Rathbones

Preliminary results for the twelve months ended 31 December 2021

# Strategic momentum leading to strong financial results

## Paul Stockton, Group Chief Executive, said:

"We set out our focused strategy over two years ago and it has driven some considerable and positive changes within the business over that period. It is clear from the results we are publishing today that Rathbones is building strong organic growth momentum, complemented by value-added acquisitions, which has led to total funds under management and advice (FUMA) growth of 24.7% to £68.2 billion in the year.

Our financial results for 2021 are strong and include meaningful investments that are enabling further strategic progress. Statutory profit before tax of £95.0 million is up 116.9% on the £43.8 million reported a year ago. The business ends 2021 in good health and our confidence in the future is reflected in our full-year dividend of 81p, up 12.5% from 72p last year. This financial outcome gives us a strong platform to enter the next phase of our strategy which will further leverage technology to deliver a holistic digital experience to clients, advisers and colleagues, and harness efficiency opportunities.

After a decade of significant growth, the Rathbones of today offers a holistic range of wealth management and advice services, complemented by a high-quality fund management business; our December 2021 announcement to rename the company to Rathbones Group Plc reflects this."

## Financial highlights

- Total FUMA reached £68.2 billion at 31 December 2021, up 24.7% from £54.7 billion at 31 December 2020:
  - £50.3 billion in Investment Management (excluding Saunderson House), up 12.0% (2020: £44.9 billion).
  - £4.9 billion of Saunderson House FUMA following completion of the acquisition in October 2021.
  - £13.0 billion in Rathbone Funds, up 32.7% (2020: £9.8 billion).
- In 2021, we enhanced our reporting capability to represent more closely the way we deliver our products and services:
  - Discretionary service net inflows totalled £1.3 billion in the year (2020: £1.0 billion), while inflows into our multi-asset fund range totalled £0.5 billion (2020: £0.2 billion). Total discretionary and managed net inflows therefore were £1.8 billion (2020: £1.2 billion), representing an annualised growth rate of 4.1% (2020: 2.9%), demonstrating growing momentum in both direct-to-client business and the indirect financial adviser market.
  - Net flows into our single strategy fund range grew by 20.0% year-on-year to £1.2 billion (2020: £1.0 billion).
  - In total, Rathbone Funds generated net inflows of £2.1 billion (2020: £1.5 billion), an exceptional growth rate of 21.1% (2020: 20.1%).

| | **2021 £m (unless stated)** | 2020 £m (unless stated) | Change |
|---|---|---|---|
| Operating income | **435.9** | 366.1 | 19.1% |
| Underlying operating expenses[1] | **(315.2)** | (273.6) | 15.2% |
| Underlying profit before tax[1] | **120.7** | 92.5 | 30.5% |
| Underlying operating margin[1] | **27.7%** | 25.3% | |
| Profit before tax | **95.0** | 43.8 | 116.9% |
| Underlying earnings per share[1] | **172.2p** | 133.3p | 29.2% |
| Earnings per share | **133.5p** | 49.6p | 169.2% |

1. A reconciliation between the underlying measure and its closest IFRS equivalent is provided in the financial performance section.

## Outlook and guidance

Rathbones is in a strong position to implement the next phase of its digital strategy, secure the delivery of its ambitions for Saunderson House, and continue its organic growth momentum whilst being mindful of an inflationary post-pandemic period and current tensions in Ukraine.

Net interest income in 2022 is expected to increase as a result of recent Bank of England base rate rises and those widely anticipated in the remainder of 2022.

The progression of our digital strategy has been carefully considered and is expected to result in an additional investment of £40 million in total, split between 2022 and 2023. At market levels consistent with conditions at 31 December 2021, we plan to manage this investment within existing underlying operating margin guidance of mid-20%s in 2022 and 2023 with a view to returning to 27-30% from 2024 onwards.

Rathbones' balance sheet is well capitalised which places it in a strong position to invest to drive organic inflows, continue to improve services to clients and explore further opportunities for growth.

## Declaration of final dividend

The board recommends a final dividend of 54p for 2021 (2020: 47p), making a total of 81p for the year (2020: 72p), an increase of 12.5% on 2020. This is consistent with our progressive policy and is supported by our strong capital position and robust balance sheet. The dividend will be paid on 10 May 2022, subject to shareholder approval at our 2022 Annual General Meeting on 5 May 2022.

## 2021 results presentation

A presentation detailing Rathbones' 2021 results is available on the investor relations website under the tab 'Results Presentations' (https://www.rathbones.com/investor-relations/results-and-presentations).

A presentation to analysts and investors will take place this morning at 10:30am at our offices at 8 Finsbury Circus, London, EC2M 7AZ. Participants who wish to join the presentation virtually can do so by either joining the video webcast (https://www.investis-live.com/rathbone-brothers/620242f403c52012000f9ae2/whh3) or by dialling in using the conference call details below:

United Kingdom: 0800 640 6441

United Kingdom (Local): 020 3936 2999

All other locations: +44 203 936 2999

Participant access code: 865870

A Q&A session will follow the presentation. Participants will be able to ask their questions either via the webcast by typing them in or via the conference call line.

A recording of the presentation will be available later today on our website at: www.rathbones.com/investor-relations/results-and-presentations.

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## Rathbones Group Plc

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.

Rathbones has over 1,900 staff in 15 UK locations and Jersey; its headquarters is 8 Finsbury Circus, London, EC2M 7AZ.

www.rathbones.com

# Chair's statement

## Dear Shareholder

In my first year as Chair of Rathbones, I have spent time getting to know the various teams that comprise this special business, as well as having the pleasure of speaking to some of our shareholders and other key stakeholders about Rathbones and the wider UK wealth market. This has been informative, and I look forward to continuing this dialogue during 2022 and beyond.

These discussions have confirmed that the work we do on behalf of our clients and advisers is of real importance. It is our responsibility to be good, long-term stewards of the £68.2 billion of wealth entrusted to Rathbones. Our commitment to be a leader in responsible business stems from our sense of purpose to society. It is woven throughout our business strategy, and embedded in our day-to-day decision-making. This focus on the long term is how we will not only create value for our clients, but also make a wider contribution to the society where we live.

2021 was a year of good progress as we delivered against our strategic ambitions. We generated very strong financial results and took another major step forward in the expansion of our financial planning proposition with the acquisition of Saunderson House. The board reviewed the merits of the transaction and concluded that Saunderson House will accelerate group growth and enable us to reach new clients across the wealth sector. The acquisition brings £4.9 billion of FUMA (at 31 December 2021) and reinforces Rathbones' position as one of the largest independent UK wealth managers. Their 51 financial planners will strengthen our existing financial planning capabilities and enhance the wider wealth proposition we provide to our existing clients. The transaction is earnings accretive, underpinned by revenue and cost synergies, with a target return on invested capital of approximately 12% by the end of 2024.

## Dividend

In line with a progressive dividend policy of over 25 years, positive financial results and a strong capital position, the board has recommended a final dividend of 54p per share. This brings the total dividend for the year to 81p per share, 12.5% ahead of 2020.

## Environmental, social and governance (ESG)

Rathbones' has long been at the forefront of responsible investing through Rathbone Greenbank Investments who have created bespoke, ethical, and sustainable portfolios for our clients for over 20 years. Our approach to responsible investment was recognised by the FT & Investors' Chronicle Investment Awards 2021, where Rathbones was named ESG Champion of the Year, and ESG Champion for Governance. We intend to further integrate ESG into our investment process across the Group, including the launch of four new Rathbone Greenbank Multi-Asset Funds announced earlier this year.

In keeping with our ESG responsibilities, I am delighted that Rathbones is committed to achieving net zero emissions by 2050 or earlier.

Outside of our own group, we have always recognised the importance of maintaining a dialogue with the companies in which we invested, and remain eager to help them towards better, more sustainable long-term performance. Our highly regarded stewardship team directly engaged with 705 companies in 2021 to discuss ESG issues.

The board is conscious that good governance is not simply a matter of regulatory compliance but encompasses the firm's culture, behaviours and how we serve our clients. We recognise the crucial link between culture, governance and leadership. As a result, the board closely monitors and analyses the firm's culture. This is supported by my own engagement with employees and our workforce engagement programme. It is gratifying to see the firm's strong and distinctive culture in action. This is evident by the way our employees work to provide positive outcomes for our clients and partners.

During the year the board held strategy days with the group executive team to focus on strategic issues including emerging trends, client needs and their future expectations. Commitment to fulfilling client needs remains paramount, supported by a digital approach to enhance that interaction. Our new portal and app, MyRathbones, was launched in 2021 and during 2022, we will continue our digital investment through the roll out of a more seamless, personalised, and interactive experience resulting in reduced documentation for clients and advisers.

