payments are to be made 100% in shares and are being accounted for as equity-settled share-based payments under IFRS 2:

- Initial share consideration was payable on completion. However, although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date.
- Earn-out consideration and related incentivisation awards are payable in two parts in the third and fourth years following the acquisition date. Payment is subject to the delivery of certain operational and financial performance targets.
- Further details of each of these elements is as follows:

	Gross amount £'000	Grant date	Grant date fair value £'000	Expected vesting date
Initial share consideration	25,000	31 August 2018	23,462	31 August 2021
Earn-out consideration and incentivisation awards	26,400	31 August 2018	26,790	31 December 2020/21

The gross amount in respect of the earn-out consideration and incentivisation awards represents management's best estimate as to the extent to which the performance targets will be achieved. The maximum amount payable under this element, which represents a considerable stretch against the targets, is £128,750,000 (note 3.3).

The charge recognised in profit or loss for the year ended 31 December 2019 for the above elements is as follows:

	2019 £'000	2018 £'000
Initial share consideration	**8,402**	2,607
Contingent consideration	**6,015**	8,021
Earn-out consideration and incentivisation awards	**9,724**	3,144
Other deferred awards	**1,885**	942
	26,026	14,714

Other deferred awards represent cash amounts paid one year following the acquisition date.

These costs are being reported as staff costs within acquisition-related costs (see note 10).

10 Acquisition-related costs

	2019 £'000	2018 £'000
Acquisition of Speirs & Jeffrey	**30,837**	18,411
Acquisition of Vision and Castle	**2,041**	1,514
Acquisition of Barclays Wealth's personal injury and Court of Protection business	**179**	–
Acquisition-related costs	**33,057**	19,925

Costs relating to the acquisition of Speirs & Jeffrey

The group has incurred the following costs in relation to the 2018 acquisition of Speirs & Jeffrey, summarised by the classification within the income statement:

	2019 £'000	2018 £'000
Acquisition costs:		
– Staff costs (note 9)	**26,026**	14,714
– Legal and advisory fees	**103**	2,465
– Stamp duty	**–**	653
Integration costs	**4,708**	579
	30,837	18,411

Non-staff acquisition costs of £103,000 (2018: £3,118,000) and integration costs of £4,708,000 (2018: £579,000) have not been allocated to a specific operating segment (note 4).

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:

	2019 £'000	2018 £'000
Staff costs	**1,375**	1,074
Interest expense	**666**	440
	2,041	1,514

Amounts reported in staff costs relate to deferred payments to previous owners who were required to remain in employment with the acquired companies until payment. The payment was settled at the end of 2019 (see note 28).

Costs relating to the acquisition of Barclays Wealth's personal injury and Court of Protection business

On 27 November 2019, the group announced that it had agreed to acquire the Personal Injury and Court of Protection business of Barclays Wealth, subject to regulatory approvals. The group incurred professional services costs of £179,000 (2018: £nil) in relation to the acquisition in the year ended 31 December 2019.

11 Head office relocation

During 2018, the group completed the assignment of its leases on surplus property at 1 Curzon Street. This triggered a release of £3,726,000 from the onerous lease provision held over the property (see note 28).

During the year ended 31 December 2019, no further incremental costs have been incurred in relation to the head office relocation (2018: credit of £2,861,000 was incurred).

12 Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**139,577**	120,241
Social security costs	**18,652**	15,446
Equity-settled share-based payments	**9,328**	6,886
Acquisition-related staff costs (note 10)	**26,026**	14,714
Pension costs (note 31):		
– defined benefit schemes	**255**	491
– defined contribution schemes	**9,784**	7,995
	10,039	8,486
Total staff costs	**203,622**	165,773
Acquisition-related staff costs	**(26,026)**	(14,714)
Underlying staff costs (note 4)	**177,596**	151,059

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

	2019	2018
Investment Management:		
– investment management services	**979**	855
– advisory services	**118**	107
Unit Trusts	**35**	33
Shared services	**377**	334
	1,509	1,329

13 Income tax expense

	2019 £'000	2018 £'000
Current tax:		
– charge for the year	**16,809**	16,830
– adjustments in respect of prior years	**(893)**	(1,599)
Deferred tax (note 23):		
– credit for the year	**(3,767)**	(1,049)
– adjustments in respect of prior years	**580**	955
	12,729	15,137

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 (2018: higher) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	2019 £'000	2018 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2018: 19.0%)	**7,534**	11,650
Effects of:		
– disallowable expenses	**537**	1,210
– share-based payments	**410**	211
– tax on overseas earnings	**(233)**	(190)
– adjustments in respect of prior year	**(313)**	(644)
– deferred payments to previous owners of acquired companies (note 10)	**4,508**	2,904
– other	**22**	(36)
– change in corporation tax rate on deferred tax	**264**	32
	12,729	15,137

14 Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2018 of 42.0p (2017: 39.0p) per share	**22,433**	19,858
– interim dividend for the year ended 31 December 2019 of 25.0p (2018: 24.0p) per share	**13,526**	12,833
Dividends paid in the year of 67.0p (2018: 63.0p) per share	**35,959**	32,691
Proposed final dividend for the year ended 31 December 2019 of 45.0p (2018: 42.0p) per share	**24,188**	22,371

An interim dividend of 25.0p per share was paid on 1 October 2019 to shareholders on the register at the close of business on 6 September 2019 (2018: 24.0p).

A final dividend declared of 45.0p per share (2018: 42.0p) is payable on 12 May 2020 to shareholders on the register at the close of business on 24 April 2020. The final dividend is subject to approval by shareholders at the annual general meeting on 7 May 2020 and therefore has not been included as a liability in these financial statements.

15 Earnings per share

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

	2019			2018		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	**88,673**	**(17,535)**	**71,138**	91,558	(17,388)	74,170
Charges in relation to client relationships and goodwill (note 24)	**(15,964)**	**3,033**	**(12,931)**	(13,188)	2,506	(10,682)
Acquisition-related costs (note 10)	**(33,057)**	**1,773**	**(31,284)**	(19,925)	289	(19,636)
Head office relocation costs (note 11)	**–**	**–**	**–**	2,861	(544)	2,317
Profit attributable to shareholders	**39,652**	**(12,729)**	**26,923**	61,306	(15,137)	46,169

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 53,566,271 (2018: 52,050,979).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Speirs & Jeffrey (S&J) initial share consideration and Executive Incentive Plan, employee share options remaining capable of exercise and any dilutive shares to be issued under the Share Incentive Plan, all weighted for the relevant period:

	2019	2018
Weighted average number of ordinary shares in issue during the year – basic	**53,566,271**	52,050,979
Effect of ordinary share options/Save As You Earn	**97,495**	148,564
Effect of dilutive shares issuable under the Share Incentive Plan	**570**	474
Effect of contingently issuable shares under the Executive Incentive Plan	**574,393**	375,759
Effect of contingently issuable shares under S&J initial share consideration (note 9)	**1,006,522**	1,006,522
Diluted ordinary shares	**55,245,251**	53,582,298

	2019	2018
Earnings per share for the year attributable to equity holders of the company:		
– basic	**50.3p**	88.7p
– diluted	**48.7p**	86.2p
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**132.8p**	142.5p
– diluted	**128.8p**	138.4p

Underlying earnings per share is calculated in the same way as earnings per share, but by reference to underlying profit attributable to shareholders.

16 Cash and balances with central banks

	2019 £'000	2018 £'000
Cash in hand	**1**	1
Balances with central banks	**1,933,218**	1,198,600
Less impairment loss allowance	**(222)**	(122)
	1,932,997	1,198,479

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

	2019 £'000	2018 £'000
Repayable:		
– on demand	**1,930,000**	1,197,001
– 1 year or less but over 3 months	**3,219**	1,600
Less impairment loss allowance	**(222)**	(122)
	1,932,997	1,198,479
Amounts include balances with:		
– variable interest rates	**1,930,000**	1,197,001
– non-interest-bearing	**3,219**	1,600
Less impairment loss allowance	**(222)**	(122)
	1,932,997	1,198,479

The group's exposure to credit risk arising from cash and balances with central banks is described in note 35.

17 Loans and advances to banks

	2019 £'000	2018 £'000
Current accounts	**107,839**	126,203
Fixed term deposits	**70,000**	40,000
Less impairment loss allowance	**(7)**	(3)
	177,832	166,200

	2019 £'000	2018 £'000
Repayable:		
– on demand	**107,839**	126,072
– 3 months or less excluding on demand	**10,000**	10,131
– 1 year or less but over 3 months	**60,000**	30,000
Less impairment loss allowance	**(7)**	(3)
	177,832	166,200
Amounts include loans and advances with:		
– variable interest rates	**107,556**	125,855
– fixed interest rates	**70,000**	40,000
– non-interest-bearing	**283**	348
Less impairment loss allowance	**(7)**	(3)
	177,832	166,200

The fair value of loans and advances is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates.

Loans and advances to banks included in cash and cash equivalents at 31 December 2019 were £117,839,000 (note 40) (2018: £136,203,000).

The group's exposure to credit risk arising from loans and advances to banks is described in note 35.

18 Loans and advances to customers

	2019 £'000	2018 £'000
Overdrafts	**5,148**	6,096
Investment management loan book	**132,034**	131,741
Trust and financial planning debtors	**1,273**	1,196
Other debtors	**60**	29
Less impairment loss allowance	**(103)**	(103)
	138,412	138,959

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.

	2019 £'000	2018 £'000
Repayable:		
– on demand	**5,393**	6,796
– 3 months or less excluding on demand	**20,692**	21,587
– 1 year or less but over 3 months	**54,389**	50,232
– 5 years or less but over 1 year	**58,041**	60,447
Less impairment loss allowance	**(103)**	(103)
	138,412	138,959
Amounts include loans and advances with:		
– variable interest rates	**136,680**	137,812
– non-interest-bearing	**1,835**	1,250
Less impairment loss allowance	**(103)**	(103)
	138,412	138,959

The group's exposure to credit risk arising from loans and advances to customers is described in note 35.

19 Investment securities

Fair value through profit or loss

	2019 £'000	2018 £'000
Equity securities:		
– listed	**4,587**	3,205
– unlisted	**1,186**	1,259
Money market funds:		
– unlisted	**100,194**	75,333
	105,967	79,797

Amortised cost

	2019 £'000	2018 £'000
Debt securities:		
– unlisted	**600,291**	907,259
Less impairment loss allowance	**(30)**	(34)
	600,261	907,225

Debt securities comprise certificates of deposit and are all due to mature within one year (2018: all).

Fair value through profit or loss securities include money market funds and direct holdings in equity securities. Equity securities comprise units in Rathbone Unit Trust Management managed funds and Euroclear shares. Equity securities do not bear interest. Money market funds, which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 40).

The fair value of debt securities is disclosed in note 35.

The change in the group's holdings of investment securities in the year is summarised below.

	Fair value through profit or loss £'000	Amortised cost £'000	Total £'000
At 1 January 2018	109,312	701,966	811,278
Additions	18,580	1,050,084	1,068,664
Acquired through business combination	1,254	–	1,254
Disposals (sales and redemptions)	(50,835)	(847,088)	(897,923)
Foreign exchange movements	1,671	2,297	3,968
Loss from changes in fair value	(185)	–	(185)
Increase in impairment loss allowance	–	(34)	(34)
At 1 January 2019	**79,797**	**907,225**	**987,022**
Additions	**62,255**	**754,058**	**816,313**
Disposals (sales and redemptions)	**(35,276)**	**(1,058,874)**	**(1,094,150)**
Foreign exchange movements	**(1,219)**	**(2,152)**	**(3,371)**
Gain from changes in fair value	**410**	**–**	**410**
Decrease in impairment loss allowance	**–**	**4**	**4**
At 31 December 2019	**105,967**	**600,261**	**706,228**

Included within amortised cost are additions of £ 900,000 (2018: £1,066,000) and £nil (2018: £1,066,000) of disposals of financial instruments that are not classified as cash and cash equivalents.

20 Prepayments, accrued income and other assets

	2019 £'000	2018 £'000
Work in progress	**3,608**	2,738
Prepayments and other assets	**21,531**	18,733
Accrued income	**70,251**	60,081
	95,390	81,552

21 Property, plant and equipment

	Short-term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2018	24,705	17,716	42,421
Additions	1,376	1,879	3,255
Acquisitions through business combinations	1,442	2,162	3,604
Disposals	(6,031)	(656)	(6,687)
At 1 January 2019	**21,492**	**21,101**	**42,593**
Additions	**1,294**	**1,761**	**3,055**
Disposals	**(1,077)**	**(1,250)**	**(2,327)**
At 31 December 2019	**21,709**	**21,612**	**43,321**
Depreciation			
At 1 January 2018	12,297	13,667	25,964
Charge for the year	1,690	2,127	3,817
Acquisitions through business combinations	711	1,949	2,660
Disposals	(6,031)	(655)	(6,686)
At 1 January 2019	**8,667**	**17,088**	**25,755**
Charge for the year	**2,012**	**2,211**	**4,223**
Disposals	**(848)**	**(1,241)**	**(2,089)**
At 31 December 2019	**9,831**	**18,058**	**27,889**
Carrying amount at 31 December 2019	**11,878**	**3,554**	**15,432**
Carrying amount at 31 December 2018	12,825	4,013	16,838
Carrying amount at 1 January 2018	12,408	4,049	16,457

22 Right-of-use assets

	Property £'000	Motor vehicles and equipment £'000	Total £'000
Cost			
1 January 2019	**53,806**	**40**	**53,846**
Additions	**603**	**17**	**620**
Disposals	**–**	**(40)**	**(40)**
Other movements	**(134)**	**24**	**(110)**
At 31 December 2019	**54,275**	**41**	**54,316**
Depreciation and impairment			
1 January 2019	**–**	**–**	**–**
Charge for the year	**4,841**	**54**	**4,895**
Disposals	**–**	**(40)**	**(40)**
Other movements	**(19)**	**–**	**(19)**
At 31 December 2019	**4,822**	**14**	**4,836**
Carrying amount at 31 December 2019	**49,453**	**27**	**49,480**
Carrying amount at 1 January 2019	**53,806**	**40**	**53,846**