## Board composition and succession

This has been a year of change for the board. I succeeded Mark Nicholls as Chair at the AGM in May 2021. Mark's decade of commitment to Rathbones and his competence as chair were very clear and we wish him well in his retirement.

Jim Pettigrew also retired at the AGM in May 2021. As part of the board's succession plans, Colin Clark succeeded Jim as our Senior Independent Director. I thank Jim for his tireless work over his four years at Rathbones and am delighted that Colin has taken on these important responsibilities.

James Dean has indicated that he will not seek re-election at the 2022 AGM as he has served nine years on the Board. James has made a huge contribution to the board, both as a non-executive director and chair of the audit committee. As part of the board's succession plans, I am pleased that Iain Cummings will succeed James as chair of the audit committee.

As part of our nomination committee review of board effectiveness and succession planning, we monitor the diversity, depth of knowledge and industry experience within the board; to assess what new skills are necessary to continue constructive challenge and guidance to the executive team. As a result, in October, we appointed Iain Cummings and Dharmash Mistry as independent non-executive directors. Their experience in industry within and beyond the financial sector will be of great value to Rathbones in the years ahead.

## Looking ahead

This has been a very strong financial year for Rathbones. In 2022 there is a continued commitment to accelerate the firm's organic growth, accelerate the digital transformation agenda, and successfully integrate Saunderson House.

Finally, on behalf of the board, I would like to thank our colleagues for their remarkable resilience. They have supported both Rathbones and each other throughout the pandemic.

I would also like to thank our clients, shareholders, and wider stakeholders for their continued commitment to our success. I am confident that together, we are building a stronger, better business.

Clive C R Bannister

Chair

23 February 2022

# Chief executive's statement

## Introduction

It is difficult to report on 2021 without mentioning the pandemic which has impacted so much. For Rathbones, it has presented both challenges and opportunities that have changed the way in which we have invested and improved the way in which we deliver services to clients. We end the year in a very strong position having taken advantage of opportunities to improve client service quality, deliver strong investment returns, and build a robust change management and delivery capability. Our approach to supporting our employees has focussed on well-being, thereby improving productivity and securing a high level of staff engagement throughout the year.

As a result, we have made considerable progress in delivering on a strategic change agenda that will not only improve our services, but also build greater affinity with a wider range of client groups and make us significantly easier to do business with. We have succeeded in balancing cost and revenue growth during this period, culminating in a very strong year financially. Total funds under management and administration (FUMA) grew 24.7% to reach £68.2 billion at 31 December 2021 (2020: £54.7 billion), while profit before tax grew 116.9% to £95.0 million (2020: £43.8 million. Underlying profit before tax totalled £120.7 million, 30.5% ahead of the £92.5 million reported in 2020. This resulted in an underlying operating profit margin of 27.7% (2020: 25.3%). Further information can be found in the financial performance section.

After a decade of significant growth, the Rathbones of today is a business offering a holistic range of wealth management and advice services, complemented by a high-quality Funds busines; our December 2021 announcement to rename the company to Rathbones Group Plc reflects this.

## Growth and fund flows

By the end of the year and before the rotation to value we saw in early 2022, global investment markets largely looked to a future beyond the pandemic as key indices recovered well, comparing favourably to the considerable nervousness in the period leading up to the end of 2020. In the year, the FTSE 100 was up 14.3% and the WMA Balanced Index up 10.3%. This relatively strong performance combined with our own organic and acquired growth increased FUMA by 24.7% in the year (2020: 8.6%). Against relevant indices, our investment performance was also strong over one, three and five years.

In 2021 we enhanced our reporting capability, which is reflected in the improved disclosure found in the financial performance section. Discretionary service net inflows totalled £1.3 billion in the year, up 30% on £1.0 billion in 2020. External inflows of £0.5 billion into our risk targeted multi-asset fund range were up considerably from £0.2 billion in 2020. This fund range is a central part of our offering to the adviser market and also underpins our offering for those clients wishing to invest smaller values. Total discretionary and managed net inflows were £1.8 billion in 2021 representing an annualised growth rate of 4.1%. This compares to growth of 1.4% in 2019 (net inflow of £0.5 billion) and 2.9% in 2020 (net inflow of £1.2 billion) demonstrating a growing momentum in both direct to client business and the indirect financial adviser market.

Our growth plans continue to focus on improving services to existing clients and establishing relationships with new clients and advisers. Our dedicated client development team has provided a welcome point of focus in the direct market, encouraging a 'One Rathbones' approach to deliver a more holistic client service where we bring together the best of our skills and knowledge to support focused growth campaigns. Our specialist intermediary sales team is also well positioned to grow, and has seen momentum build in 2021 with indirect net flows from IFAs into our discretionary services at £0.7 billion in 2021 (2020: £0.2 billion) reflecting the investment we have made in the team.

Our Funds business had another very strong year with funds under management (FUM) reaching £13.0 billion at 31 December 2021 (2020: £9.8 billion). Net flows into our single strategy fund range grew by 20.0% year on year to £1.2 billion (2020: £1.0 billion). In total, Rathbone Funds generated net inflows of £2.1 billion (2020: £1.5 billion), a growth rate of 21.1% (2020: 20.1%). Rathbones was ranked in 5th position for total net retail sales in the UK in 2021 (source: Pridham Report), ahead of its 9th place position in 2020.

## Our strategy in action

Rathbones' future success is founded on our commitment to deliver a personal service that brings empathy and reassurance and builds trust with clients and advisers. We are committed to a responsible business agenda that fits our brand values and resonates strongly with both stakeholders and the next generation holders of wealth. Our strategy aims to establish a blended human and digital experience that transitions seamlessly across Rathbones and continually improves the quality of our investment and advice processes that stand up to scrutiny and deliver value. To achieve this, our objective is driven by four main pillars: enriching the client and adviser proposition and experience, supporting and delivering growth, inspiring our people, and operating more efficiently. Our focus on delivering against this strategy has driven considerable and positive changes within the business that have helped deliver strong financial outcomes in 2021.

### Building our financial advice capability

The completion of the Saunderson House Limited acquisition in October 2021 added the largest specialist professional services-focused financial planning business in the UK to Rathbones Group. With £4.9 billion (as at 31 December 2021) of FUMA and 51 certified advisers, Saunderson House presents a valuable opportunity to expand our proposition and accelerate the growth of our financial advice capability. Work since acquisition has reaffirmed the opportunities we anticipated: to be able to provide a deeper and more flexible investment service to Saunderson House clients and grow its presence in the sectors it operates in. Integration work is on track to deliver against expectations. The cultural fit with our existing Rathbones Financial Planning team is strong, with both management teams working well together.

Vision Independent Financial Planning (Vision) grew FUMA to £2.7 billion at 31 December 2021, up 22.7% from £2.2 billion in 2020, and now has 131 financial planners. The network is actively seeking to recruit further in 2022.

Looking across the group, Rathbones can now provide clients with access to over 200 financial planners and paraplanners and over 300 investment professionals that together can provide any combination of advice or investment services. Our strategy recognises that external advisers demand quality investment services directly, and we have continued to invest to enhance our direct to adviser proposition to deliver value and breadth of proposition to advisers and networks. As at 31 December 2021, the amount of adviser linked FUMA was £11.4 billion (31 December 2020: £9.7 billion).

## Responsible investing

A critical part of the development of our proposition is to deliver a leading approach to responsible investing across the group. In our wealth business, we have over 20 years of experience in ethical investing and our specialist ethical, sustainable and impact team Rathbone Greenbank Investments had £2.3 billion of funds under management at 31 December 2021 (2020: £1.9 billion). We are leveraging the expertise and experience of Rathbone Greenbank Investments more widely across Rathbones as well as adding capability to develop its proposition in a rapidly changing environment to facilitate further growth. All of our investment managers and their support staff have now completed the CISI Professional Assessment on Sustainability and Responsible Investment or the CFA equivalent. In 2022 we will also integrate an expanded ESG research data set into the investment process across the group and improve ESG reporting to clients with support from research and our award-winning stewardship team who during 2021, completed 705 company engagements.

Our Funds business also supports the responsible investment approach by delivering fund-based solutions for clients and advisers. Our highly successful Ethical Bond Fund continues to deliver strong investment performance, growing to reach £2.8 billion at 31 December 2021 (2020: £2.1 billion) while the Rathbone Greenbank Global Sustainability Fund now manages £116 million (2020: £44 million). In March, we added to our sustainability fund offering by launching the Rathbone Greenbank Multi-Asset Portfolios (RGMAPs) fund range.

The RGMAPs funds are managed by Rathbones' acclaimed multi-asset team and supported by Rathbone Greenbank Investments and though nascent, now manage £105 million. Total ethical and sustainable funds managed by Rathbones Group now equate to £5.3 billion and continue to grow.

We will continue to place responsible investing at our core, and enhance our capability through recruitment and skills development across investment and advice teams. Our charity proposition also continues to gain prominence with Rathbones ranked the 4th largest charity manager in the UK by Charity Finance with funds managed under a charitable mandate totalling £7.1 billion (2020: £6.5 billion). In a recent charity survey, respondents gave their Rathbones investment manager a mean satisfaction score of 9/10,. There were also a number of insights that we will use to improve our service.

We are committed to responding to our own fiduciary duty as a business to help build a better world for future generations as well as being stewards and allocators of capital. The establishment of a responsible business committee is critical to this ambition. Chaired by me, this committee oversees not only our responsible investment agenda, but also how we deliver on our responsibilities to our employees, our own environmental impact, and our social agenda. More information on our work in these areas will be published in our first standalone responsible business report in April 2022.

## The success of Speirs & Jeffrey

The acquisition of Speirs & Jeffrey in 2018 added considerable skills and capabilities to Rathbones as well as creating a leading market presence in Scotland. The transaction has established us as one of the largest independent wealth managers in Scotland with FUMA of £11.0 billion at 31 December 2021 (2020: £10.3 billion).

At the time of the acquisition in 2018, we outlined the following financial targets for 2021: expected underlying EPS accretion from the acquisition of at least 8%, and an underlying return on investment of approximately 13%. As at 31 December 2021, we exceeded both of the targets we originally laid out despite an uncertain and challenging backdrop through much of 2020 and 2021. Importantly, we have now largely worked through the short-term impact from the acquisition on basic earnings per share (EPS), which is now up 169.2% to 133.5p (2020: 49.6p) and more closely reflecting underlying EPS. Further information on financials related to the acquisition can be found in the business review. My thanks go to the Glasgow and transition teams that have worked so hard to make the deal such a success.

## Current and future digital plans

Our strategy sets out the need for a resolute focus on leveraging technology and people as part of a holistic digital experience that differentiates by quality, demonstrates value to clients, advisers and colleagues and harnesses efficiency opportunities. There is little doubt that the pandemic has greatly emphasised the importance of this direction of travel as well as being a significant facilitator of change as to how we work and interact with each other and our clients.

The first part of our digital strategy was the launch of our 'MyRathbones' web portal and app. Today, c.43% of clients are actively using the portal and app and this will continue to grow in 2022. It is also clear that the level of engagement with 'MyRathbones' has increased significantly versus our legacy platform. Alongside this development, we have also built in a continual improvement ('agile') capability that delivers regular upgrades that can keep the platform current and continue to respond to client-led improvements. MyRathbones will grow to be the digital doorway into Rathbones, providing clients and advisers with a straightforward, flexible, and safe experience for everyday tasks.

During 2021 we took our digital strategy further, in partnership with Objectway, by upgrading our custody and settlement system that provides the fundamental support for all aspects of the business. This significant work was completed on time and budget and has now established an up-to-date platform for operating our day-to-day books and records. It is a solid foundation upon which to build more client-centric systems, supporting an interim redesign of client and adviser reporting.

In 2021 we also mobilised a significant change team to support the delivery of a Client Lifecycle Management capability that will transform how Rathbones engages with clients and advisers. Our ambition is that clients and advisers will see a seamless, personalised and interactive experience that significantly reduces unnecessary documentation and data processes that materially improves efficiency and client centricity across the business. When achieved, our investment managers and financial advisers will be equipped with leading data and client management tools that will promote rather than inhibit service delivery and make Rathbones much easier to do business with. It will also enable more time to focus on performance and growth within the client facing teams.

To make this important step change, we have partnered with InvestCloud, a global company which specialises in digital transformation in the financial industry. It brings leading expertise in digital design, innovative technology and data capabilities to enable us to deliver leading Client Lifecycle Management capabilities to deliver a holistic digital experience. This will also enable us to keep pace with the rapid changes in client preferences and industry standards we expect to see over the medium term.

In addition to our partnership with InvestCloud, we have signed a partnership agreement with Charles River. It is a leading provider of portfolio management solutions that will help to take our Funds business to the next level, adding more institutional fund management capability to support investment performance and the next phase of growth.

The programme of delivery for all our digital plans will be phased to enable prioritisation and re-investment of early benefits. The phase of investment is expected to be concentrated over the next two years at a total operating expenditure cost of £40 million. At market levels consistent with conditions at 31 December 2021, we plan to manage this investment within existing underlying operating margin guidance of mid-20s with a view to returning to upper-20s operating margins of 27-30% from 2024 onwards.

## People

I have always maintained that, aside from our clients, our people are our most important asset and it has been truly heartening to witness the resilience and focus of our employees over the past two years. Like many businesses, having learnt from remote working, we will incorporate what we have learned into our future hybrid working approach. Employees will have greater autonomy in how they use their time and the ways in which they work. Rathbones will facilitate this activity to ensure that we can drive productivity, support flexibility, and compete for talent.

Rathbones recognises that capturing the full value and impact of our people at work can only be achieved by having an inclusive and diverse workforce who feel that they belong to the Rathbones Group. As a predominantly client-facing business this is critical to us being able to serve our clients and deliver on goals we have set. We took some important strides in 2021 to promote our Diversity, Equality & Inclusion (DE&I) agenda by adding resources, capturing helpful data for nearly 65% of our employees and taking part in several workforce programmes.

An engaged workforce is essential to delivery of our purpose and strategy. Our 2021 employee survey received an 83% response rate and our overall engagement score is notably higher than our industry benchmark. We are committed to continually improving our employees' experience at work and will continue to run and respond to surveys throughout the year.

## Risk management

Risk management practices are embedded across the firm and will continue to develop as we upgrade risk management systems and consider control self-assessment processes in 2022. We remain conscious of the impact of the changing risk landscape to our firm and industry, particularly as the world emerges from the pandemic. Risks associated with ESG, including climate change, anti-money laundering and the potential for further supply chain risks arising from Brexit are considered and assessed regularly. We will also remain diligent to mitigate risks in respect of potential cyber threats, business change, and greater investment in digital solutions.

## Outlook

The business ends 2021 in good health and is showing strong momentum having posted strong financial returns and delivered on some important initiatives in the year. The post pandemic environment, together with inflationary and macro-economic pressures, as well as the current tensions in Ukraine will continue to be digested by investment markets, but Rathbones is in a strong position to implement critical client lifecycle and investment systems capabilities in 2022, secure the delivery of ambitions for Saunderson House, and explore further opportunities to drive growth.

Paul Stockton
Group Chief Executive

23 February 2022

# Financial performance

## Overview of financial performance

The group delivered a very strong set of results for the year to 31 December 2021, driven by growth in all areas of the business and the realisation of benefits of our acquisition strategy.

Underlying profit before tax grew 31% to £120.7 million (2020: £92.5 million) reflecting strong operating income growth, balanced with the continuation of investment in the strategic plans announced in October 2019. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to operating income, was 27.7% (2020: 25.3%).

Statutory profit before tax for 2021 was £95.0 million (2020: £43.8 million). This included planned deferred acquisition and integration costs of £6.4 million relating to Speirs & Jeffrey (2020: £32.3 million). We also incurred costs of £3.7 million in 2021 relating to the acquisition of Saunderson House.

The board primarily considers underlying measures of income, expenditure and earnings when assessing the performance of the group. These are considered 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 in Table 4.

## Funds under management and administration

In 2021 we enhanced our FUMA flow reporting capability to provide additional analysis of FUMA by service level.

Table 1 presents separately the FUMA, and associated movements, in those services and products which support our wealth management solutions from asset management products and other services. Wealth management FUMA incorporates our bespoke discretionary portfolio and managed portfolio services. It also includes direct sales into our range of risk-targeted multi-asset funds, which are designed to be used as wealth management solutions for clients of investment platforms and financial advisers. Asset management FUMA includes our focused range of specialist 'single strategy' funds, which are designed to act as individual holdings within investment portfolios.

Including the acquisition of Saunderson House, group FUMA increased 24.7% in the year to £68.2 billion. Saunderson House FUMA totalled £4.9 billion at 31 December 2021.

Net inflows of discretionary and managed FUMA in Investment Management totalled £1.3 billion in 2021, up 30% from £1.0 billion in 2020 (2019: £0.3 billion). Direct net flows into our multi-asset fund range totalled £0.5 billion in the year (2020 and 2019: £0.2 billion). Taken together, this represents a growth rate of 4.1% in discretionary and managed FUMA (2020: 2.9%; 2019: 1.4%).

In addition to the above, FUMA on Vision Financial Planning's discretionary wealth management platform that was not managed by the group totalled £0.8 billion at 31 December 2021 (2020: £0.7 billion).