23 Net deferred tax asset/(liability)

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
As at 1 January 2019	**1,319**	**1,902**	**1,882**	**4,209**	**(154)**	**(9,639)**	**(481)**
Recognised in profit or loss in respect of:							
– current year	**584**	**(546)**	**1,586**	**1,770**	**(160)**	**798**	**4,032**
– prior year	**123**	**–**	**94**	**(797)**	**–**	**–**	**(580)**
– change in rate	**(62)**	**57**	**–**	**(186)**	**10**	**(84)**	**(265)**
Total	**645**	**(489)**	**1,680**	**787**	**(150)**	**714**	**3,187**
Recognised in other comprehensive income in respect of:							
– current year	**–**	**(59)**	**–**	**–**	**–**	**–**	**(59)**
– prior year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**6**	**–**	**–**	**–**	**–**	**6**
Total	**–**	**(53)**	**–**	**–**	**–**	**–**	**(53)**
Recognised in equity in respect of:							
– current year	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
– prior year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
As at 31 December 2019	**1,964**	**1,360**	**3,545**	**4,996**	**(304)**	**(8,925)**	**2,636**

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
Deferred tax assets	**1,964**	**1,360**	**3,545**	**4,996**	**–**	**–**	**11,865**
Deferred tax liabilities	**–**	**–**	**–**	**–**	**(304)**	**(8,925)**	**(9,229)**
As at 31 December 2019	**1,964**	**1,360**	**3,545**	**4,996**	**(304)**	**(8,925)**	**2,636**

23 *Net deferred tax asset/(liability) continued*

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
As at 1 January 2018	1,284	2,650	1,539	4,331	(50)	(693)	9,061
Recognised in profit or loss in respect of:							
– current year	121	(605)	400	807	33	325	1,081
– prior year	(29)	–	(29)	(844)	(53)	–	(955)
– change in rate	(13)	64	–	(85)	12	(10)	(32)
Total	79	(541)	371	(122)	(8)	315	94
Recognised in other comprehensive income in respect of:							
– current year	–	(231)	–	–	–	–	(231)
– prior year	–	–	–	–	–	–	–
– change in rate	–	24	–	–	–	–	24
Total	–	(207)	–	–	–	–	(207)
Recognised in equity in respect of:							
– current year	–	–	80	–	–	–	80
– prior year	–	–	(108)	–	–	–	(108)
– change in rate	–	–	–	–	–	–	–
Total	–	–	(28)	–	–	–	(28)
Acquisitions							
– business combinations	(44)	–	–	–	(96)	(9,261)	(9,401)
As at 31 December 2018	1,319	1,902	1,882	4,209	(154)	(9,639)	(481)

	Deferred capital allowances £'000	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Intangible assets £'000	Total £'000
Deferred tax assets	1,319	1,902	1,882	4,209	–	–	9,312
Deferred tax liabilities	–	–	–	–	(154)	(9,639)	(9,793)
As at 31 December 2018	1,319	1,902	1,882	4,209	(154)	(9,639)	(481)

24 Intangible assets

	2019 £'000	2018 £'000
Goodwill	**90,405**	91,000
Other intangible assets	**137,402**	147,918
	227,807	238,918

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the groups of cash generating units (CGUs) that are expected to benefit from that business combination. During the year, the group revised its methodology by which it defines its CGUs and how it allocates goodwill to groups of CGUs. This resulted in goodwill of £227,000 previously allocated to the Rooper & Whately CGU being reallocated to the investment management group of CGUs. Under this revised methodology, the carrying amount of goodwill has been allocated as follows:

	Investment management £'000	Trust £'000	Total £'000
Cost			
At 1 January 2018	**62,318**	**1,954**	**64,272**
Acquired through business combinations	**28,087**	**–**	**28,087**
At 1 January 2019 and 31 December 2019	**90,405**	**1,954**	**92,359**
Impairment			
At 1 January 2018	–	1,090	1,090
Charge in the year	–	269	269
At 1 January 2019	**–**	**1,359**	**1,359**
Charge in the year	**–**	**595**	**595**
At 31 December 2019	**–**	**1,954**	**1,954**
Carrying amount at 31 December 2019	**90,405**	**–**	**90,405**
Carrying amount at 31 December 2018	90,405	595	91,000
Carrying amount at 1 January 2018	62,318	864	63,182

Goodwill acquired through business combinations in 2018 comprised goodwill arising on the acquisition of Speirs & Jeffrey. The goodwill was allocated to the investment management group of CGUs. The group does not believe there are any key assumptions where reasonable changes could occur which could give rise to a material adjustment in the carrying value.

The recoverable amounts of the groups of 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 five years based on annual revenue and cost growth for each group of CGUs (see table below), as well as the group's expectation of future industry growth rates. A five-year extrapolation period is chosen as this aligns with the period covered by the group's ICAAP modelling. A terminal growth rate is applied to year-five cash flows, which takes into account the net growth forecasts over the extrapolation period and the long-term average growth rate for the industry. 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 group of CGUs.

The pre-tax rate used to discount the forecast cash flows for each group of CGUs 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 groups of CGUs operate and, in particular, the relatively small size of the trust group of CGUs.

24 *Intangible assets continued*

	Investment management		Trust	
At 31 December	**2019**	2018	**2019**	2018
Discount rate	**8.7%**	12.3%	**10.7%**	14.3%
Annual revenue growth rate	**3.0%**	5.0%	**(1.0)%**	(1.0)%
Terminal growth rate	**(2.0)%**	n/a	**(3.0)%**	n/a

During the year ended 31 December 2019, the group recognised an impairment charge of £595,000 in relation to goodwill allocated to the trust group of CGUs. The recoverable amount of the group of CGUs was lower than the carrying value, which reflected the fact that the business associated with this goodwill is contracting. This reduced the carrying value of the goodwill allocated to the trust group of CGUs to £nil. The impairment was recognised in the Investment Management segment in the segmental analysis.

No reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the investment management group of CGUs, including management's assessment of the impact of Brexit, would result in an impairment of the goodwill allocated to it.

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2018	155,103	5,759	30,590	191,452
Internally developed in the year	–	1,450	–	1,450
Acquired through business combinations	54,337	–	–	54,337
Purchased in the year	1,298	–	6,297	7,595
Disposals	(2,182)	–	–	(2,182)
Revaluation of assets	(4,939)	–	–	(4,939)
At 1 January 2019	**203,617**	**7,209**	**36,887**	**247,713**
Internally developed in the year	**–**	**1,485**	**–**	**1,485**
Purchased in the year	**5,269**	**–**	**7,012**	**12,281**
Disposals	**(1,750)**	**(512)**	**(2,751)**	**(5,013)**
At 31 December 2019	**207,136**	**8,182**	**41,148**	**256,466**
Amortisation and impairment				
At 1 January 2018	58,324	4,529	21,536	84,389
Amortisation charge	12,919	686	3,983	17,588
Disposals	(2,182)	–	–	(2,182)
At 1 January 2019	**69,061**	**5,215**	**25,519**	**99,795**
Impairment charge	**–**	**415**	**2,727**	**3,142**
Amortisation charge	**15,369**	**919**	**4,843**	**21,131**
Disposals	**(1,750)**	**(512)**	**(2,742)**	**(5,004)**
At 31 December 2019	**82,680**	**6,037**	**30,347**	**119,064**
Carrying amount at 31 December 2019	**124,456**	**2,145**	**10,801**	**137,402**
Carrying amount at 31 December 2018	134,556	1,994	11,368	147,918
Carrying amount at 1 January 2018	96,779	1,230	9,054	107,063

Client relationships acquired through business combinations in 2018 relate to the acquisition of Speirs & Jeffrey (note 9).

Purchases of client relationships of £5,269,000 (2018: £1,298,000) 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 £15,369,000 (2018: £13,188,000).

In 2018 the value of certain awards related to client relationships were reduced by £4,939,000 as not all performance conditions were ultimately met.

Purchased software with a cost of £20,373,000 (2018: £18,769,000) has been fully amortised but is still in use.

25 Deposits by banks

On 31 December 2019, deposits by banks included overnight cash book overdraft balances of £28,000 (2018: £491,000).

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.

26 Due to customers

	2019 £'000	2018 £'000
Repayable:		
– on demand	**2,500,578**	2,065,029
– 3 months or less excluding on demand	**160,098**	153,127
– 1 year or less but over 3 months	**7,969**	7,380
	2,668,645	2,225,536
Amounts include balances with:		
– variable interest rates	**2,500,378**	2,064,814
– fixed interest rates	**91,639**	131,327
– non-interest-bearing	**76,628**	29,395
	2,668,645	2,225,536

The fair value of amounts due to customers was not materially different from their carrying value. The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount at which deposits could be transferred to a third party at the measurement date. The estimated fair value of fixed-interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

27 Accruals, deferred income, provisions and other liabilities

	2019 £'000	2018 £'000
Trade creditors	**4,001**	2,513
Other creditors	**7,680**	20,395
Accruals	**72,850**	68,701
Other provisions (note 28)	**8,732**	11,784
	93,263	103,393

28 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 2018	12,147	1,220	677	13,743	27,787
Charged to profit or loss	–	–	449	1,836	2,285
Unused amount credited to profit or loss	–	–	(57)	(3,726)	(3,783)
Net credit to profit or loss	–	–	392	(1,890)	(1,498)
Other movements	(3,641)	3,158	–	600	117
Utilised/paid during the year	(7,445)	(2,000)	(260)	(4,917)	(14,622)
At 1 January 2019	**1,061**	**2,378**	**809**	**7,536**	**11,784**
Charged to profit or loss	**–**	**–**	**2,852**	**1,350**	**4,202**
Unused amount credited to profit or loss	**–**	**–**	**(320)**	**(310)**	**(630)**
Net charge to profit or loss	**–**	**–**	**2,532**	**1,040**	**3,572**
Other movements	**5,269**	**179**	**–**	**–**	**5,448**
Utilised/paid during the year	**(5,011)**	**(2,557)**	**(1,166)**	**(3,338)**	**(12,072)**
At 31 December 2019	**1,319**	**–**	**2,175**	**5,238**	**8,732**
Payable within 1 year	**590**	**–**	**2,175**	**845**	**3,610**
Payable after 1 year	**729**	**–**	**–**	**4,393**	**5,122**
	1,319	**–**	**2,175**	**5,238**	**8,732**

Deferred, variable costs to acquire client relationship intangibles

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year. In 2018, there was a net release of £3,641,000 in relation to the value of certain payments where not all performance conditions were ultimately met.

Deferred and contingent consideration in business combinations

Following the satisfaction of certain operational targets, contingent consideration of £1,050,000 was paid to vendors of Speirs & Jeffrey in May 2019 (see note 9). In addition, contingent consideration of £1,507,000 was paid in October 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 £5,238,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group and to monies due under the contract with the assignee of leases on the group's former property at 1 Curzon Street (2018: £7,536,000).

Dilapidation provisions are calculated using a discounted cash flow model; during the year ended 31 December 2019, dilapidation provisions increased by £677,000 (2018: increased by £1,449,000). The group utilised £3,338,000 (2018: £912,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. The impact of discounting led to an additional £1,364,000 (2018: £125,000) being provided for over the year.

Amounts payable after one year

Property-related provisions of £4,393,000 are expected to be settled within 14 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within two years of the balance sheet date.

29 Lease liabilities

Maturity analysis	2019 £'000
Less than one year	**5,126**
One to five years	**19,193**
More than five years	**36,685**
Lease liabilities at 31 December	**61,004**
Current	**5,126**
Non-current	**55,878**
	61,004

30 Subordinated loan notes

	2019 £'000	2018 £'000
Subordinated loan notes		
– face value	**20,000**	20,000
– carrying value	**19,927**	19,807

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 six-month LIBOR thereafter. An interest expense of £1,290,000 (2018: £1,283,000) was recognised in the year (see note 5).

31 Long-term employee benefits

Defined contribution pension scheme

The group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to these schemes during the year was £9,726,000 (2018: £7,959,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £58,000 (2018: £36,000).

Defined benefit pension schemes

The group operates two defined benefit pension schemes that operate within the UK legal and regulatory framework; the Rathbone 1987 Scheme and the Laurence Keen Retirement Benefit Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the group.

The trustees of the schemes are required to act in the best interest of the schemes' beneficiaries. The appointment of trustees is determined by the schemes' trust documentation and legislation. The group has a policy that one third of all trustees should be nominated by members of the schemes.

Following a High Court ruling in 2018, the cost of equalising pension benefits for the impact of unequal Guaranteed Minimum Pensions (GMP) has been recognised. Only the Laurence Keen Scheme was impacted. The Rathbone 1987 Scheme was never contracted out, meaning there are no GMP benefits in this scheme. Ahead of a specific method for equalisation being agreed with the scheme trustees, the cost has been estimated using a method consistent with that deemed by the High Court to be the minimum necessary requirements to achieve equality.

31 *Long-term employee benefits continued*

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002 and to future accrual from 30 June 2017.

The schemes are valued by independent actuaries at least every three years using the projected unit credit method, which looks at the value of benefits accruing over the years following the valuation date based on projected salary to the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at the following dates:

Rathbone 1987 Scheme	31 December 2016
Laurence Keen Scheme	31 December 2016

The next triennial valuations of the two schemes will be carried out as at 31 December 2019, and may result in changes to the funding commitments.

The assumptions used by the actuaries to estimate the schemes' liabilities are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice.

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2019 % (unless stated)	2018 % (unless stated)	**2019 % (unless stated)**	2018 % (unless stated)
Rate of increase of salaries	**n/a**	n/a	**n/a**	n/a
Rate of increase of pensions in payment	**3.40**	3.60	**3.10**	3.30
Rate of increase of deferred pensions	**3.10**	3.40	**3.10**	3.40
Discount rate	**2.05**	2.85	**2.05**	2.85
Inflation*	**3.10**	3.40	**3.10**	3.40
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 0.8% to reflect a decrease in the yields available on AA-rated Corporate Bonds;
2. the assumed rate of future inflation has decreased by 0.3% and reflects expectations of long-term inflation as implied by changes in the fixed-interest and index-linked gilts market; and
3. the assumed rates of future increases to pensions in payment have decreased by 0.2% for both schemes, 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 2017 version to the 2018 version.

The assumed duration of the liabilities for the Laurence Keen Scheme is 19 years (2018: 17 years) and the assumed duration for the Rathbone 1987 Scheme is 22 years (2018: 21 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 (2018: S2NA tables). The assumed life expectancies on retirement were:

		2019		2018	
		Males	**Females**	Males	Females
Retiring today:	aged 60	**27.9**	**30.0**	28.4	30.5
	aged 65	**23.1**	**25.1**	23.6	25.6
Retiring in 20 years:	aged 60	**29.7**	**31.9**	30.3	32.3
	aged 65	**24.7**	**26.9**	25.3	27.3

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows:

	2019			2018		
	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	**(12,726)**	**(146,398)**	**(159,124)**	(12,383)	(134,150)	(146,533)
Fair value of scheme assets	**12,178**	**138,932**	**151,110**	11,624	123,712	135,336
Net defined benefit liability	**(548)**	**(7,466)**	**(8,014)**	(759)	(10,438)	(11,197)

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2019			2018		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Net interest on net liability	**15**	**240**	**255**	14	352	366
Past service cost	**–**	**–**	**–**	125	–	125
	15	**240**	**255**	139	352	491

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 £1,380,000 (2018: £280,000 fall) for the Laurence Keen Scheme and a rise in value of £18,357,000 (2018: £6,279,000 fall) for the Rathbone 1987 Scheme.

31 *Long-term employee benefits continued*

Movements in the present value of defined benefit obligations were as follows:

	2019			2018		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**12,383**	**134,150**	**146,533**	12,980	151,133	164,113
Service cost (employer's part)	**–**	**–**	**–**	–	–	–
Interest cost	**336**	**3,739**	**4,075**	334	3,879	4,213
Contributions from members	**–**	**–**	**–**	–	–	–
Actuarial experience gains	**10**	**121**	**131**	106	(5,446)	(5,340)
Actuarial (gains)/losses arising from:						
– demographic assumptions	**(293)**	**(3,243)**	**(3,536)**	103	1,817	1,920
– financial assumptions	**1,452**	**17,560**	**19,012**	(487)	(7,720)	(8,207)
Past service cost	**–**	**–**	**–**	125	–	125
Benefits paid	**(1,162)**	**(5,929)**	**(7,091)**	(778)	(9,513)	(10,291)
At 31 December	**12,726**	**146,398**	**159,124**	12,383	134,150	146,533

Movements in the fair value of scheme assets were as follows:

	2019			2018		
	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**11,624**	**123,712**	**135,336**	12,278	136,235	148,513
Remeasurement of net defined benefit liability:						
– interest income	**321**	**3,499**	**3,820**	320	3,527	3,847
– return on scheme assets (excluding amounts included in interest income)	**1,059**	**14,858**	**15,917**	(600)	(9,806)	(10,406)
Contributions from the sponsoring companies	**336**	**2,792**	**3,128**	404	3,269	3,673
Contributions from scheme members	**–**	**–**	**–**	–	–	–
Benefits paid	**(1,162)**	**(5,929)**	**(7,091)**	(778)	(9,513)	(10,291)
At 31 December	**12,178**	**138,932**	**151,110**	11,624	123,712	135,336

The statements of investment principles set by the trustees of both schemes were revised in 2015. They require that the assets of the schemes be invested in a diversified portfolio of assets, split between growth assets (primarily equities) and safer assets (gilts, index-linked gilts, corporate bonds and other fixed income investments) with a switch to a greater percentage of safer assets over time as the schemes mature.

In the Rathbone 1987 Scheme, the target date for the 100% allocation to safer assets is 31 December 2048. The scheme also seeks to hedge around 50% of its interest rate and inflation risk by using liability-driven investment (LDI) strategies.

In the Laurence Keen Scheme the target date for the 100% allocation to safer assets is 31 December 2040.

The expected asset allocations at 31 December 2019 as set out in the statements of investment principles are as follows:

Target asset allocation at 31 December 2019	Laurence Keen Scheme	Rathbone 1987 Scheme
Benchmark		
Safer assets	**58%**	**46%**
Growth assets	**42%**	**54%**
Range		
Safer assets	**52%–64%**	**40%–52%**
Growth assets	**36%–48%**	**48%–60%**

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

Laurence Keen Scheme	2019 Fair value £'000	2018 Fair value £'000	2019 Current allocation %	2018 Current allocation %
Equity instruments:				
– United Kingdom	**3,320**	3,007		
– Eurozone	**408**	377		
– North America	**696**	588		
– Other	**704**	734		
	5,128	4,706	**42**	40
Debt instruments:				
– United Kingdom government bonds	**4,693**	4,475		
– Overseas corporate bonds	**158**	–		
– United Kingdom corporate bonds	**1,847**	1,993		
	6,698	6,468	**55**	56
Cash	**79**	84	**1**	1
Other	**273**	366	**2**	3
At 31 December	**12,178**	11,624	**100**	100

Rathbone 1987 Scheme	2019 Fair value £'000	2018 Fair value £'000	2019 Current allocation %	2018 Current allocation %
Equity instruments:				
– United Kingdom	**42,518**	34,367		
– Eurozone	**6,769**	6,110		
– North America	**9,492**	8,958		
– Other	**8,887**	7,081		
	67,666	56,516	**48**	45
Debt instruments:				
– United Kingdom government bonds	**37,184**	36,055		
– Overseas government bonds	**1,324**	2,042		
– United Kingdom corporate bonds	**11,198**	8,809		
– Overseas corporate bonds	**–**	–		
	49,706	46,906	**36**	38
Derivatives:				
– Interest rate swap funds	**14,615**	15,734		
	14,615	15,734	**11**	13
Cash	**6,945**	4,556	**5**	4
Other	**–**	–	**–**	–
At 31 December	**138,932**	123,712	**100**	100

During 2019, the Rathbone 1987 Scheme held shares in real-time inflation-linked interest rate swap funds, which had a fair value of £14,615,000 at the year end (2018: £15,734,000). 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 the 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 as at the balance sheet date. Other scheme assets comprise commodities and property funds, both of which also have quoted prices in active markets.

31 *Long-term employee benefits continued*

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 1.0% higher (and lower) 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. As a result of the change in the discount rate during the year, the sensitivity analysis demonstrates the impact of a 1.0% change in discount rate, compared to a 0.5% change in the disclosures in the 2018 report and accounts.

	Combined impact on schemes' liabilities	
	(Decrease)/ increase £'000	(Decrease)/ increase %
1.0% increase in:		
– discount rate	(28,701)	(18.0%)
0.5% increase in:		
– rate of inflation	10,015	6.3%
Reduce allowance for future transfers to nil	1,417	0.9%
1-year increase to:		
– longevity at 60	7,167	4.5%
– average age of members at the time of transferring out	708	0.4%

The total contributions made by the group to the Rathbone 1987 Scheme during the year were £2,792,000 (2018: £3,269,000). The group has committed to pay deficit-reducing contributions of £1,750,000 by 28 February each year from 2020 to 2022 (inclusive) and a further £1,000,000 by 31 August in each of those years, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2019.

The total contributions made by the group to the Laurence Keen Scheme during the year were £336,000 (2018: £404,000). The group has a commitment to pay deficit-reducing contributions of £168,000 by 28 February each year from 2020 to 2021 (inclusive) and a further £168,000 by 31 August in each of those years, so long as that scheme remains in deficit.

No allowance has been made for a minimum funding requirement under IFRIC 14. The funding plans only require further contributions if the schemes remain in deficit.

32 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	Merger reserve £'000	Total £'000
At 1 January 2018	51,302,074		2,566	143,089	31,835	177,490
Shares issued:						–
– in relation to business combinations (note 9)	1,006,522	2,484.0	50	24,950	–	25,000
Prior period adjustment (note 1.3)				(24,950)	24,950	–
– to Share Incentive Plan	79,649	2,354.0–2,488.0	4	1,945	–	1,949
– to Save As You Earn scheme	149,340	1,106.0–1,648.0	7	2,050	–	2,057
– to Employee Benefit Trust	269,372	5.0	13	–	–	13
– on placing	2,400,000	2,500.0	120	58,189	–	58,309
At 1 January 2019 (restated)	**55,206,957**		**2,760**	**205,273**	**56,785**	**264,818**
Shares issued:						
– in relation to business combinations (note 9)	**603,913**	**2,484.0**	**30**	**–**	**14,971**	**15,001**
– to Share Incentive Plan	**150,766**	**2,085.0–2,540.0**	**8**	**3,364**	**–**	**3,372**
– to Save As You Earn scheme	**143,502**	**1,556.0–1,648.0**	**7**	**2,302**	**–**	**2,309**
– to Employee Benefit Trust	**256,848**	**5.0**	**13**	**–**	**–**	**13**
At 31 December 2019	**56,361,986**		**2,818**	**210,939**	**71,756**	**285,513**

The total number of issued and fully paid up ordinary shares at 31 December 2019 was 56,361,986 (2018: 55,206,957) with a par value of 5p per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the company. The ordinary shareholders are entitled to any residual assets on the winding up of the company.

On 18 June 2018, the company issued 2,400,000 shares by way of a placing for cash consideration at £25.00 per share, which raised £58,309,000, net of £1,691,000 placing costs, offset against share premium arising on the issue.

On 31 August 2018, the company issued 1,006,522 shares in respect of the initial share consideration from the acquisition of Speirs & Jeffrey (see note 9). These shares are being held in own shares (see note 33) until they vest on the third anniversary of issue.

On 28 May 2019, the company issued 603,913 shares in respect of the contingent consideration from the acquisition of Speirs & Jeffery (see note 9), following the satisfaction of certain operational targets.

33 Own shares

The following movements in own shares occurred during the year:

	Number of shares	£'000
At 1 January 2018	656,693	4,864
Acquired in the year	1,465,828	29,888
Released on vesting	(178,668)	(2,015)
At 1 January 2019	**1,943,853**	**32,737**
Acquired in the year	**694,152**	**10,033**
Released on vesting	**(26,563)**	**(799)**
At 31 December 2019	**2,611,442**	**41,971**

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 34). 1,292,627 shares were held in the Employee Benefit Trust at 31 December 2019 (2018: 664,071) and 312,293 (2018: 273,260) shares were held by the trustees of the Share Incentive Plan but were not unconditionally gifted to employees. A further 1,006,552 (2018: 1,006,552) shares were held in nominee in respect of the initial share consideration for the acquisition of Speirs & Jeffrey (see note 32). For those shares acquired during the year, 317,281 shares were acquired through share buybacks (2018: 77,481).

34 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 in monthly 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 2019, the trustees of the SIP held 1,065,917 (2018: 1,086,261) ordinary shares of 5p each in Rathbone Brothers Plc with a total market value of £22,704,000 (2018: £25,440,000). Of the total number of shares held by the trustees, 311,972 (2018: 261,253) have been conditionally gifted to employees and 321 (2018: 12,007) remain unallocated. Dividends on the unallocated shares have been waived by the trustees.

The group recognised a charge of £1,324,000 in relation to this scheme in 2019 (2018: £1,337,000).

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.

34 *Share-based payments continued*

Options with an aggregate estimated fair value of £1,244,000, determined using a binomial valuation model including expected dividends, were granted on 18 April 2019 to directors and staff under the SAYE plan. The inputs into the binomial model for options granted during 2019, as at the date of issue, were as follows:

	2019	2018
Share price (pence)	**2,400**	2,302
Exercise price (pence)	**1,813**	1,977
Expected volatility	**24%**	20%
Risk-free rate	**0.8%**	1.0%
Expected dividend yield	**2.8%**	2.6%

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	**2019 Number of share options**	2018 Number of share options
2014	1,556.0	2019	**964**	57,005
2015	1,641.0	2020	**43,456**	48,828
2016	1,648.0	2019 and 2021	**44,972**	131,598
2017	1,899.0	2020 and 2022	**109,285**	117,202
2018	1,977.0	2021 and 2023	**127,363**	146,746
2019	1,813.0	2022 and 2024	**194,564**	–
At 31 December			**520,604**	501,379

Movements in the number of share options outstanding for the SAYE plan were as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price pence**	Number of share options	Weighted average exercise price pence
At 1 January	**501,379**	**1,800.0**	525,891	1,620.0
Granted in the year	**201,406**	**1,813.0**	156,588	1,977.0
Forfeited in the year	**(38,679)**	**1,893.0**	(31,240)	1,800.0
Exercised in the year	**(143,502)**	**1,612.0**	(149,860)	1,379.0
At 31 December	**520,604**	**1,842.0**	501,379	1,800.0

The weighted average share price at the dates of exercise for share options exercised during the year was £23.11 (2018: £24.38). The options outstanding at 31 December 2019 had a weighted average contractual life of 2.5 years (2018: 2.4 years) and a weighted average exercise price of £18.42 (2018: £17.92).

Executive Incentive Plan

Details of the general terms of this plan are set out in the remuneration committee report on pages 96 to 101.

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.

The group recognised a charge of £3,104,000 in relation to the equity-settled share-based payment element of this scheme in 2019 (2018: £2,033,000).

Staff Equity Plan

During 2018, the group launched a new remuneration scheme, the Staff Equity Plan, for individuals within Rathbone Investment Management and Rathbone Investment Management International. The aim of the scheme is to promote increased equity interest in Rathbone Brothers Plc amongst employees.

Participants are granted awards under the plan in the form of an option with an exercise price of £nil. The option awards are subject to certain service and performance conditions. Following the satisfaction of these performance conditions, the awards will vest (or lapse) and become exercisable on the fifth anniversary of the grant date. The awards will be exercisable from the vesting date until the tenth anniversary of the grant date.

The group recognised a charge of £3,647,000 in relation to this scheme in 2019 (2018: £2,572,000).

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 charges of £9,328,000 in relation to share-based payment transactions in 2019 (2018: £6,886,000) (see note 12).