In 2022 we will continue to enhance this disclosure to incorporate FUMA in our financial planning businesses.

## Operating income

Operating income increased 19% in 2021 to £435.9 million, reflecting growth in all areas of the business and a full year of Speirs & Jeffrey operating on standard tariffs post transition in the fourth quarter of 2020. This also includes £6.1 million of post-acquisition income in Saunderson House.

Fee income of £349.4 million in 2021 increased 27.4% compared to £274.2 million in 2020. Fees represented 80.2% of operating income in 2021, up from 74.9% in 2020.

Net commission income decreased 14.0% to £53.6 million in 2021 (2020: £62.3 million). Commission income was elevated in 2020 as investment managers monitored and responded to the market impacts of the pandemic. The transition of Speirs & Jeffrey clients to fee-only tariffs in 2020 also impacted in 2021.

Net interest income decreased 53.6% to 3.9 million, reflecting a full year with the UK base rate at 0.1%, following the cut in March 2020.

## Underlying operating expenses

Operating expenses increased from £322.3 million to £340.9 million during the year. Operating expenses are adjusted to exclude expenditure falling into the two categories explained under table 4.

Underlying operating expenses increased by £41.6 million (15.2%) to £315.2 million, reflecting ongoing investment in our strategic objectives, continued growth momentum across the business and the acquisition of Saunderson House.

Advancing the strategic plans to invest in our digital capability, ESG proposition and IT infrastructure added £9.2 million to our non-staff cost base in the year. Business growth and inflation added a further £6.0 million.

Excluding Saunderson House, planned additions to headcount in 2020 and 2021 and market-led salary increases increased fixed staff costs by £9.3 million to £126.8 million. Average headcount increased by 10% to 1,694 in 2021, driven largely by increases in client facing and change delivery teams. Variable staff costs increased by £12.0 million to £89.7 million, reflecting higher profitability and strong performance of client portfolios.

Post-acquisition costs in Saunderson House totalled £5.0 million, of which £3.4 million related to staff costs.

## Table 1. Group FUMA and flows by service level

| Year ended 31 December 2021 | Opening FUMA £bn | Net flows £bn | Net service level transfers £bn | Market & investment performance £bn | Closing FUMA £bn | Net growth (flows) % |
|---|---|---|---|---|---|---|
| Discretionary service | 43.4 | 1.3 | – | 4.6 | 49.3 | 3.0% |
| Bespoke portfolios | 42.5 | 1.1 | (0.1) | 4.5 | 48.0 | 2.6% |
| Managed via in-house funds | 0.9 | 0.2 | 0.1 | 0.1 | 1.3 | 19.9% |
| Multi-asset funds | 1.3 | 0.5 | – | 0.2 | 2.0 | 40.3% |
| **Total discretionary & managed** | **44.7** | **1.8** | **–** | **4.8** | **51.3** | **4.1%** |
| Non-discretionary service | 1.4 | (0.1) | (0.3) | – | 1.0 | (11.4%) |
| **Total wealth management** | **46.1** | **1.7** | **(0.3)** | **4.8** | **52.3** | **3.6%** |
| Single-strategy funds | 6.3 | 1.2 | – | 0.8 | 8.3 | 18.9% |
| Execution only & banking | 2.3 | (0.2) | 0.3 | 0.3 | 2.7 | (8.9%) |
| **Total group (pre acquisitions)** | **54.7** | **2.7** | **–** | **5.9** | **63.3** | **4.9%** |
| Saunderson House | | | | | 4.9 | |
| **Total group** | | | | | **68.2** | |

| Year ended 31 December 2020 | **Opening** FUMA £bn | Net flows £bn | Net service level transfers £bn | Market & investment performance £bn | Closing FUMA £bn | Net growth (flows) % |
|---|---|---|---|---|---|---|
| Discretionary service | 39.9 | 1.0 | 0.8 | 1.8 | 43.4 | 2.5% |
| Bespoke portfolios | 39.3 | 0.9 | 0.7 | 1.7 | 42.5 | 2.2% |
| Managed via in-house funds | 0.6 | 0.1 | 0.1 | 0.1 | 0.9 | 15.5% |
| Multi-asset funds | 1.0 | 0.2 | – | 0.1 | 1.3 | 24.4% |
| **Total discretionary & managed** | **40.9** | **1.2** | **0.8** | **1.8** | **44.7** | **2.9%** |
| Non-discretionary service | 2.6 | (0.1) | (1.0) | (0.1) | 1.4 | (3.8%) |
| **Total wealth management** | **43.5** | **1.1** | **(0.2)** | **1.7** | **46.1** | **2.5%** |
| Single-strategy funds | 4.7 | 1.0 | – | 0.7 | 6.3 | 20.4% |
| Execution only & banking | 2.2 | (0.2) | 0.2 | 0.1 | 2.3 | (10.4%) |
| **Total group** | **50.4** | **1.8** | **–** | **2.5** | **54.7** | **3.6%** |

| Year ended 31 December 2019 | Opening FUMA £bn | Net flows £bn | Net service level transfers £bn | Market & investment performance £bn | Closing FUMA £bn | Net growth (flows) % |
|---|---|---|---|---|---|---|
| Discretionary service | 34.2 | 0.3 | 0.2 | 5.2 | 39.9 | 0.9% |
| Bespoke portfolios | 33.8 | 0.2 | 0.2 | 5.1 | 39.3 | 0.5% |
| Managed via in-house funds | 0.4 | 0.1 | – | 0.1 | 0.6 | 20.0% |
| Multi-asset funds | 0.7 | 0.2 | – | – | 1.0 | 31.3% |
| **Total discretionary & managed** | **35.0** | **0.5** | **0.3** | **5.2** | **40.9** | **1.4%** |
| Non-discretionary service | 3.4 | (0.1) | (0.4) | (0.3) | 2.6 | (2.1%) |
| **Total wealth management** | **38.3** | **0.4** | **(0.1)** | **4.9** | **43.5** | **1.1%** |
| Single-strategy funds | 3.7 | 0.4 | – | 0.6 | 4.7 | 10.0% |
| Execution only & banking | 2.1 | (0.5) | 0.1 | 0.5 | 2.2 | (25.5%) |
| **Total group** | **44.1** | **0.3** | **–** | **6.1** | **50.4** | **0.6%** |

## Table 2. Reconciliation of service levels to segmental presentation

| | Investment Management FUMA (including intra-group holdings) £bn | Intra-group holdings[1] £bn | Investment Management FUMA £bn | Funds FUMA £bn | Group FUMA £bn |
|---|---|---|---|---|---|
| Discretionary service | 49.3 | (2.7) | 46.6 | 2.7 | 49.3 |
| Bespoke portfolios | 48.0 | (1.5) | 46.5 | 1.5 | 48.0 |
| Managed via in-house funds | 1.3 | (1.2) | 0.1 | 1.2 | 1.3 |
| Multi-asset funds | – | – | – | 2.0 | 2.0 |
| **Total discretionary & managed** | **49.3** | **(2.7)** | **46.6** | **4.7** | **51.3** |
| Non-discretionary service | 1.0 | – | 1.0 | – | 1.0 |
| **Total wealth management** | **50.3** | **(2.7)** | **47.6** | **4.7** | **52.3** |
| Single-strategy funds | – | – | – | 8.3 | 8.3 |
| Execution only & banking | 2.7 | – | 2.7 | – | 2.7 |
| **Total group (pre acquisitions)** | **53.0** | **(2.7)** | **50.3** | **13.0** | **63.3** |
| Saunderson House | 4.9 | – | 4.9 | – | 4.9 |
| **Total group** | **57.9** | **(2.7)** | **55.2** | **13.0** | **68.2** |

1. Intra-group holdings represent in-house funds held within an investment management portfolio.

## Table 3. Group's overall performance

| | **2021 £m (unless stated)** | 2020 £m (unless stated) |
|---|---|---|
| Operating income | **435.9** | 366.1 |
| Underlying operating expenses[1] | **(315.2)** | (273.6) |
| Underlying profit before tax[1] | **120.7** | 92.5 |
| Underlying operating margin[1] | **27.7%** | 25.3% |
| Profit before tax | **95.0** | 43.8 |
| Effective tax rate | **20.8%** | 39.0% |
| Taxation | **(19.8)** | (17.1) |
| Profit after tax | **75.2** | 26.7 |
| Underlying earnings per share[1] | **172.2p** | 133.3p |
| Earnings per share | **133.5p** | 49.6p |
| Dividend per share[2] | **81.0p** | 72.0p |
| Return on capital employed (ROCE) | **13.0%** | 5.3% |
| Underlying return on capital employed[1] | **16.1%** | 13.6% |

1. A reconciliation between the underlying measure and its closest IFRS equivalent is shown in table 4
2. The total interim and final dividend proposed for the financial year

## Alternative performance measures

### Charges in relation to client relationships and goodwill (note 8)

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 the cost of securing client contracts that is 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. Research analysts commonly exclude these costs when comparing the performance of firms in the wealth management industry.