Speirs & Jeffrey share-based payments

Details of the general terms of share-based payments associated with the acquisition of Speirs & Jeffrey are set out in note 9.

35 Financial risk management

The group has identified the financial, business and operational risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the group risk committee report on pages 80 to 82.

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 31.

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 sources of credit risk arise 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.

35 *Financial risk management continued*

(i) *Credit risk continued*

The group's financial assets are categorised as follows:

Balances with central banks (note 16)

The group has exposure to central banks through its deposits held with the Bank of England.

Loans and advances to banks (note 17) and debt and other securities (note 19)

The group has exposures to a wide range of financial institutions through its treasury portfolio, which includes bank deposits, certificates of deposit, money market funds and treasury bills. These exposures principally arise from the placement of clients' cash, where it is held under a banking relationship, and the group's own reserves.

Balances with central banks, loans and advances to banks and debt and other securities (excluding equity securities) are collectively referred to as the group's treasury book.

Treasury book	**2019 £'000**	2018 £'000
Balances with central banks	**1,933,218**	1,198,600
Loans and advances to banks — fixed deposits	**70,000**	40,000
Unlisted debt securities	**600,261**	907,225
Money market funds	**100,194**	75,333
Gross amount	**2,703,673**	2,221,158

The group's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long-term rating of single A by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis by the treasury department and reviewed by the banking committee on a monthly basis, or more frequently when necessary. The banking committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers (note 18)

The group provides loans to clients through its investment management operations ('the investment management loan book'). The group is also exposed to credit risk on overdrafts on clients' investment management accounts, trade debtors arising from the trust, tax and financial planning businesses ('trust and financial planning debtors') and other debtors.

(a) Overdrafts

Overdrafts on clients' investment management accounts arise from time to time due to short-term timing differences between the purchase and sale of assets on a client's behalf. Overdrafts are actively monitored and reported to the banking committee on a monthly basis.

(b) Investment management loan book ('IM loan book')

Loans are provided as a service to investment management clients who are generally asset rich but have short- to medium-term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name, and some loans may be partially secured by property. Extensions to the initial loan period may be granted subject to credit criteria.

At 31 December 2019, the total lending exposure limit for the investment management loan book was £200,000,000 (2018: £200,000,000), of which £131,848,000 had been advanced (2018: £131,071,000) and a further £31,284,000 had been committed (2018: £32,854,000).

(c) Trust and financial planning debtors

Trust and financial planning debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of trust and financial planning debtors are reviewed on a monthly basis by the management committees of the group's trust and financial planning businesses.

(d) Other debtors

Other loans and advances to customers relate to management fees receivable.

Settlement balances

Settlement risk arises in any situation where a payment in cash or transfer of a security is made in the expectation of a corresponding delivery of a security or receipt of cash. The majority of transactions are carried out on a delivery versus payment basis, which results in securities and cash being exchanged within a very close timeframe. Settlement balances outside standard terms are monitored on a daily basis.

The Investment Management and Unit Trusts segments have exposure to market counterparties in the settlement of trades. Settlement balances arising in the Investment Management segment are primarily in relation to client trades and risk of non-settlement is borne by clients.

Maximum exposure to credit risk

	2019 £'000	2018 £'000
Credit risk relating to on-balance sheet exposures:		
Cash and balances with central banks	**1,933,218**	1,198,602
Settlement balances	**52,520**	39,754
Loans and advances to banks	**177,832**	166,203
Loans and advances to customers:		
– overdrafts	**5,148**	6,096
– investment management loan book	**132,033**	131,741
– trust and financial planning debtors	**1,272**	1,196
– other debtors	**60**	29
Investment securities:		
– unlisted debt securities and money market funds	**700,492**	982,595
Other financial assets	**88,149**	74,990
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**31,284**	32,854
Financial guarantees (note 37)	**117**	117
	3,122,125	2,634,177

The above table represents the group's gross credit risk exposure at 31 December 2019 and 2018, without taking account of any associated collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

10.1% of the total maximum exposure is derived from loans and advances to banks and customers (2018: 11.6%) and 22.4% represents investment securities (2018: 37.3%).

The credit risk relating to off-balance sheet exposures for financial guarantees reflects the group's gross potential exposure of guarantees held on balance sheet (see note 1.22).

Impairment of financial instruments

The group's accounting policy governing impairment of financial assets is given in note 1.13. Impairment losses on financial assets recognised in profit or loss were as follows. The main class of asset these impairment losses have arisen against are cash and balances held with central banks.

	2019 £'000	2018 £'000
Impairment losses/(reversals) arising from:		
– treasury book	**99**	33
– investment management loan book	**(11)**	10
– trust and financial planning debtors	**15**	23
	103	66

Expected credit loss assessment

At each reporting date, for both the treasury book and investment management loan book, the group assesses whether there has been a significant increase in credit risk of exposures since initial recognition, by comparing the change in the risk of a default occurring over the expected life of the instrument between the reporting date and the date of initial recognition. The following criteria are used to identify significant increases in credit risk and are monitored and reviewed periodically for appropriateness by the treasury team.

35 *Financial risk management continued*

(i) *Credit risk continued*

Qualitative indicators

The group periodically monitors its exposures and uses a set of defined criteria to flag any counterparties that may be experiencing financial difficulties. Such exposures are added to a watch list maintained by the treasury team. These are considered to have experienced a significant increase in credit risk and are classified as 'Stage 2' on which a lifetime ECL is recognised.

Quantitative indicators

The lifetime probability of default at the reporting date is compared to the original lifetime probability of default at initial recognition and if the difference exceeds a predefined threshold (for the current analysis this threshold is set at 50% of the value at initial recognition) the exposure is moved to stage 2.

Probability of defaults used for identifying significant increases in credit risk for staging purposes is calculated using the same methodology and data used for estimating probability of defaults for the purpose of measuring expected credit losses.

The 30 days past due backstop indicator has not been rebutted by the group, albeit it is not a significant driver of stage movements as the opportunity for a counterparty to miss payment is low. This is due to the fact that over the life of exposure, any interest and/or principal is directly debited from the counterparty's investment balance and investment income which is in turn held as collateral under the bank's custody.

Materially all exposures in both the treasury book and IM loan book follow a bullet repayment structure; therefore, the exposure at any point in time reflects the outstanding balance of the instrument at that point in time.

Definition of default

The group considers an investment management loan book exposure to be in default when a client fails to respond to three sets of default notices (every 30 days for a period of 90 days). A treasury book exposure is deemed to be in default when a payment is past due by more than one working day (grace period).

Probability of default (PD)

The group uses a lifetime PD for each exposure, which is the probability-weighted result of considering three economic scenarios: a base case, an upside and a downside. These scenarios include the forecast of the macroeconomic factors that have been identified as relevant to the Bank's exposures, namely GDP and UK unemployment rates, and are incorporated into the estimation of lifetime PDs.

The methodology for estimating lifetime PDs and adjustments for macroeconomic scenarios used for identifying significant increases in credit risk are as follows:

Treasury book assessment

The 12-month PD for each exposure is initially estimated as the historical 12-month PD sourced from Standard & Poors, by credit rating and country of exposure. In order to estimate the PDs occurring over the lifetime of an underlying exposure, the group applies its expectations of future progression in point in time ('PiT') default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to treasury assets, namely UK GDP, UK unemployment rates, UK inflation and UK interest rates.

Loss given default (LGD) for treasury book assets is dependent on the nature of the counterparty and the region in which the instrument was issued. For sovereign exposures, the group applies a flat LGD rate, which is externally sourced from Moody's most recent 'Sovereign Default and Recovery Rates' research statistics, by country of issuer. For unsecured corporate exposures, a time series of historical corporate recovery rates is sourced from Moody's annual publication on 'Corporate Defaults and Recovery' rates.

The following table presents an analysis of the credit quality of treasury book exposures at amortised cost and FVTPL. It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired:

	2019				2018			
		At amortised cost				At amortised cost		
	Fair value through profit or loss £'000	**12-month ECL £'000**	**Lifetime ECL – not credit-impaired £'000**	**Lifetime ECL – credit-impaired £'000**	Fair value through profit or loss £'000	12-month ECL £'000	Lifetime ECL – not credit-impaired £'000	Lifetime ECL – credit-impaired £'000
AAA	**100,194**	**–**	**–**	**–**	75,333	–	–	–
AA+ to AA-	**–**	**2,138,435**	**–**	**–**	–	1,655,155	–	–
A+ to A-	**–**	**465,074**	**–**	**–**	–	490,704	–	–
Gross carrying amounts	**100,194**	**2,603,509**	**–**	**–**	75,333	2,145,859	–	–
Loss allowance		**(259)**	**–**	**–**		(159)	–	–
Carrying amount	**100,194**	**2,603,250**	**–**	**–**	75,333	2,145,700	–	–
Cash and balances with central banks	**–**	**1,932,996**	**–**	**–**	–	1,198,478	–	–
Loans and advances to banks	**–**	**69,993**	**–**	**–**	–	39,997	–	–
Unlisted debt securities	**–**	**600,261**	**–**	**–**	–	907,225	–	–
Money market funds	**100,194**	**–**	**–**	**–**	75,333	–	–	–
Carrying amount	**100,194**	**2,603,250**	**–**	**–**	75,333	2,145,700	–	–

The movement in allowance for impairment for the treasury book during the year was as follows.

	12-month ECL £'000	**Lifetime ECL – not credit-impaired £'000**	**Lifetime ECL – credit-impaired £'000**	**Total ECL £'000**
Balance at 1 January 2019	**159**	**–**	**–**	**159**
Net remeasurement of loss allowance	**100**			**100**
Balance at 31 December 2019	**259**	**–**	**–**	**259**
Cash and balances with central banks	**222**	**–**	**–**	**222**
Loans and advances to banks	**7**	**–**	**–**	**7**
Unlisted debt securities	**30**	**–**	**–**	**30**
ECL provision	**259**	**–**	**–**	**259**

The increase in the loss allowance during 2019 is due to an increase in the gross amount held with the Bank of England, against which the group holds the largest ECL provision.

IM loan book assessment

Due to the lack of historical defaults within the IM loan book, the model uses publicly available default data for UK secured lending as a starting point in order to obtain an initial estimate for PD. The 12-month PD is estimated as the historical long term default rate on lending in the UK as sourced from the Council of Mortgage Lending ("CML").

In order to estimate the PDs occurring over the lifetime of an underlying exposure, the group develops its expectations of future progression in PiT default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to the Bank's Lending portfolio, namely UK GDP ("GDP") and UK unemployment rates ("UR").

In order to develop and apply such forward -looking expectations, a historical relationship between PD, GDP and UR is estimated statistically through a multi-factor regression analysis of past movements between these variables. The relationship resulting from this analysis reflects the relative quantitative behaviour of the regressed macroeconomic factors against PD.

Using the calculated 12-month PiT PD as a starting point, conditional PDs for each future period within the period of exposure are estimated by applying the GDP and UR coefficients to the group's forecasts of UK GDP and UK UR respectively, as sourced from International Monetary Fund ("IMF") forecast data. This analysis forms the base case scenario for estimating lifetime PDs. The same methodology is applied for separate upside and downside scenarios as required by the standard.

35 *Financial risk management continued*

(i) *Credit risk continued*

The following table presents an analysis of the credit quality of IM loan book exposures at amortised cost. It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	2019			2018		
	At amortised cost					
	12-month ECL £'000	Lifetime ECL – not credit-impaired £'000	Lifetime ECL – credit-impaired £'000	12-month ECL £'000	Lifetime ECL – not credit-impaired £'000	Lifetime ECL – credit-impaired £'000
Very low	**28,718**	**–**	**–**	16,730	–	–
Low	**84,452**	**–**	**–**	92,215	680	–
Medium	**18,471**	**–**	**–**	20,743	–	–
High	**40**	**353**	**–**	40	660	–
Gross carrying amounts	**131,681**	**353**	**–**	129,728	1,340	–
Loss allowance	**–**	**–**	**–**	(11)	–	–
Carrying amount	**131,681**	**353**	**–**	129,717	1,340	–

The movement in allowance for impairment for the IM loan book during the year was as follows.

	12-month ECL £'000	Lifetime ECL – not credit-impaired £'000	Lifetime ECL – credit-impaired £'000	Total ECL £'000
Balance at 1 January 2019	**11**	**–**	**–**	**11**
Net remeasurement of loss allowance	**(11)**			**(11)**
Balance at 31 December 2019	**–**	**–**	**–**	**–**

Trust and financial planning debtors assessment

The group uses a provision matrix to measure the ECLs of trust and financial planning debtors, which comprise a large number of small balances. For such debts, a normal settlement period of up to 30 days is expected.

The following table provides information about the exposure to credit risk and ECLs for trust and financial planning debtors as at 31 December 2019:

	2019 £'000	2018 £'000
Rathbone Trust Company	**808**	734
Rathbone Trust & Legal Services	**221**	415
Rathbone Financial Planning	**244**	47
Gross carrying amounts	**1,273**	1,196
Loss allowance	**(103)**	(92)
Carrying amount	**1,170**	1,104

			Loss allowance		
Rathbone Trust Company	Weighted average loss rate £'000	Gross carrying amount £'000	Not credit-impaired £'000	Credit-impaired £'000	Total £'000
<90 days overdue	**0.4%**	**519**	**(2)**	**–**	**(2)**
90-180 days overdue	**1.8%**	**112**	**(2)**	**(1)**	**(3)**
180-270 days overdue	**2.9%**	**49**	**(1)**	**(2)**	**(3)**
270-365 days overdue	**6.0%**	**11**	**(1)**	**–**	**(1)**
>365 days overdue	**31.2%**	**117**	**(9)**	**(84)**	**(93)**
		808	**(15)**	**(87)**	**(102)**

Rathbone Trust & Legal Services	Weighted average loss rate £'000	Gross carrying amount £'000	Loss allowance Not credit-impaired £'000	Credit-impaired £'000	Total £'000
<90 days overdue	0.0%	170	–	–	–
90-180 days overdue	0.0%	14	–	–	–
180-270 days overdue	0.0%	17	–	–	–
270-365 days overdue	0.0%	–	–	–	–
>365 days overdue	0.0%	20	–	(1)	(1)
		221	–	(1)	(1)

The movement in allowance for impairment in respect of trust and financial planning debtors during the year is set out below.

Movement in impairment provision during the year	Trust and financial planning debtors £'000
At 1 January	92
Amounts written off	(4)
Credit to profit or loss	15
At 31 December 2019	103

Concentration of credit risk

The group has counterparty credit risk within its financial assets in that exposure is to a number of similar credit institutions. The banking committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in light of adverse market information, for example in anticipation of or in response to any formal Fitch or Moody's rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

(a) Geographical sectors

The following table analyses the group's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2019	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	1,932,996	–	–	1,932,996
Settlement balances	50,503	397	1,620	52,520
Loans and advances to banks	176,032	–	1,800	177,832
Loans and advances to customers:				
– overdrafts	4,868	37	243	5,148
– investment management loan book	120,046	508	11,480	132,034
– trust and financial planning debtors	1,170	–	–	1,170
– other debtors	60	–	–	60
Investment securities:				
– unlisted debt securities and money market funds	189,984	280,283	230,188	700,455
Other financial assets	77,794	1,732	4,052	83,578
	2,553,453	282,957	249,383	3,085,793

35 Financial risk management continued

(i) Credit risk continued

At 31 December 2018	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	1,198,478	–	–	1,198,478
Settlement balances	35,781	3,412	561	39,754
Loans and advances to banks	164,438	1,754	8	166,200
Loans and advances to customers:				
– overdrafts	5,529	67	500	6,096
– investment management loan book	122,522	191	9,017	131,730
– trust and financial planning debtors	1,104	–	–	1,104
– other debtors	29	–	–	29
Investment securities:				
– unlisted debt securities and money market funds	159,991	358,172	464,395	982,558
– Other financial assets	65,463	2,058	2,977	70,498
	1,753,335	365,654	477,458	2,596,447

At 31 December 2019, materially all Eurozone exposures were to counterparties based in the Netherlands, France, Finland, Ireland and Luxembourg (2018: Netherlands, France, Finland, Ireland and Luxembourg) and materially all rest of the world exposures were to counterparties based in Switzerland, Sweden, Norway, Canada and Australia (2018: Switzerland, Sweden, Norway, Canada and Australia). At 31 December 2019, the group had no exposure to sovereign debt (2018: 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 2019	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	**1,932,996**	**–**	**–**	**1,932,996**
Settlement balances	**–**	**52,520**	**–**	**52,520**
Loans and advances to banks	**–**	**177,832**	**–**	**177,832**
Loans and advances to customers:				
– overdrafts	**–**	**–**	**5,148**	**5,148**
– investment management loan book	**–**	**–**	**132,034**	**132,034**
– trust and financial planning debtors	**–**	**–**	**1,170**	**1,170**
– other debtors	**–**	**–**	**60**	**60**
Investment securities:				
– unlisted debt securities and money market funds	**–**	**700,455**	**–**	**700,455**
Other financial assets	**500**	**5,974**	**77,104**	**83,578**
	1,933,496	**936,781**	**215,516**	**3,085,793**

At 31 December 2018	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	1,198,477	1	–	1,198,478
Settlement balances	–	39,674	80	39,754
Loans and advances to banks	–	166,200	–	166,200
Loans and advances to customers:				
– overdrafts	–	–	6,096	6,096
– investment management loan book	–	–	131,730	131,730
– trust and financial planning debtors	–	–	1,104	1,104
– other debtors	–	–	29	29
Investment securities:				
– unlisted debt securities and money market funds	–	982,558	–	982,558
Other financial assets	295	4,781	65,422	70,498
	1,198,772	1,193,214	204,461	2,596,447

(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.

35 *Financial risk management continued*

(ii) *Liquidity risk continued*

At 31 December 2019	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	**1,930,001**	**500**	**3,218**	**–**	**–**	**–**	**1,933,719**
Settlement balances	**–**	**52,521**	**–**	**–**	**–**	**–**	**52,521**
Loans and advances to banks	**107,835**	**10,125**	**60,756**	**–**	**–**	**–**	**178,716**
Loans and advances to customers	**5,393**	**20,743**	**55,251**	**61,864**	**–**	**–**	**143,251**
Debt securities and money market funds	**100,282**	**277,971**	**328,298**	**–**	**–**	**–**	**706,551**
Other financial assets	**1,857**	**74,783**	**1,026**	**3,954**	**1,585**	**–**	**83,205**
Cash flows arising from financial assets	**2,145,368**	**436,643**	**448,549**	**65,818**	**1,585**	**–**	**3,097,963**
Deposits by banks	**28**	**–**	**–**	**–**	**–**	**–**	**28**
Settlement balances	**–**	**57,694**	**–**	**–**	**–**	**–**	**57,694**
Due to customers	**2,500,578**	**160,178**	**8,019**	**–**	**–**	**–**	**2,668,775**
Subordinated loan notes	**–**	**586**	**20,586**	**–**	**–**	**–**	**21,172**
Other financial liabilities	**148**	**59,961**	**7,859**	**49,083**	**59,263**	**–**	**176,314**
Cash flows arising from financial liabilities	**2,500,754**	**278,419**	**36,464**	**49,083**	**59,263**	**–**	**2,923,983**
Net liquidity gap	**(355,386)**	**158,224**	**412,085**	**16,735**	**(57,678)**	**–**	**173,980**
Cumulative net liquidity gap	**(355,386)**	**(197,162)**	**214,923**	**231,658**	**173,980**	**173,980**	

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Cash and balances with central banks	1,197,001	295	1,600	–	–	–	1,198,896
Settlement balances	–	39,754	–	–	–	–	39,754
Loans and advances to banks	126,073	10,512	30,333	–	–	–	166,918
Loans and advances to customers	6,796	21,638	51,097	64,582	–	–	144,113
Debt securities and money market funds	75,436	309,666	605,562	–	–	–	990,664
Other financial assets	406	59,090	3,871	4,348	2,295	–	70,010
Cash flows arising from financial assets	1,405,712	440,955	692,463	68,930	2,295	–	2,610,355
Deposits by banks	491	–	–	–	–	–	491
Settlement balances	–	36,692	–	–	–	–	36,692
Due to customers	2,065,029	153,229	7,422	–	–	–	2,225,680
Subordinated loan notes	–	586	586	21,171	–	–	22,343
Other financial liabilities	139	47,199	7,803	28,682	6,799	–	90,622
Cash flows arising from financial liabilities	2,065,659	237,706	15,811	49,853	6,799	–	2,375,828
Net liquidity gap	(659,947)	203,249	676,652	19,077	(4,504)	–	234,527
Cumulative net liquidity gap	(659,947)	(456,698)	219,954	239,031	234,527	234,527	

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 £4,587,000 of equity investments (2018: £3,205,000) which are subject to liquidity risk but are not included in the table above. These assets are held as fair value through profit or loss securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

(iii) Market risk

Off-balance sheet items

Cash flows arising from the group's off-balance sheet financial liabilities (note 37) 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 2019	**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	**31,284**	**–**	**–**	**–**	**31,284**
Financial guarantees	**–**	**–**	**117**	**–**	**117**
Capital commitments	**787**	**–**	**–**	**–**	**787**
Total off-balance sheet items	**32,071**	**–**	**117**	**–**	**32,188**

At 31 December 2018	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	32,854	–	–	–	32,854
Financial guarantees	–	–	117	–	117
Operating lease commitments	2,037	6,216	29,958	52,337	90,548
Capital commitments	603	–	–	–	603
Total off-balance sheet items	35,494	6,216	30,075	52,337	124,122

Total liquidity requirement

At 31 December 2019	**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	**2,500,754**	**278,419**	**36,464**	**49,083**	**59,263**	**2,923,983**
Total off-balance sheet items	**–**	**32,071**	**–**	**117**	**–**	**32,188**
Total liquidity requirement	**2,500,754**	**310,490**	**36,464**	**49,200**	**59,263**	**2,956,171**

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	2,065,659	237,706	15,811	49,853	6,799	2,375,828
Total off-balance sheet items	–	35,494	6,216	30,075	52,337	124,122
Total liquidity requirement	2,065,659	273,200	22,027	79,928	59,136	2,499,950

35 *Financial risk management continued*

(iii) *Market risk continued*

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 2019	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	**1,929,779**	**–**	**–**	**–**	**–**	**3,218**	**1,932,997**
Settlement balances	**–**	**–**	**–**	**–**	**–**	**52,520**	**52,520**
Loans and advances to banks	**117,555**	**29,998**	**29,996**	**–**	**–**	**283**	**177,832**
Loans and advances to customers	**136,680**	**–**	**–**	**–**	**–**	**1,732**	**138,412**
Investment securities:							
– equity securities	**–**	**–**	**–**	**–**	**–**	**5,773**	**5,773**
– unlisted debt securities and money market funds	**375,483**	**204,989**	**119,983**	**–**	**–**	**–**	**700,455**
Other financial assets	**1,565**	**–**	**–**	**–**	**–**	**82,013**	**83,578**
Total financial assets	**2,561,062**	**234,987**	**149,979**	**–**	**–**	**145,539**	**3,091,567**
Liabilities							
Deposits by banks	**28**	**–**	**–**	**–**	**–**	**–**	**28**
Settlement balances	**–**	**–**	**–**	**–**	**–**	**57,694**	**57,694**
Due to customers	**2,584,048**	**7,969**	**–**	**–**	**–**	**76,628**	**2,668,645**
Subordinated loan notes	**–**	**–**	**19,927**	**–**	**–**	**–**	**19,927**
Other financial liabilities	**–**	**–**	**–**	**–**	**469**	**133,633**	**134,102**
Total financial liabilities	**2,584,076**	**7,969**	**19,927**	**–**	**469**	**267,955**	**2,880,396**
Interest rate repricing gap	**(23,014)**	**227,018**	**130,052**	**–**	**(469)**	**(122,416)**	**211,171**

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Cash and balances with central banks	1,196,878	–	–	–	–	1,601	1,198,479
Settlement balances	–	–	–	–	–	39,754	39,754
Loans and advances to banks	135,856	9,999	19,997	–	–	348	166,200
Loans and advances to customers	137,803	–	–	–	–	1,156	138,959
Investment securities:							
– equity securities	–	–	–	–	–	4,464	4,464
– unlisted debt securities and money market funds	382,589	174,993	424,976	–	–	–	982,558
Other financial assets	5,916	–	–	–	–	64,582	70,498
Total financial assets	1,859,042	184,992	444,973	–	–	111,905	2,600,912
Liabilities							
Deposits by banks	491	–	–	–	–	–	491
Settlement balances	–	–	–	–	–	36,692	36,692
Due to customers	2,188,761	7,380	–	–	–	29,395	2,225,536
Subordinated loan notes	–	–	–	19,807	–	–	19,807
Other financial liabilities	–	–	–	–	–	72,278	72,278
Total financial liabilities	2,189,252	7,380	–	19,807	–	138,365	2,354,804
Interest rate repricing gap	(330,210)	177,612	444,973	(19,807)	–	(26,460)	246,108

The banking committee has set an overall pre-tax interest rate exposure limit of £7,000,000 (2018: £7,000,000) 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 2019, the Bank had a net present value sensitivity of £3,035,000 (2018: £6,068,000) for an upward 2% shift in rates. The group held no forward rate agreements at 31 December 2019 (2018: none).

35 *Financial risk management continued*

(iii) *Market risk continued*

Foreign exchange risk

The group is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to foreign exchange rate fluctuations. The group monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time to time, so as to reduce any currency exposure to a minimal amount. The group has no structural foreign currency exposure.

The group does not have any material exposure to transactional foreign exchange risk. The table below summarises the group's exposure to foreign currency translation risk at 31 December 2019. Included in the table are the group's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2019	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances with central banks	**1,932,997**	**–**	**–**	**–**	**1,932,997**
Settlement balances	**51,918**	**376**	**90**	**136**	**52,520**
Loans and advances to banks	**130,462**	**22,029**	**17,026**	**8,315**	**177,832**
Loans and advances to customers	**131,263**	**3,543**	**3,606**	**–**	**138,412**
Investment securities:					
– equity securities	**4,587**	**–**	**1,186**	**–**	**5,773**
– unlisted debt securities and money market funds	**624,969**	**75,486**	**–**	**–**	**700,455**
Other financial assets	**82,881**	**440**	**185**	**72**	**83,578**
Total financial assets	**2,959,077**	**101,874**	**22,093**	**8,523**	**3,091,567**
Liabilities					
Deposits by banks	**28**	**–**	**–**	**–**	**28**
Settlement balances	**45,084**	**12,274**	**113**	**223**	**57,694**
Due to customers	**2,552,287**	**88,668**	**19,726**	**7,964**	**2,668,645**
Subordinated loan notes	**19,927**	**–**	**–**	**–**	**19,927**
Other financial liabilities	**134,030**	**70**	**2**	**–**	**134,102**
Total financial liabilities	**2,751,356**	**101,012**	**19,841**	**8,187**	**2,880,396**
Net on-balance sheet position	**207,721**	**862**	**2,252**	**336**	**211,171**
Loan commitments	**31,284**	**–**	**–**	**–**	**31,284**

At 31 December 2018	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances with central banks	1,198,479	–	–	–	1,198,479
Settlement balances	38,860	592	100	202	39,754
Loans and advances to banks	110,361	25,781	22,270	7,788	166,200
Loans and advances to customers	130,580	5,128	3,231	20	138,959
Investment securities:					
– equity securities	3,205	–	1,259	–	4,464
– unlisted debt securities and money market funds	907,967	74,591	–	–	982,558
Other financial assets	69,287	566	95	550	70,498
Total financial assets	2,458,739	106,658	26,955	8,560	2,600,912
Liabilities					
Deposits by banks	–	–	375	116	491
Settlement balances	35,818	432	7	435	36,692
Due to customers	2,088,485	105,126	24,655	7,270	2,225,536
Subordinated loan notes	19,807	–	–	–	19,807
Other financial liabilities	72,097	73	106	2	72,278
Total financial liabilities	2,216,207	105,631	25,143	7,823	2,354,804
Net on-balance sheet position	242,532	1,027	1,812	737	246,108
Loan commitments	32,854	–	–	–	32,854

A 10% weakening of the US dollar against sterling, occurring on 31 December 2019, would have reduced equity and profit after tax by £70,000 (2018: reduced by £83,000). A 10% weakening of the euro against sterling, occurring on 31 December 2019, would have increased equity and profit after tax by £182,000 (2018: increased by £147,000). 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 19).