### Acquisition-related costs (note 5)

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.

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 are required to 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 2021, £6.0 million of deferred consideration payments for Speirs & Jeffrey (2020: £32.3 million), and £1.4 million for Saunderson House (2020: £nil) were charged to the income statement.

## Taxation

The corporation tax charge for 2021 was £19.8 million (2020: £17.1 million) (see note 6). The effective tax rate was 20.8% (2020: 39.0%).

The prior year rate reflects the significant amount of disallowable costs of deferred consideration payments for the acquisition of Speirs & Jeffrey. The effective tax rate is now expected to remain closer to the statutory rate of tax, as the level of disallowable costs for deferred consideration payments for Saunderson House is expected to be much lower (see note 2.3). Thereafter, the group expects it to return to 2-4 percentage points above the statutory rate.

The UK Government legislated in the Finance Act 2021 to increase the UK corporation tax rate to 25.0% in 2023. We have reflected this rate in the deferred tax calculations.

## Basic earnings per share

Basic earnings per share for the year ended 31 December 2021 was 133.5p compared to 49.6p in 2020. The increase in the year reflects the significantly lower amount of non-underlying charges in relation to the acquisition of Speirs & Jeffrey compared to the prior year. On an underlying basis, earnings per share were 172.2p in 2021, compared to 133.3p in 2020 (see note 12). The increase in the year relates to the much higher growth in underlying profit since 2020 than the number of ordinary shares in issue.

## Dividends

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

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 to pay the dividend; and
- regulatory capital requirements, which require the group to maintain at least a minimum level of own funds.

The company's distributable reserves are primarily dependent on:

- 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 2021 the company's distributable reserves were £106.8 million (2020: £93.7 million).

In setting the proposed dividend for 2021, the board has considered the group's performance in 2021 and the strong balance sheet position, balanced with the need to continue our investment programme and the ongoing uncertainty in the economic outlook. As a result, the board is proposing a final dividend for 2021 of 54p; resulting in a full year dividend of 81p (an increase of 9p on 2020).

The proposed full year dividend is covered 1.6 times by basic earnings and 2.1 times by underlying earnings.

## Table 4. Reconciliation of underlying performance measures to closest equivalent IFRS measures

| | **2021 £m (unless stated)** | 2020 £m (unless stated) |
|---|---|---|
| Operating income | **435.9** | 366.1 |
| | | |
| Operating expenses | **(340.9)** | (322.3) |
| Charges in relation to client relationships and goodwill | **15.6** | 14.3 |
| Acquisition-related costs | **10.1** | 34.4 |
| Underlying operating expenses | **(315.2)** | (273.6) |
| | | |
| Profit before tax | **95.0** | 43.8 |
| Underlying profit before tax[1] | **120.7** | 92.5 |
| | | |
| Operating margin | **21.8%** | 12.0% |
| Underlying operating margin[2] | **27.7%** | 25.3% |
| | | |
| Taxation | **(19.8)** | (17.1) |
| Tax on non-underlying expenses | **(3.9)** | (3.8) |
| Underlying taxation | **(23.7)** | (20.9) |
| | | |
| Profit after tax | **75.2** | 26.7 |
| Underlying profit after tax[3] | **97.0** | 71.6 |
| | | |
| Weighted average number of shares in issue | **56.3m** | 53.7m |
| | | |
| Earnings per share | **133.5** | 49.6 |
| Underlying earnings per share[4] | **172.2** | 133.3 |
| | | |
| Underlying quarterly average total equity | **599.1** | 520.5 |
| ROCE | **13.0%** | 5.3% |
| Underlying ROCE[5] | **16.1%** | 13.6% |

1. Operating income less underlying operating expenses
2. Underlying profit before tax as a percentage of 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 underlying quarterly average total equity

## Capital expenditure

Overall, capital expenditure of £8.8 million in 2021 was £2.9 million below 2020. Spend on regulatory driven projects and property improvements reduced by a total of £1.2 million. Capitalised spend on technology and other change projects fell by £1.7 million as the focus on the development of cloud-based solutions has increased the proportion of strategic project spend that is charged to operating expenses.

## Underlying return on capital employed

The board monitors the underlying return on capital employed (ROCE) as a key performance measure. 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 2021, underlying ROCE was 16.1% (2020: 13.6%). Quarterly average total equity increased by £78.6 million in 2021 compared to 2020, reflecting growth in retained earnings.

## Outlook

The business enters 2022 in a robust financial position and with encouraging growth momentum.

External factors will continue to have a significant impact on the group's profitability in 2022. We expect global investment markets to remain volatile during the year, with both the domestic and global political environments adding considerable uncertainty. Inflationary pressures continue, but these are likely to lead to higher interest rates, which will benefit net interest income.

As noted in the Chief executive's review, investment in our medium-term strategy will continue in 2022 and 2023. In total, we expect to invest operating expenditure of £40 million in delivery of our digital plans over the next two years. The increasing use of modern cloud-based software solutions will have a lasting impact on the mix of capital and operating expenditure, with fewer projects generating material fixed assets and related depreciation costs consequently falling over time.

We anticipate that integration and deferred acquisition costs relating to the acquisition of Saunderson House will total approximately £10 million in 2022. Synergies from the integration are expected to start to bring material benefit in 2023.

Deferred acquisition costs for Speirs & Jeffrey are now substantially complete. Costs of some £2.5 million are expected to be incurred each year in 2022 and 2023, after which no further material costs relating to the acquisition will arise.

Staff costs in 2022 will reflect salary inflation of approximately 5% and national insurance increases, in addition to the full impact of hiring activity in 2021 and further joiners planned in 2022 in support of the strategic initiatives.

Alongside the investment in our strategic initiatives, we will continue to maintain our focus on cost discipline. Based on market conditions at 31 December 2021, we plan to manage this investment within existing underlying operating margin guidance of mid-20s for the next two years. The underlying operating margin is expected to return to a high-20s level from 2024 onwards.

# Segmental review

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

## Investment Management

The results of the Investment Management segment described below include the trading results of Rathbone Trust Company, Vision Independent Financial Planning and Saunderson House, post-acquisition.

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 5.

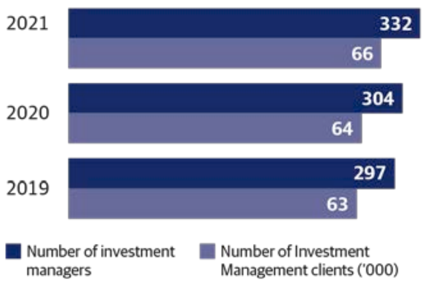
### Funds under management and administration

Investment Management funds under management and administration increased by 22.9% to £55.2 billion at 31 December 2021, driven by strong growth, investment performance and markets.

Gross organic inflows of £4.5 billion represented 10.0% of opening funds under management and administration, up from 9.1% in 2020. Outflows of funds under management and administration were 8.0% of the opening balance (2020: 7.7%). Of this, approximately 38% related to accounts that were closed with the remainder being drawings from capital to supplement income or for inter-generational transfers.

Total Investment Management new business was £0.8 billion during 2021, representing 2.0% of opening funds under management and administration (2020: net total increase of 1.4%).

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




In addition to the above, the acquisition of Saunderson House added £4.9 billion to funds under management and advice in 2021.

Table 5. Investment Management – key performance indicators

| | 2021 | 2020 |
|---|---|---|
| Funds under management and administration at 31 December | **£55.2bn** | £44.9bn |
| Rate of net organic growth in Investment Management funds under management and administration[1] | **1.8%** | 0.1% |
| Rate of total net growth in Investment Management funds under management and administration[1] | **2.1%** | 1.4% |
| Average net operating basis point return[2] | **71.4 bps** | 72.7 bps |
| Number of Investment Management clients ('000)[3] | **66** | 64 |
| Number of investment managers | **332** | 304 |

1. See table 6 (percentages calculated on unrounded figures)
2. See table 10
3. The comparative figure has been restated to align calculation of the number of Speirs & Jeffrey clients with Rathbones accounting policies, which reflects a lower level of aggregation of underlying funds.