At 31 December 2019, the fair value of listed equity securities recognised on the balance sheet was £4,587,000 (2018: £3,205,000). A 10% fall in global equity markets would, in isolation, result in a pre-tax decrease to net assets of £348,000 (2018: £133,000); there would be no impact on profit after tax. A 10% rise in global markets would have had an equal and opposite effect.

Fair values

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	**4,587**	**–**	**1,186**	**5,773**
– money market funds	**–**	**100,194**	**–**	**100,194**
	4,587	**100,194**	**1,186**	**105,967**

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	3,205	–	1,259	4,464
– money market funds	–	75,333	–	75,333
	3,205	75,333	1,259	79,797

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 (2018: none).

The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of the following:

- Investment debt securities measured at amortised cost (note 19) comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2019 was £604,462,000 (2018: £911,190,000) and the carrying value was £600,291,000 (2018: £907,259,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes (note 30) comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2019 was £21,302,000 (2018: £20,217,000) and the carrying value was £19,927,000 (2018: £19,807,000). 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.

35 *Financial risk management continued*

(iii) *Market risk continued*

Level 3 financial instruments

Fair value through profit or loss

As part of the acquisition of Speirs & Jeffrey, the group acquired 1,809 shares in Euroclear Holdings SA, which are classed as level 3 in the fair value hierarchy since no observable market data is available. The fair value of these shares is calculated by reference to the most recently documented transaction for a holding in Euroclear shares of a comparable size (in May 2017). The valuation at the balance sheet date has been adjusted for movements in exchange rates since the acquisition date. A 10% weakening of the euro against sterling, occurring on 31 December 2019, would have reduced equity and profit after tax by £96,000 (2018: £102,000). A 10% strengthening of the euro against sterling would have an equal and opposite effect.

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2019	2018
At 1 January	**1,259**	–
Acquired in the year	**–**	1,254
Total unrealised (losses)/gains recognised in profit or loss	**(73)**	5
At 31 December	**1,186**	1,259

The gains or losses relating to the fair value through profit or loss equity securities is included within 'other operating income' in the consolidated statement of comprehensive income.

There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

36 Capital management

Rathbone Brothers Plc's capital is defined for accounting purposes as total equity. As at 31 December 2019 this totalled £485,393,000 (2018: £464,140,000).

Rathbone Investment Management has issued 10-year subordinated Tier 2 loan notes (note 30). As at 31 December 2019, the carrying value of the notes was £19,927,000 (2018: £19,675,000). 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 2019 the group's regulatory capital resources, including retained earnings for 2019, were £282,087,000 (2018: £251,329,000). The increase in reserves during 2019 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 2018 and 2019.

The group has not applied transitional relief in recognising expected credit losses (ECLs) in regulatory capital resources. As such, there is no difference between accounting ECLs and regulatory capital ECLs.

37 Contingent liabilities and commitments

(a) Capital expenditure authorised and contracted for at 31 December 2019 but not provided in the financial statements amounted to £787,000 (2018: £603,000). This related to expenditure on leasehold improvements and fixtures and fittings.

(b) The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	2019 £'000	2018 £'000
Guarantees	**117**	117
Undrawn commitments to lend of 1 year or less	**23,344**	26,803
Undrawn commitments to lend of more than 1 year	**7,940**	6,051
	31,401	32,971

The fair value of the guarantees is £nil (2018: £nil).

(c) 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.

38 Related party transactions

Transactions with key management personnel

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below.

Gains on options exercised by directors during the year totalled £7,000 (2018: £19,000). Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on page 98.

	2019 £'000	2018 £'000
Short-term employee benefits	**14,176**	12,434
Post-employment benefits	**296**	184
Other long-term benefits	**2,695**	2,934
Share-based payments	**3,408**	5,640
	20,575	21,192

Dividends totalling £95,000 were paid in the year (2018: £247,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2019, the group had outstanding interest-free season ticket loans of £nil (2018: £nil) issued to key management personnel.

At 31 December 2019, key management personnel and their close family members had gross outstanding deposits of £636,000 (2018: £778,000) and gross outstanding banking loans of £nil (2018: £nil), all of which (2018: 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.

38 *Related party transactions continued*

Other related party transactions

The group's transactions with the pension funds are described in note 31. At 31 December 2019, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2018: £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 2019, the group managed 27 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2018: 27 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

The following transactions and balances relate to the group's interest in the unit trusts:

Year ended 31 December	2019 £'000	2018 £'000
Total management fees	**40,111**	37,608

As at 31 December	2019 £'000	2018 £'000
Management fees owed to the group	**3,904**	3,629
Holdings in unit trusts (note 19)	**4,587**	3,205
	8,491	6,834

Total management fees are included within 'fee and commission income' in the consolidated statement of comprehensive income.

Management fees owed to the group are included within 'accrued income' and holdings in unit trusts are classified as 'fair value through profit or loss equity securities' in the consolidated balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No expected credit loss provisions have been made in respect of the amounts owed by related parties.

39 Interest in unconsolidated structured entities

As described in note 38, at 31 December 2019, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £4,587,000 (2018: £3,205,000), representing 0.08% (2018: 0.06%) 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.

40 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:

	2019 £'000	2018 £'000
Cash and balances at central banks (note 16)	**1,930,000**	1,197,001
Loans and advances to banks (note 17)	**117,839**	136,203
Fair value through profit or loss investment securities (note 19)	**100,194**	75,333
At 31 December	**2,148,033**	1,408,537

Fair value thought profit or loss investment securities are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from the (repurchase)/issue of ordinary shares comprise:

	2019 £'000	2018 £'000 (restated – note 1.3)
Share capital issued (note 32)	**58**	194
Share premium on shares issued (note 32)	**5,666**	62,184
Merger reserve on shares issued (note 32)	**14,971**	24,950
Shares issued in relation to share-based schemes for which no cash consideration was received	**(15,001)**	(25,000)
Shares issued in relation to share buybacks	**(10,034)**	(4,888)
	(4,340)	57,440

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 2019 (restated)	**19,807**	**208,033**	**24,048**	**232,059**	**483,947**
Changes from financing cash flows					
Proceeds from issue of share capital	**–**	**5,694**		**–**	**5,694**
Proceeds from sale of treasury shares	**–**	**–**	**(9,234)**	**(799)**	**(10,033)**
Dividends paid	**–**	**–**	**–**	**(35,959)**	**(35,959)**
Total changes from financing cash flows	**–**	**5,694**	**(9,234)**	**(36,758)**	**(40,298)**
The effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**
Other changes					
Liability-related					
Interest expense	**1,291**	**–**	**–**	**–**	**1,291**
Interest paid	**(1,171)**	**–**	**–**	**–**	**(1,171)**
Total liability-related changes	**120**	**–**	**–**	**–**	**120**
Total equity-related other changes	**–**	**30**	**14,971**	**46,550**	**61,551**
At 31 December 2019	**19,927**	**213,757**	**29,785**	**241,851**	**505,320**

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2018	19,695	145,655	26,971	198,947	391,268
Changes from financing cash flows					
Proceeds from issue of share capital (restated – note 1.3)	–	62,378	24,950	–	87,328
Proceeds from sale of treasury shares	–	–	(27,873)	(2,015)	(29,888)
Dividends paid	–	–	–	(32,691)	(32,691)
Total changes from financing cash flows	–	62,378	(2,923)	(34,706)	24,749
The effect of changes in foreign exchange rates	–	–	–	–	–
Changes in fair value	–	–	–	–	–
Other changes					
Liability-related					
Interest expense	1,283	–	–	–	1,283
Interest paid	(1,171)	–	–	–	(1,171)
Total liability-related changes	112	–	–	–	112
Total equity-related other changes	–	–		67,818	67,818
At 31 December 2018 (restated)	19,807	208,033	24,048	232,059	483,947

41 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.

42 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 2019.

Basis of preparation:

Country	In most cases, we have determined the country by reference to the country of tax residence. Where an entity is not subject to tax (e.g. a partnership) we have considered the location of management or the jurisdiction in which the revenues are generated. In these cases it is possible that tax is paid in a different country to the one in which profits are reported.
Nature of activities	The nature of activities within the United Kingdom are described within our services on pages 8 and 9. 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 in note 48.

Country	Turnover £'000	Profit/(loss) before taxation £'000	Tax paid £'000	Number of employees
United Kingdom	339,618	70,021	16,865	1,486
Jersey	12,442	2,688	268	23
Sub-total	**352,060**	**72,709**	**17,133**	**1,509**
Intergroup eliminations and other entries arising on consolidation	(3,989)	(33,057)	–	–
Total	**348,071**	**39,652**	**17,133**	**1,509**

Company statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018		2,566	143,089	–	(4,864)	68,798	209,589
Profit for the year						45,883	45,883
Net remeasurement of defined benefit liability	56					1,219	1,219
Deferred tax relating to components of other comprehensive income	52					(207)	(207)
Other comprehensive income net of tax		–	–	–	–	1,012	1,012
Dividends paid	47					(32,691)	(32,691)
Issue of share capital	57	194	87,134				87,328
Prior period adjustment (note 1.3)			(24,950)	24,950			–
Share-based payments:							–
– value of employee services						20,279	20,279
– cost of own shares acquired	57				(29,888)		(29,888)
– cost of own shares vesting	57				2,015	(2,015)	–
– tax on share-based payments						358	358
At 31 December 2018 (restated)		2,760	205,273	24,950	(32,737)	101,624	301,870
Profit for the year						29,451	29,451
Net remeasurement of defined benefit liability	56					**310**	**310**
Deferred tax relating to components of other comprehensive income	52					**(53)**	**(53)**
Other comprehensive income net of tax		**–**	**–**	**–**	**–**	**257**	**257**
Dividends paid	47					**(35,959)**	**(35,959)**
Issue of share capital	57	**58**	**5,666**	**14,971**			**20,695**
Share-based payments:							
– value of employee services						**19,387**	**19,387**
– cost of own shares acquired	57				**(10,033)**		**(10,033)**
– cost of own shares vesting	57				**799**	**(799)**	**–**
– tax on share-based payments						**(17)**	**(17)**
At 31 December 2019		**2,818**	**210,939**	**39,921**	**(41,971)**	**113,944**	**325,651**

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

Company balance sheet

as at 31 December 2019

	Note	2019 £'000	2018 £'000 (restated – note 1.3)
Non-current assets			
Investment in subsidiaries	48	**273,055**	273,055
Other investments	49	**14,587**	13,205
Right-of-use assets	51	**48,540**	–
Deferred tax	52	**5,106**	4,067
		341,288	290,327
Current assets			
Trade and other receivables	50	**124,722**	102,440
Cash and cash equivalents		**4,204**	5,386
		128,926	107,826
Total assets		**470,214**	398,153
Current liabilities			
Trade and other payables	53	**(69,990)**	(74,387)
Lease liabilities		**(60,026)**	–
Current tax liability		**(647)**	(476)
Provisions for liabilities and charges	55	**(5,886)**	(10,223)
		(136,549)	(85,086)
Net current assets		**(7,623)**	22,740
Non-current liabilities			
Retirement benefit obligations	56	**(8,014)**	(11,197)
Total liabilities		**(144,563)**	(96,283)
Net assets		**325,651**	301,870
Equity			
Share capital	57	**2,818**	2,760
Share premium	57	**210,939**	205,273
Merger reserve	57	**39,921**	24,950
Own shares	57	**(41,971)**	(32,737)
Retained earnings		**113,944**	101,624
Equity shareholders' funds		**325,651**	301,870

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 2019 of £29,451,000 (2018: £45,883,000).

The financial statements were approved by the board of directors and authorised for issue on 19 February 2020 and were signed on their behalf by:

Paul Stockton
Chief Executive

Jennifer Mathias
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 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before tax		**29,327**	46,980
Change in fair value through profit or loss		**(482)**	189
Net interest and dividends receivable		**(53,980)**	(58,818)
Net charge for provisions	55	**1,590**	(1,936)
Depreciation and amortisation		**4,499**	–
Defined benefit pension scheme charges	56	**255**	491
Defined benefit pension scheme contributions paid	56	**(3,128)**	(3,673)
Share-based payment charges	57	**31,012**	19,838
		9,093	3,071
Changes in operating assets and liabilities:			
– net (increase)/decrease in prepayments, accrued income and other assets		**(22,177)**	12,407
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**4,309**	(9,297)
Cash (used in)/generated from operations		**(8,775)**	6,181
Tax (paid)/received		**(814)**	1,535
Net cash (outflow)/inflow from operating activities		**(9,589)**	7,716
Cash flows from investing activities			
Interest received		**107**	79
Interest paid		**(4,127)**	(182)
Inter-company dividends received		**58,000**	59,250
Acquisition of subsidiaries		**–**	(92,552)
Liquidation of subsidiary, net of cash transferred		**–**	5,205
Investment in subsidiaries	48	**–**	(5,205)
Purchase of other investments		**(899)**	(1,065)
Proceeds from sale of investments		**–**	235
Net cash generated from/(used in) investing activities		**53,081**	(34,235)
Cash flows from financing activities			
Net (repurchase)/issue of ordinary shares	57	**(4,340)**	57,440
Dividends paid	47	**(35,959)**	(32,691)
Payment of lease liabilities		**(4,375)**	–
Net cash (used in)/generated from financing activities		**(44,674)**	24,749
Net decrease in cash and cash equivalents		**(1,182)**	(1,770)
Cash and cash equivalents at the beginning of the year		**5,386**	7,156
Cash and cash equivalents at the end of the year	62	**4,204**	5,386

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

Notes to the company financial statements

43 Significant accounting policies

Statement of compliance

The separate financial statements of the company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and IAS 27 'Separate Financial Statements'.

On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

Developments in reporting standards and interpretations

This is the first set of the company's financial statements where IFRS 16 has been applied. This new standard was adopted from 1 January 2019. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 45.

Other developments in reporting standards and interpretations are set out in note 1.4 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.

44 Critical accounting judgements and key sources of estimation and uncertainty

The critical accounting judgements and key sources of estimation and uncertainty arise from the company's defined benefit pension schemes and valuation of the provision for the Speirs & Jeffrey earn-out consideration. These are described in note 3 to the consolidated financial statements.

45 Changes in significant accounting policies

As a lessor

The company has adopted IFRS 16 'Leases' with effect from 1 January 2019 (see note 1.9).

Accounting requirements for lessors are largely unchanged from IAS 17 'Leases'. The company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for instances in which it acts as a sub-lessor. The company sub-leases a property in Jersey.

At the date of application of IFRS 16 the company is required to assess the classification of a sub-lease with reference to the right-of-use (ROU) asset. As the sub-lease is for the whole of the remaining term of the head lease, the company reassessed the classification of its sub-lease contract, previously classified as an operating lease under IAS 17, to a finance lease under IFRS 16 from the date of initial application.

The tables below show the impact on each financial statement line item affected by the application of IFRS 16 at the date of transition.

Impact on the balance sheet as at 1 January 2019

	As reported 31 December 2018 £'000	Adjustments £'000	**As restated 1 January 2019 £'000**
Assets			
Trade and other receivables	102,440	(64)	**102,376**
Right-of-use assets	–	50,186	**50,186**
Total assets	398,153	50,122	**448,275**
Liabilities			
Trade and other payables	74,387	(11,181)	**63,206**
Lease liabilities	–	61,303	**61,303**
Total liabilities	96,283	50,122	**146,405**
Net assets	301,870	–	**301,870**
Retained earnings	101,624	–	**101,624**
Total equity	301,870	–	**301,870**

The adjustments to the company balance sheet reflect the initial application of IFRS 16.

An analysis of ROU assets is presented in note 51. The company makes fixed payments and variable payments depending on the usage of the asset during the contract period.

The table below presents the impact of IFRS 16 on profit during the year.

Impact on profit or loss for the year	£'000
Increase in finance costs	3,500
Increase in depreciation	4,499
Expenses relating to short-term leases and low-value assets	370
Increase in finance income	75
Decrease in other expenses	6,743

Lease liabilities

The group is required to identify the difference between the present value of its operating lease commitments disclosed at 31 December 2018 under IAS 17, discounted by using the company's incremental borrowing rate, and its lease liabilities recognised at the date of initial application of IFRS 16. This reconciliation has been presented below:

	£'000
Operating lease commitment at 31 December 2018 as disclosed in the company's financial statements	86,030
Impact of discounting at the incremental borrowing rate	(26,230)
Discounted using the incremental borrowing rate at 1 January 2019	**59,800**
Recognition exemption for:	
Termination options reasonably certain to be exercised	**1,503**
Lease liabilities at 1 January 2019	**61,303**

46 Expenses for the year

Auditor's remuneration for audit and other services to the company are set out in note 8 to the financial statements.

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

	2019	2018
Investment Management:		
– investment management services	**956**	771
– advisory services	**118**	107
Unit Trusts	**35**	33
Shared services	**377**	334
	1,486	1,245

47 Dividends

Details of the company's dividends paid and proposed for approval at the Annual General Meeting are set out in note 14 to the consolidated financial statements.

The company's dividend policy is described in the directors' report on page 108.

Reserves available for distribution as at 31 December were comprised as follows:

	2019 £'000	2018 £'000 (restated – note 1.3)
Net assets	**325,651**	301,870
Less:		
– share capital	**(2,818)**	(2,760)
– share premium	**(210,939)**	(205,273)
– merger reserve	**(39,921)**	(24,950)
Distributable reserves	**71,973**	68,887

Movements in reserves available for distribution were as follows:

	2019 £'000	2018 £'000
As at 1 January	**68,887**	63,934
Profit for the year	**29,451**	45,883
Net remeasurement of defined benefit liability	**257**	1,012
Dividends paid	**(35,959)**	(32,691)
Other movements	**9,337**	(9,251)
As at 31 December	**71,973**	68,887

48 Investment in subsidiaries

	Equities £'000	Total £'000
At 1 January 2018	180,503	180,503
Additions	97,757	97,757
Disposals	(5,205)	(5,205)
At 1 January 2019	**273,055**	**273,055**
Additions	**92,552**	**92,552**
Disposals	**(92,552)**	**(92,552)**
At 31 December 2019	**273,055**	**273,055**

Equities

On 1 January 2018, 17,645 ordinary shares of 5p each in Vision Independent Financial Planning were issued to the company at a price of £295 per share in exchange for the company's equity holding in Castle Investment Solutions.

On 31 August 2018, the company acquired 100% of the share capital of Speirs & Jeffrey Limited, Speirs & Jeffrey Client Nominees Limited, Speirs & Jeffrey Fund Management Limited and Speirs & Jeffrey Portfolio Management Limited.

The cost of the acquisition comprised the following:

	£'000
Cash consideration	**89,424**
Directly attributable costs	**3,128**
	92,552

On 1 July 2019, 1,028,357 ordinary shares of 5p in Rathbones Investment Management Limited were issued to the company at a price of £90 per share in exchange for the company's equity holding in Speirs & Jeffrey Limited.

At 31 December 2019 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
Argus Nominee 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
Rathbone Funds Advisers Unipessoal LDA*	European fund marketing
Speirs & Jeffrey Limited*	Investment management
Speirs & Jeffrey Client Nominees Limited*	Corporate nominee
Speirs & Jeffrey Portfolio Management Limited*	Corporate nominee
Speirs & Jeffrey Fund Management Limited*	Corporate nominee

* Held by subsidiary undertaking

The registered office for all subsidiary undertakings is 8 Finsbury Circus, London, EC2M 7AZ except for the following:

48 *Investment in subsidiaries continued*

Subsidiary undertaking	Registered office
Rathbone Investment Management Limited	Port of Liverpool Building, Pier Head, Liverpool, L3 1NW
Rathbone Investment Management International Limited	26 Esplanade, St Helier, Jersey, JE1 2RB
Vision Independent Financial Planning Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall, TR11 4SZ
Castle Investment Solutions Limited	Vision House, Unit 6A Falmouth Business Park, Bickland Water Road, Falmouth, Cornwall, TR11 4SZ
Speirs & Jeffrey Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Client Nominees Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Portfolio Management Limited	George House, 50 George Square, Glasgow, G2 1EH
Speirs & Jeffrey Fund Management Limited	George House, 50 George Square, Glasgow, G2 1EH
Rathbone Funds Advisers Unipessoal LDA	R Tierno Galvan 10 Torre 3, Piso 6 Sala 602, 1070-274, Campo Ourique Lisbon, Lisbon, Portugal

The company owns, directly or indirectly, 100% of the ordinary share capital of all subsidiary undertakings.

49 Other investments

Fair value through profit or loss securities

	2019 £'000	2018* £'000
Equity securities:		
— listed	**4,587**	3,205
Money market funds:		
— unlisted	**10,000**	10,000
	14,587	13,205

50 Trade and other receivables

	2019 £'000	2018 £'000
Prepayments and other receivables	**7,989**	11,833
Amounts owed by group undertakings	**116,733**	90,607
	124,722	102,440
Current	**124,722**	102,440
Non-current	**–**	–
	124,722	102,440

51 Right-of-use assets

	Property £'000	**Total £'000**
Cost		
1 January 2019	**50,186**	**50,186**
Additions	**601**	**601**
Acquisitions	**2,506**	**2,506**
Disposals	**–**	**–**
Other movements	**(134)**	**(134)**
At 31 December 2019	**53,159**	**53,159**
Depreciation and impairment		
1 January 2019	**–**	**–**
Charge for the year	**4,499**	**4,499**
Acquisitions	**139**	**139**
Disposals	**–**	**–**
Other movements	**(19)**	**(19)**
At 31 December 2019	**4,619**	**4,619**
Carrying amount at 31 December 2019	**48,540**	**48,540**
Carrying amount at 1 January 2019	**50,186**	**50,186**

52 Deferred tax

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income taxes are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement on the deferred tax account is as follows:

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Total £'000
As at 1 January 2019	**1,902**	**1,882**	**304**	**(21)**	**4,067**
Recognised in profit or loss in respect of:					
– current year	**(546)**	**1,586**	**–**	**(92)**	**948**
– prior year	**–**	**94**	**–**	**–**	**94**
– change in rate	**57**	**–**	**–**	**10**	**67**
Total recognised in profit or loss	**(489)**	**1,680**	**–**	**(82)**	**1,109**
Recognised in other comprehensive income in respect of:					
– current year	**(59)**	**–**	**–**	**–**	**(59)**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**6**	**–**	**–**	**–**	**6**
Total recognised in other comprehensive income	**(53)**	**–**	**–**	**–**	**(53)**
Recognised in equity in respect of:					
– current year	**–**	**(17)**	**–**	**–**	**(17)**
– prior year	**–**	**–**	**–**	**–**	**–**
– change in rate	**–**	**–**	**–**	**–**	**–**
Total recognised in equity	**–**	**(17)**	**–**	**–**	**(17)**
As at 31 December 2019	**1,360**	**3,545**	**304**	**(103)**	**5,106**

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Total £'000
Deferred tax assets	**1,360**	**3,545**	**304**	**–**	**5,209**
Deferred tax liabilities	**–**	**–**	**–**	**(103)**	**(103)**
As at 31 December 2019	**1,360**	**3,545**	**304**	**(103)**	**5,106**

52 *Deferred tax continued*

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Total £'000
As at 1 January 2018	2,650	1,539	316	(50)	4,455
Recognised in profit or loss in respect of:					
– current year	(605)	400	(7)	33	(179)
– prior year	–	(29)	(6)	–	(35)
– change in rate	64	–	1	(4)	61
Total recognised in profit or loss	(541)	371	(12)	29	(153)
Recognised in other comprehensive income in respect of:					
– current year	(231)	–	–	–	(231)
– prior year	–	–	–	–	–
– change in rate	24	–	–	–	24
Total recognised in other comprehensive income	(207)	–	–	–	(207)
Recognised in equity in respect of:					
– current year	–	80	–	–	80
– prior year	–	(108)	–	–	(108)
– change in rate	–	–	–	–	–
Total recognised in equity	–	(28)	–	–	(28)
As at 31 December 2018	1,902	1,882	304	(21)	4,067

	Pensions £'000	Share-based payments £'000	Staff-related costs £'000	Fair value through profit or loss £'000	Total £'000
Deferred tax assets	1,902	1,882	304	–	4,088
Deferred tax liabilities	–	–	–	(21)	(21)
As at 31 December 2018	1,902	1,882	304	(21)	4,067

53 Trade and other payables

	2019 £'000	2018 £'000
Trade creditors	**629**	211
Accruals, deferred income and other creditors	**61,799**	66,633
Amounts owed to group undertakings	**–**	99
Other taxes and social security costs	**7,562**	7,444
	69,990	74,387

The fair value of trade and other payables is not materially different from their carrying amount.

54 Lease liabilities

Maturity analysis	**2019 £'000**
Less than one year	**4,901**
One to five years	**18,556**
More than five years	**36,569**
Lease liabilities at 31 December	**60,026**
Current	**4,901**
Non-current	**55,125**
	60,026

55 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 2018	12,145	1,220	13,639	27,004
Charged to profit or loss	–	–	1,790	1,790
Unused amount credited to profit or loss	–	–	(3,726)	(3,726)
Net credit to profit or loss	–	–	(1,936)	(1,936)
Other movements	**(3,641)**	**3,158**	**–**	**(483)**
Utilised/paid during the year	**(7,445)**	**(2,000)**	**(4,917)**	**(14,362)**
At 31 December 2018	**1,059**	**2,378**	**6,786**	**10,223**
Charged to profit or loss	**–**	**–**	**1,300**	**1,300**
Unused amount credited to profit or loss	**–**	**–**	**290**	**290**
Net charge to profit or loss	**–**	**–**	**1,590**	**1,590**
Other movements	**4,770**	**179**	**–**	**4,949**
Utilised/paid during the year	**(4,981)**	**(2,557)**	**(3,338)**	**(10,876)**
As at 31 December 2019	**848**	**–**	**5,038**	**5,886**
Payable within 1 year	**590**	**–**	**847**	**1,437**
Payable after 1 year	**258**	**–**	**4,191**	**4,449**
	848	**–**	**5,038**	**5,886**

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year. In 2018, there was a net release of £3,641,000 in relation to the value of certain payments where not all performance conditions were ultimately met.

Following the satisfaction of certain operational targets, contingent consideration of £1,050,000 was paid to vendors of Speirs & Jeffrey in May 2019 (see note 9). In addition, contingent consideration of £1,507,000 was paid in October 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Property-related provisions of £5,038,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group; and monies due under the contract with the assignee of leases on the group's former property at 1 Curzon Street (2018: £6,786,000).

Dilapidation provisions are calculated using a discounted cash flow model; during the year, provisions have increased by £1,228,000 (2018: increased by £803,000). The group utilised £3,338,000 (2018: £912,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. The impact of discounting le d to an additional £1,669,000 (2018: £127,000) being provided for over the year.

Provisions payable after one year are expected to be settled within two years of the balance sheet date (2018: two years), except for the property-related provisions of £4,191,000 (2018: £832,000), which are expected to be settled within 14 years of the balance sheet date (2018: 15 years).

56 Long-term employee benefits

Details of the defined benefit pension schemes operated by the company are provided in note 31 to the consolidated financial statements.

57 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 32 and 33 to the consolidated financial statements. Details of options on the company's shares and share-based payments are set out in note 34 to the consolidated financial statements.

58 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 31 to the consolidated financial statements.

The sections below outline the group risk appetite, as applicable to the company, and explain how the company defines and manages each category of financial risk.