Table 6. Investment Management – funds under management and administration

| | Year ended 31 December 2021 £bn | Year ended 31 December 2020 £bn |
|---|---|---|
| As at 1 January | **44.9** | 43.0 |
| Inflows | **4.5** | 3.9 |
| – Organic[1] | **4.4** | 3.3 |
| – Acquired[2] | **0.1** | 0.6 |
| Outflows | **(3.6)** | (3.3) |
| Market adjustment[3] | **4.5** | 1.3 |
| Total (pre acquisitions) | **50.3** | 44.9 |
| Saunderson House | **4.9** | - |
| Total | **55.2** | 44.9 |
| Net organic new business[4] | **0.8** | - |
| Rate of net organic growth[5] | **1.8%** | 0.1% |
| Rate of total net growth[6] | **2.1%** | 1.4% |

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 (excluding Saunderson House) as a percentage of opening funds under management and administration
6. Net organic new business and acquired inflows (excluding Saunderson House) as a percentage of opening funds under management and administration

Growth in discretionary and managed FUMA of £1.3 billion in 2021 has come equally from direct contact with clients and through financial adviser networks. Our specialist intermediary sales team continued to build momentum in the year, with indirect net flows from IFAs into our discretionary and managed services of £0.7 billion (2020: £0.2 billion).

The group saw net outflows from non-discretionary investment management, and execution only & banking mandates totalling £0.4 billion in the year.

During the year, our clients continued to migrate into discretionary services from non-discretionary. Switches into execution only services largely reflect the transfer of funds into probate following death of a client.

The global recovery from lockdown-ridden 2020 drove stock markets higher in 2021, however returns were more volatile than the headline indices suggest. Many investors switched from "growth" stocks to "value" and back again during the year as the impacts of COVID-19 ebbed and flowed, inflation rose, central banks shifted guidance and companies reported.

A significant concern for investors in 2021 was inflation, which hit multi-decade highs in many large nations. Initial belief that higher prices would be a passing phase gave way to longer term concerns later in the year, which drove steep rises in the yield on government bonds and the prices of "value" stocks whilst weighing on the value of "growth" stocks. These trends have accelerated into the early months of 2022.

The outperformance was largely driven by our tactical asset allocation decisions in worldwide equities, fixed income and alternatives. Company valuations, particularly in the developed nations, were supported by stronger earnings whilst being underweight fixed income also added positively with rising real yields. Lastly, overweight property and underweight gold related holdings were also helpful. Overall, the company performance against other competitors' indices, such as the Private Client indices publish by ARC was robust.

Table 7. Investment Management – new business by channel

| | 2021 Opening £bn | 2021 Net flows £bn | 2021 Service level transfers £bn | 2021 Market and investment performance £bn | 2021 Gross £bn | 2021 Intra-group holdings[1] £bn | 2021 Net £bn | 2020 Net £bn |
|---|---|---|---|---|---|---|---|---|
| Bespoke portfolios | **33.3** | **0.5** | **(0.1)** | **3.5** | **37.2** | | | |
| Managed via in-house funds | **0.4** | **0.1** | **0.1** | **0.1** | **0.7** | | | |
| **Total direct** | **33.7** | **0.6** | **-** | **3.6** | **37.9** | | | |
| Bespoke portfolios | **9.2** | **0.6** | **-** | **1.0** | **10.8** | | | |
| Managed via in-house funds | **0.5** | **0.1** | **-** | **-** | **0.6** | | | |
| **Total financial adviser linked** | **9.7** | **0.7** | **-** | **1.0** | **11.4** | | | |
| **Total discretionary & managed** | **43.4** | **1.3** | **-** | **4.6** | **49.3** | **(2.7)** | **46.6** | 41.2 |
| Non-discretionary service | **1.4** | **(0.2)** | **(0.3)** | **0.1** | **1.0** | **-** | **1.0** | 1.4 |
| **Total wealth management** | **44.8** | **1.1** | **(0.3)** | **4.7** | **50.3** | **(2.7)** | **47.6** | 42.6 |
| Execution only & banking | **2.3** | **(0.2)** | **0.3** | **0.3** | **2.7** | **-** | **2.7** | 2.3 |
| Saunderson House | | | | | **4.9** | | **4.9** | |
| **Total Investment Management** | **47.1** | **0.9** | **-** | **5.0** | **57.9** | **(2.7)** | **55.2** | 44.9 |

1. Holdings of the group's in-house funds in Investment Management client portfolios and in-house funds for which the management of the assets is undertaken by Investment Management teams; the corresponding funds under management and administration is reported within Funds.

Overall, 2021 was a strong year for our specialist teams. Rathbone Greenbank Investments continued to grow strongly and reached funds under management and administration of £2.2 billion at 31 December 2021, up 20% on 2020. Charity funds under management and administration grew 9.2% to £7.1 billion at 31 December 2021. The Personal Injury and Court of Protection business ended 2021 with £1.0 billion of funds under management and administration.

As at 31 December 2021, Vision Independent Financial Planning advised on client assets of £2.7 billion, up 23% from 2020.

## Financial performance

Underlying profit before tax in Investment Management grew 23.9% in the year to £98.4 million, reflecting an underlying operating margin of 26.4%. This was driven by strong growth in fee income and the post-acquisition impact of Saunderson House.

Higher average funds under management and administration levels on our principal charging dates during 2021 (see table 9) boosted net investment management fee income, which rose 25.1% to £288.1 million. This was driven by stronger markets and investment performance, as well as the adoption of fee-only tariffs in the fourth quarter of 2020 for clients of Speirs & Jeffrey.

Net commission income fell 14.0% to £53.6 million, as the elevated levels of transactional activity seen in 2020 reduced, along with market volatility, in 2021 and following the switch to fee-only tariffs for Speirs & Jeffrey clients.

The cut in the Bank of England base rate to 0.1% in March 2020 was maintained throughout 2021, reducing the margin available on our treasury book. Net interest income consequently decreased 53.6% to £3.9 million in the year.

As a result of the factors described above, the average net operating basis point return on funds under management and administration fell slightly by 1.3 bps to 71.4 bps in 2021.

Fees from advisory services and other income increased 39.3% to £27.3 million, reflecting growth in our advisory businesses and the post-acquisition results of Saunderson House, which contributed £6.1 million of additional revenue.

The issue of an additional £20 million of Tier 2 loan notes, bringing the total notes issued to £40 million in October 2021, is expected to increase the annual interest charge on these notes by approximately £1 million compared to 2021.

Underlying operating expenses in Investment Management for 2021 were £274.5 million, an increase of 13.8% compared to 2020. This is highlighted in table 11.

### Table 8. Investment Management – financial performance

| | **2021 £m** | 2020 £m |
|---|---|---|
| Net investment management fee income[1] | **288.1** | 230.3 |
| Net commission income | **53.6** | 62.3 |
| Net interest income | **3.9** | 8.4 |
| Fees from advisory services[2] and other income | **27.3** | 19.6 |
| Operating income | **372.9** | 320.6 |
| Underlying operating expenses[3] | **(274.5)** | (241.2) |
| Underlying profit before tax | **98.4** | 79.4 |
| Underlying operating margin[4] | **26.4%** | 24.8% |

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 11
4. Underlying profit before tax as a percentage of operating income

### Table 9. Investment Management – average funds under management and administration (pre acquisitions)

| | **2021 £bn** | 2020 £bn |
|---|---|---|
| Valuation dates for billing | | |
| – 5 April | **45.5** | 35.9 |
| – 30 June | **47.8** | 41.3 |
| – 30 September | **48.8** | 41.8 |
| – 31 December | **50.3** | 44.9 |
| Average | **48.1** | 41.0 |
| Average FTSE 100 level[1] | **7,066** | 5,978 |

1. Based on the corresponding valuation dates for billing

### Table 10. Investment Management – revenue margin

| | **2021 bps** | 2020 bps |
|---|---|---|
| Basis point return[1] from: | | |
| – fee income | **59.9** | 56.2 |
| – commission | **11.1** | 15.2 |
| – interest | **0.4** | 1.3 |
| Basis point return on funds under management and administration | **71.4** | 72.7 |

1. Operating income (see table 8), 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 9)

Fixed staff costs of £89.3 million increased by 6.7% year-on-year, reflecting the growth in headcount Variable staff costs totalled £61.9 million in 2021, an increase of £5.5 million on 2020. This principally reflects growth in profit share awards, driven by segmental profitability.

Other operating expenses of £123.3 million include property, depreciation, settlement, IT, finance and other central support services costs.

Incremental spend on our strategic initiatives to develop systems and enhance the client experience totalled £8.7 million in 2021.

Savings arising from the impact of the pandemic on entertaining, travel, events and subsistence spend, as well as reduced use of the group's office space persisted for most of 2021.

Post-acquisition costs in Saunderson House totalled £5.0 million.

## Funds

Funds' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Funds are shown in table 12.

### Funds under management

Net retail sales in the asset management industry totalled approximately £43.4 billion in 2021, as reported by the Investment Association (IA), up from around £30.8 billion in 2020. Industry-wide funds under management increased 10.4% to £1.6 trillion at the end of the year.

Equities was again the top seller in 2021 at £14.8 billion, up 42% compared to 2020. Consistent sales to responsible investment funds, where equities make up over 50% of sales, helped to maintain consistent inflows to equities, even during periods of market turbulence.

The IA Global sector (containing Rathbone Global Opportunities Fund and Rathbone Global Sustainability Fund) was the highest selling equity sector for the fourth year in a row with inflows of £12.0 billion. Over £4.8 billion also went to the IA Volatility Managed sector, which includes our six-fund multi-asset range and the four-fund ESG range launched in 2021 called Rathbone Greenbank Multi-Asset Portfolios.

The positive momentum in sales continued through 2021, with gross sales up 22% in the year to £4.4 billion. Redemptions increased more modestly, rising 9.5% to £2.3 billion for the year. As a result, net inflows of £2.1 billion for the year were up 40% on £1.5 billion in 2020. Rathbone Unit Trust Management consistently ranked in the top 10 for net UK sales throughout the year according to the quarterly Pridham Sales Reports.

Table 11. Investment Management – underlying operating expenses

| | **2021 £m** | 2020 £m |
|---|---|---|
| Staff costs[1] | | |
| – fixed | **89.3** | 83.7 |
| – variable | **61.9** | 56.4 |
| Total staff costs | **151.2** | 140.1 |
| Other operating expenses | **123.3** | 101.1 |
| Underlying operating expenses | **274.5** | 241.2 |
| Underlying cost/income ratio[2] | **73.6%** | 75.2% |

1. Represents the costs of investment managers and teams directly involved in client-facing activities
2. Underlying operating expenses as a percentage of operating income (see table 8)

Table 12. Funds – key performance indicators

| | **2021** | 2020 |
|---|---|---|
| Funds under management at 31 December[1] | **£13.0bn** | £9.8bn |
| Rate of net growth in Unit Trusts funds under management[1] | **21.1%** | 20.1% |
| Underlying profit before tax[2] | **£22.4m** | £13.1m |

1. See table 14
2. See table 16

Table 13. Funds – funds under management by product

| | **2021 £m** | 2020 £m |
|---|---|---|
| Rathbone Global Opportunities Fund | **4,334** | 3,202 |
| Rathbone Ethical Bond Fund | **2,802** | 2,088 |
| Rathbone Multi-Asset Portfolios | **2,679** | 1,714 |
| Rathbone Income Fund | **825** | 811 |
| Offshore funds | **661** | 578 |
| Rathbone High Quality Bond Fund | **291** | 283 |
| Rathbone Active Income Fund for Charities | **245** | 227 |
| Rathbone Strategic Bond Fund | **200** | 204 |
| Rathbone Core Investment Fund for Charities | **156** | 129 |
| Rathbone UK Opportunities Fund | **76** | 49 |
| Rathbone Global Sustainability Fund | **116** | 44 |
| Other funds | **500** | 491 |
| Greenbank Multi-Asset Portfolios | **105** | – |
| | **12,990** | 9,820 |

The strong net inflows for the year were principally into the Ethical Bond Fund (£0.8 billion), multi-asset funds (£0.8 billion), including £0.1 billion into the new Greenbank multi-asset offering, and Global Opportunities Fund (£0.5 billion). The Ethical Bond Fund, in particular, bucked the trend for other bond funds in the sector, which generally saw more muted inflows.

Total net inflows, combined with positive investment performance and market movements, raised total funds under management to £13.0 billion at the end of the year, an increase of 32% during the year (see table 14).

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

The Ethical Bond and Global Opportunities funds maintained their excellent long-term track records and both finished in the first quartile for performance, measured over three and five years. The UK Opportunities Fund maintained its top quartile performance during 2021, which has resulted in a much improved long-term track record.

The growth focused multi-asset funds, which have risk targeted mandates, beat their benchmarks over one, three and five years (or since launch) and remained within volatility targets over the same periods.

Performance of the UK Income fund was impacted by the large cuts in dividends by UK stocks in 2020. During 2021, the fund's longer-term performance recovered and it is now above median for one, three and five years.

The High Quality Bond Fund posted good returns over the year, performing well against its cash-plus based benchmark.

The Strategic Bond Fund remains more defensively positioned, which has continued to weigh on short-term performance.

As at 31 December 2021, 97% of holdings in Funds' retail funds were in institutional units (31 December 2020: 97%).

During the year, the total number of investment professionals in Funds increased to 21 at 31 December 2021 from 18 at the end of 2020.

## Table 14. Funds – funds under management

| | **2021 £bn** | 2020 £bn |
|---|---|---|
| As at 1 January | **9.8** | 7.4 |
| Net inflows | **2.1** | 1.5 |
| – Inflows[1] | **4.4** | 3.6 |
| – Outflows[1] | **(2.3)** | (2.1) |
| Market adjustments[2] | **1.1** | 0.9 |
| As at 31 December | **13.0** | 9.8 |
| Rate of net growth[3] | **21.1%** | 20.1% |

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

## Table 15. Funds – performance[1,2]

| 2021/(2020) Quartile ranking[3] over | 1 year | 3 years | 5 years |
|---|---|---|---|
| Rathbone Ethical Bond Fund | 1 (2) | 1 (1) | 1 (1) |
| Rathbone Global Opportunities Fund | 2 (1) | 1 (1) | 1 (1) |
| Rathbone Income Fund | 2 (2) | 2 (2) | 2 (3) |
| Rathbone Strategic Bond Fund | 3 (2) | 3 (2) | 2 (2) |
| Rathbone UK Opportunities Fund | 1 (1) | 1 (2) | 1 (2) |

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds (for which quartile rankings are prohibited by the Investment Association (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 2021 and 2020 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 Funds business

## Financial performance

Funds' 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.

Net annual management charges increased 40% to £61.3 million in 2021, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 55.0 bps (2020: 55.5 bps) reflecting the continued growth in the fixed income mandate funds.

Operating income as a percentage of average funds under management fell slightly to 55.6 bps in 2021 from 55.9 bps in 2020 for the same reasons.

Fixed staff costs of £5.2 million for the year ended 31 December 2021 were 27% higher than 2020. This reflects salary inflation and growth in headcount in response to growth in the business.

Variable staff costs of £16.8 million were 40% higher than 2020 as a result of growth in profit and the higher value of gross sales, which drove increases in sales commissions.

Other operating expenses have increased by 15% to £18.7 million in 2021. Administration costs of £5.7 million were up £0.9 million on 2020, driven by higher levels of funds under management and sales. 2021 saw a full year's benefit of improved rate cards with third-party service providers which were negotiated and implemented in 2020. Incremental spend on development of systems totalled approximately £0.5 million in 2021. Regulatory costs also grew by £0.1 million, reflecting the growth in levies for the Financial Services Compensation Scheme.

Table 16. Funds – financial performance

| | 2021 £m | 2020 £m |
|---|---|---|
| Net annual management charges | 61.3 | 43.9 |
| Net dealing profits | 0.0 | 0.0 |
| Interest and other income | 1.8 | 1.5 |
| Operating income | 63.1 | 45.4 |
| Underlying operating expenses[1] | (40.7) | (32.3) |
| Underlying profit before tax | 22.4 | 13.1 |
| Operating % margin[2] | 35.5% | 28.9% |

1. See table 17
2. Underlying profit before tax divided by operating income

Table 17. Funds – underlying operating expenses

| | 2021 £m | 2020 £m |
|---|---|---|
| Staff costs | | |
| – Fixed | 5.2 | 4.1 |
| – Variable | 16.8 | 12.0 |
| Total staff costs | 22.0 | 16.1 |
| Other operating expenses | 18.7 | 16.2 |
| Underlying operating expenses | 40.7 | 32.3 |
| Underlying cost/income ratio[1] | 64.5% | 71.1% |

1. Underlying operating expenses as a percentage of operating income (see table 16)

# Financial position

## Own funds

Rathbones is classified as a banking group for regulatory capital purposes and is 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 2021, the group's regulatory own funds (including verified profits for the year) were £305 million (2020: £304 million).

Common Equity Tier 1 (CET1) own funds decreased by £27.0 million during 2021 to £266.2 million. This was primarily due to the acquisition of Saunderson House, partly offset by an increase in Tier 1 capital following the placing of £50 million of fresh share capital during the year. The CET1 ratio was 18.7%, a decrease on the 23.5% reported at the previous year end.

The leverage ratio was 9.1% at 31 December 2021, down from 9.2% at 31 December 2020 The leverage ratio represents our Tier 1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures. The reduction is in line with the decrease in CET1 capital.