The company's financial risk management policies are designed to identify and analyse the financial risks that the company faces, to set appropriate risk tolerances, limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its financial risk management policies and systems to reflect changes in the business and the wider industry.

The company's overall strategy and policies for monitoring and management of financial risk are set by the board of directors ('the board'). The board has embedded risk management within the business through the executive committee and senior management.

(i) Credit risk

The company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its trading activities. The principal sources of credit risk arise from depositing funds with banks and through providing long-term and working capital financing for subsidiaries.

The company's financial assets are categorised as follows:

Trade and other receivables

Trade and other receivables relate to amounts placed with subsidiaries, amounts held in escrow following the assignment of leases on 1 Curzon Street and staff advances.

The collection and ageing of trade and other receivables are reviewed on a periodic basis by management.

The company places surplus funds with its banking subsidiary, which operates under the group's credit risk management policies. Group policy requires that funds be 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).

Maximum exposure to credit risk

	2019 £'000	2018 £'000
Other investments:		
– money market funds	**10,006**	10,005
Trade and other receivables:		
– amounts owed by group undertakings	**116,733**	90,607
– other financial assets	**8,429**	12,570
Balances at banks	**4,204**	5,386
	139,372	118,568

The above table represents the gross credit risk exposure of the company at 31 December 2019 and 2018, without taking account of any collateral held or other credit enhancements attached.

Other investments

The table below presents an analysis of other investments by rating agency designation, as at 31 December 2019, based on Fitch or Moody's long-term rating designation.

	2019		2018	
	Money market funds £'000	Total £'000	Money market funds £'000	Total £'000
AAA	**10,000**	**10,000**	10,000	10,000

Trade and other receivables

No trade and other receivables have been written off or are credit-impaired at the reporting date.

Amounts owed by group undertakings do not have specific repayment dates and are paid down periodically as trading requires.

Balances at banks

The credit quality of balances at banks is analysed below by reference to the long-term credit rating awarded by Fitch, or equivalent rating by Moody's, as at the balance sheet date.

	2019 £'000	2018 £'000
A	**4,204**	5,386
	4,204	5,386

Concentration of credit risk

The company has counterparty credit risk within its balances at banks in that the principal exposure is to its banking subsidiary. The board sets and monitors the group policy for the management of group funds, which includes the placement of funds with a range of high-quality financial institutions.

(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 2019	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	**116,334**	**399**	**116,733**
– other financial assets	**3,408**	**450**	**3,858**
Balances at banks	**4,204**	**–**	**4,204**
	133,946	**849**	**134,795**

At 31 December 2018	United Kingdom £'000	Rest of the World £'000	Total £'000
Other investments:			
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	90,264	343	90,607
– other financial assets	7,609	469	8,078
Balances at banks	5,386	–	5,386
	113,259	812	114,071

At 31 December 2019, all rest of the world exposures were to counterparties based in Jersey and the United States of America (2018: Jersey and the United States of America). At 31 December 2019, the company had no exposure to sovereign debt (2018: none).

58 *Financial instruments continued*

(i) *Credit risk continued*

(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 2019	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	**79,271**	**37,462**	**116,733**
– other financial assets	**6**	**3,852**	**3,858**
Balances at banks	**4,204**	**–**	**4,204**
	93,481	**41,314**	**134,795**

At 31 December 2018	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Other investments:			
– money market funds	10,000	–	10,000
Trade and other receivables:			
– amounts owed by group undertakings	50,214	40,393	90,607
– other financial assets	5	8,073	8,078
Balances at banks	5,386	–	5,386
	65,605	48,466	114,071

(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 (2018: £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 2019	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	**10,006**	**–**	**–**	**–**	**–**	**–**	**10,006**
Trade and other receivables:							
– amounts owed by group undertakings	**116,733**	**–**	**–**	**–**	**–**	**–**	**116,733**
– other financial assets	**115**	**1,911**	**903**	**3,915**	**1,585**	**–**	**8,429**
Balances at banks	**4,204**	**–**	**–**	**–**	**–**	**–**	**4,204**
Cash flows arising from financial assets	**131,058**	**1,911**	**903**	**3,915**	**1,585**	**–**	**139,372**
Trade and other payables:							
– amounts owed to group undertakings	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– other financial liabilities	**143**	**46,978**	**7,060**	**47,980**	**59,092**	**–**	**161,253**
Cash flows arising from financial liabilities	**143**	**46,978**	**7,060**	**47,980**	**59,092**	**–**	**161,253**
Net liquidity gap	**130,915**	**(45,067)**	**(6,157)**	**(44,065)**	**(57,507)**	**–**	**(21,881)**
Cumulative net liquidity gap	**130,915**	**85,848**	**79,691**	**35,626**	**(21,881)**	**(21,881)**	

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	No fixed maturity date £'000	Total £'000
Other investments:							
– money market funds	10,005	–	–	–	–	–	10,005
Trade and other receivables:							
– amounts owed by group undertakings	90,607	–	–	–	–	–	90,607
– other financial assets	10	2,046	3,871	4,348	2,295	–	12,570
Balances at banks	5,255	131	–	–	–	–	5,386
Cash flows arising from financial assets	105,877	2,177	3,871	4,348	2,295	–	118,568
Trade and other payables:							
– amounts owed to group undertakings	99	–	–	–	–	–	99
– other financial liabilities	131	35,627	4,921	27,853	6,028	–	74,560
Cash flows arising from financial liabilities	230	35,627	4,921	27,853	6,028	–	74,659
Net liquidity gap	105,647	(33,450)	(1,050)	(23,505)	(3,733)	–	43,909
Cumulative net liquidity gap	105,647	72,197	71,147	47,642	43,909	43,909	

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 suggests are unlikely to be called in the short term.

The company holds £4,587,000 of equity investments (2018: £3,205,000) which are subject to liquidity risk but are not included in the table above. These assets are held as fair value through profit or loss securities and have no fixed maturity date; cash flows arise from receipt of dividends or through sale of the assets.

Off-balance sheet items

In 2018, cash flows arising from the company's off-balance sheet financial liabilities arose solely from operating leases (note 60) and are summarised in the table below. Since the adoption of IFRS 16, the company has no off-balance sheet financial liabilities.

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 2019	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	1,884	5,753	27,662	50,732	86,031

58 *Financial instruments continued*

(ii) *Liquidity risk continued*

Total liquidity requirement

At 31 December 2019	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	**143**	**46,978**	**7,060**	**47,980**	**59,092**	**161,253**
Total off-balance sheet items	**–**	**–**	**–**	**–**	**–**	**–**
Total liquidity requirement	**143**	**46,978**	**7,060**	**47,980**	**59,092**	**161,253**

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	230	35,627	4,921	27,853	6,028	74,659
Total off-balance sheet items	–	1,884	5,753	27,662	50,732	86,031
Total liquidity requirement	230	37,511	10,674	55,515	56,760	160,690

(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 2019	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	**–**	**–**	**–**	**–**	**–**	**4,587**	**4,587**
– money market funds	**10,000**	**–**	**–**	**–**	**–**	**–**	**10,000**
Trade and other receivables:							
– amounts owed by group undertakings	**–**	**–**	**–**	**–**	**–**	**116,733**	**116,733**
– other financial assets	**1,565**	**–**	**–**	**–**	**–**	**2,293**	**3,858**
Balances at banks	**4,199**	**–**	**–**	**–**	**–**	**5**	**4,204**
Total financial assets	**15,764**	**–**	**–**	**–**	**–**	**123,618**	**139,382**
Liabilities							
Trade and other payables:							
– amounts owed to group undertakings	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– other financial liabilities	**–**	**–**	**–**	**–**	**–**	**119,101**	**119,101**
Total financial liabilities	**–**	**–**	**–**	**–**	**–**	**119,101**	**119,101**
Interest rate repricing gap	**15,764**	**–**	**–**	**–**	**–**	**4,517**	**20,281**

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Non-interest-bearing £'000	Total £'000
Assets							
Other investments:							
– equity securities	–	–	–	–	–	3,205	3,205
– money market funds	10,000	–	–	–	–	–	10,000
Trade and other receivables:							
– amounts owed by group undertakings	–	–	–	–	–	90,607	90,607
– other financial assets	5,961	–	–	–	–	2,162	8,078
Balances at banks	5,381	–	–	–	–	5	5,386
Total financial assets	21,297	–	–	–	–	95,979	117,276
Liabilities							
Trade and other payables:							
– amounts owed to group undertakings	–	–	–	–	–	99	99
– other financial liabilities	–	–	–	–	–	56,325	56,325
Total financial liabilities	–	–	–	–	–	56,424	56,424
Interest rate repricing gap	21,297	–	–	–	–	39,555	60,852

A 1% parallel increase/decrease in the sterling yield curve would have no impact on profit after tax or equity (2018: 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 2019. Included in the table are the company's financial assets and liabilities, at carrying amounts, categorised by currency.

At 31 December 2019	**Sterling £'000**	**US dollar £'000**	**Euro £'000**	**Total £'000**
Assets				
Other investments:				
– equity securities	**4,587**	**–**	**–**	**4,587**
– money market funds	**10,000**	**–**	**–**	**10,000**
Trade and other receivables:				
– amounts owed by group undertakings	**116,733**	**–**	**–**	**116,733**
– other financial assets	**3,593**	**265**	**–**	**3,858**
Balances at banks	**4,204**	**–**	**–**	**4,204**
Total financial assets	**139,117**	**265**	**–**	**139,382**
Liabilities				
Trade and other payables:				
– amounts owed to group undertakings	**–**	**–**	**–**	**–**
– other financial liabilities	**119,101**	**–**	**–**	**119,101**
Total financial liabilities	**119,101**	**–**	**–**	**119,101**
Net on-balance sheet position	**20,016**	**265**	**–**	**20,281**

58 *Financial instruments continued*

(iii) *Market risk continued*

At 31 December 2018	Sterling £'000	US dollar £'000	Euro £'000	Total £'000
Assets				
Other investments:				
– equity securities	3,205	–	–	3,205
– money market funds	10,000	–	–	10,000
Trade and other receivables:				
– amounts owed by group undertakings	90,607	–	–	90,607
– other financial assets	7,794	284	–	8,078
Balances at banks	5,386	–	–	5,386
Total financial assets	116,992	284	–	117,276
Liabilities				
Trade and other payables:				
– amounts owed to group undertakings	99	–	–	99
– other financial liabilities	56,325	–	–	56,325
Total financial liabilities	56,424	–	–	56,424
Net on-balance sheet position	60,568	284	–	60,852

A 10% weakening of the US dollar against sterling, occurring on 31 December 2019, would have reduced equity and profit after tax by £21,000 (2018: £23,000). 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 35.

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 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Fair value through profit or loss:				
– equity securities	**4,587**	**–**	**–**	**4,587**
– money market funds	**–**	**10,000**	**–**	**10,000**
	4,587	**10,000**	**–**	**14,587**

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	3,205	–	–	3,205
– money market funds	–	10,000	–	10,000
	3,205	10,000	–	13,205

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 (2018: 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 35 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 48).

59 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 47). 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.

60 Contingent liabilities and commitments

The group leases various offices and other assets under non-cancellable lease agreements. Prior to the adoption of IFRS 16, these were classified as operating lease agreements. Since the adoption of IFRS 16, the liabilities in respect of these leases have been recognised on the company's balance sheet (note 54).

Payments under non-cancellable operating leases	**2019 £'000**	2018 £'000
No later than 1 year	**–**	7,637
Later than 1 year and no later than 5 years	**–**	27,662
Later than 5 years	**–**	50,732
	–	86,031

61 Related party transactions

Rathbone Brothers Plc is considered to be the ultimate controlling party.

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.

	2019 £'000	2018 £'000
Short-term employee benefits	**1,854**	1,777
Other long-term benefits	**52**	56
Share-based payments	**648**	1,017
	2,554	2,850

Dividends totalling £95,000 were paid in the year (2018: £247,000) 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.

61 *Related party transactions continued*

Other related party transactions

During the year, the company entered into the following transactions with its subsidiaries:

	2019		2018	
	Receivable £'000	Payable £'000	Receivable £'000	Payable £'000
Charges for management services	**192,188**	**–**	157,217	–
Dividends received	**58,000**	**–**	59,250	–
	250,188	**–**	216,467	–

The company's balances with fellow group companies at 31 December 2019 are set out in notes 50 and 53.

The company's transactions with the pension funds are described in note 56. At 31 December 2019, no amounts were due from the pension schemes (2018: £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.

62 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:

	2019 £'000	2018 £'000
Cash at bank (excluding amounts held at employee benefit trust)	**4,204**	5,386

A reconciliation of the movements of liabilities to cash flows arising from financing activities is provided in note 40 to the consolidated financial statements.

63 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

Further information

Five year record

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Operating income (and underlying operating income)[1]	**348,071**	311,963	286,049	251,283	229,178
Underlying profit before tax[1]	**88,673**	91,558	87,520	74,880	70,365
Profit before tax	**39,652**	61,306	58,901	50,129	58,632
Profit after tax	**26,923**	46,169	46,829	38,157	46,371
Equity dividends paid and proposed	**37,714**	35,204	30,429	28,267	26,305
Basic earnings per share	**50.3p**	88.7p	92.7p	78.9p	97.4p
Diluted earnings per share	**48.7p**	86.2p	91.9p	78.2p	96.6p
Underlying earnings per share[1]	**132.8p**	142.5p	138.8p	122.1p	117.0p
Dividends per ordinary share	**70.0p**	66.0p	61.0p	57.0p	55.0p
Equity shareholders' funds	**485,393**	325,550	363,278	324,813	300,192
Total funds under management and administration	**£50.4bn**	£44.1bn	£39.1bn	£34.2bn	£29.2bn

1. A reconciliation between the underlying measure and its closest IFRS equivalent for the current year and the prior year is shown in table 2 on page 27

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 Speirs & Jeffrey	Rathbone Unit Trust Management
Offices	15	2
Websites	www.rathbones.com www.rathboneimi.com www.rathbonegreenbank.com www.speirsjeffrey.co.uk	www.rathbones.com www.rutm.com

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