The business is primarily funded by equity, but also supported by £40 million of ten-year Tier 2 subordinated loan notes, which were issued in October 2021. 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 October 2031, with a call option for the issuer annually from 2026. Interest is payable at a fixed rate of 5.642%.

Total equity was £623 million at 31 December 2021, up 21.2% from £514 million at the end of 2020, reflecting the share placing in 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.

Table 18. Group's financial position

| | 2021 £m (unless stated) | 2020 £m (unless stated) |
|---|---|---|
| Own funds: | | |
| Common Equity Tier 1 ratio[1] | **18.7%** | 23.5% |
| Total own funds ratio[2] | **21.4%** | 24.3% |
| Total equity | **288.8** | 513.8 |
| Tier 2 subordinated loan notes[3] | **39.9** | 19.8 |
| Total risk exposure amount | **1,424.5** | 1,247.8 |
| Leverage ratio[4] | **9.1%** | 9.2% |
| Other resources: | | |
| Total assets | **3,271.8** | 3,370.6 |
| Treasury assets[5] | **2,458.5** | 2,721.1 |
| Investment Management loan book | **168.0** | 158.0 |
| Intangible assets from acquired growth[6] | **195.5** | 218.0 |
| Tangible assets and software[7] | **28.0** | 28.0 |
| Liabilities: | | |
| Due to customers[8] | **2,333.0** | 2,561.8 |
| Net defined benefit pension asset/(liability) | **12.3** | (9.8) |

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 19) as a proportion of total risk exposure amount
3. Represents the carrying value of the Tier 2 loan notes
4. Tier 1 capital as a percentage 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. Net book value of acquired client relationships and goodwill (note 8)
7. Net book value of property, plant and equipment and computer software
8. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank

Table 19. Regulatory own funds

| | 2021 £m | 2020 £m |
|---|---|---|
| Share capital and share premium | **294.1** | 218.0 |
| Reserves | **365.8** | 342.6 |
| Less: | | |
| Own shares | **(36.6)** | (46.7) |
| Intangible assets[1] | **(344.8)** | (220.7) |
| Retirement benefit asset[2] | **(12.3)** | 0.0 |
| Common Equity Tier 1 own funds | **266.2** | 293.2 |
| Tier 2 own funds | **38.5** | 10.7 |
| Total own funds | **304.7** | 303.9 |

1. Net book value of goodwill, client relationship intangibles and software is deducted directly from own funds, less any related deferred tax.
2. The retirement benefit asset is deducted directly from own funds.

Table 20. Group's own funds requirements[1]

| | 2021 £m | 2020 £m |
|---|---|---|
| Credit risk requirement | **50.9** | 46.9 |
| Market risk requirement | **0.8** | 0.6 |
| Operational risk requirement | **62.3** | 52.4 |
| Pillar 1 own funds requirement | **114.0** | 99.9 |
| Pillar 2A own funds requirement | **40.1** | 40.0 |
| Total Capital Requirement ('TCR') | **154.1** | 139.9 |
| Combined buffer: | | |
| capital conservation buffer (CCB) | **35.6** | 31.1 |
| countercyclical capital buffer (CCyB) | **-** | 0.1 |
| Total Capital Requirement ('TCR') and Combined buffer | **189.7** | 171.1 |

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 2021, the group's total risk exposure amount was £1,425 million (2020: £1,248 million).

## Pillar 2 – supervisory review process

Pillar 2 supplements the Pillar 1 minimum requirement with firm-specific Pillar 2A requirements and a framework of regulatory capital buffers.

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

### Pension obligation risk

The potential for additional unplanned 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 SONIA.

### 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 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 represents 2.5% of the group's total risk exposure amount as at 31 December 2021.

### 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 FPC (for UK exposures) and other jurisdictions for our exposures to their locations 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 0% for the UK. The group also has some small, relevant credit exposures in other jurisdictions, resulting in a weighted buffer rate of 0% of the group's total risk exposure amount as at 31 December 2021. An increased UK rate of 1% will come into effect from December 2022, which has been built into our forecasts.

The surplus of own funds (including verified profits for the full year) over Total Capital Requirement and Combined buffer was £115 million, down from £133 million at the end of 2020, owing to additional deductions in the year for the Saunderson House intangibles and retirement benefit asset.

### Pillar 2B PRA buffer

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

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; and
- regulatory developments;
- the demands of future acquisitions which generate intangible assets and, therefore, directly reduce CET1 resources; and
- expected additional increases in the UK countercyclical capital buffer rate.

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 2021 were £3.3 billion (2020: £3.4 billion), of which £2.3 billion (2020: £2.6 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 £2.3 billion (2020: £2.6 billion) represented 4.2% of total Investment Management funds under management and administration at 31 December 2021, compared to 5.7% at the end of 2020. Cash held in client money accounts was £13.9 million (2020: £5.5 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity. 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 at the time of investment and are regularly reviewed by the banking committee.

During the year, the share of treasury assets held with the Bank of England reduced to £1.5 billion from £1.8 billion at 31 December 2020. Client balances fell at the beginning of the year and started to recover from August as settlement activity reduced.

## 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 five years. In addition, charges may be taken on property held by the client to meet security cover requirements.

Our ability to provide such loans is a valuable additional service, for example, to clients who require bridging finance when buying and selling their homes.

Loans advanced to clients increased to £168 million at end of 2021 (2020: £158 million) as clients' demand for bridging finance increased in favour of drawing down from investment portfolios at a time of market volatility.

## 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 2021, the total carrying value of intangible assets arising from acquired growth was £361.3 million (2020: £218.0 million). During the year, client relationship intangible assets of £88.0 million were capitalised (2020: £11.0 million), including £79.4 million in relation to Saunderson House (2020: £6.9 million in relation to the Personal Injury and Court of Protection business of Barclays). Goodwill of £70.8 million was acquired during the year in relation to the Saunderson House acquisition (2020: £6.5 million in relation to the Personal Injury and Court of Protection business of Barclays).

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 2021, including the impact of any lost relationships, was £13.9 million (2020: £12.4 million).

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. No goodwill was identified as impaired during the year.

## Capital expenditure

Capex spend of £8.8 million in 2021 is down £2.9 million on 2020. Capital expenditure on regulatory driven projects and our premises fell by £1.2 million in the year as certain projects came to an end.

Capex spend on the development of our systems fell by £1.7 million to £8.1 million in the year. The proportion of spend on the development of our systems that is capitalised has reduced in line with the increasing adoption of cloud-based, strategic technology solutions. The costs of cloud-based solutions are largely charged to profit or loss, with a consequent reduction in the level of depreciation cost in future years.

We expect property expenditure to increase in 2022 as we continue to develop our hybrid working capability and relocate our premises in Edinburgh following the conclusion of the current lease.

## 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 2021 the combined schemes' liabilities, measured on an accounting basis, had increased to £155.6 million, down 5.9% from £165.4 million at the end of 2020, primarily reflecting the increase in interest rates used to discount the liabilities during the year, and an increase in the assumed future rate of inflation. The reported position of the schemes as at 31 December 2021 was a surplus of £12.3 million (2020: deficit of £9.8 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 were completed during the prior year. Having reviewed the long-term plan for the schemes, we agreed with the trustees a target to fund the schemes to a self-sufficient basis over the medium term. This targets a level of assets in the scheme sufficient to fund future cash flows from interest and maturities of the scheme assets, reducing the reliance on equity returns to meet the schemes' requirements. This will significantly reduce the volatility of the schemes and the future burden on the group. Reflecting this, we agreed a schedule of contributions totalling £25 million over the next six years. This schedule will be reviewed at the next triennial valuations, as at 31 December 2022.

# Liquidity and cash flow

Fees and commissions are largely collected directly from client portfolios and a significant proportion of expenses 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 £1.5 billion at 31 December 2021 (2020: £1.8 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. 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 £227.4 million decrease in banking client deposits (2020: £106.0 million decrease), as a result of asset allocation decisions to reduce the proportion of funds under management and administration held as cash in clients' portfolios, reflecting market conditions at the year end.

Cash flows from investing activities also included a net outflow of £110.6 million from the purchase of certificates of deposit (2020: net outflow of £53.1 million), as we reduced 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 £44.0 million (2020: £37.8 million);
- payments made (net of cash acquired) in business combinations of £79.7 million (2020: £12.0 million);
- net proceeds from the repayment and issuance of subordinated loan notes of £19.8 million (2020: £nil);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £10.7 million (2020: £9.5 million); and
- £2.0 million of capital expenditure (other than as part of a business combination) on tangible property, plant and equipment (2020: £3.8 million).

Table 21. Extracts from the consolidated statement of cash flows

| | **2021 £m** | 2020 £m |
|---|---|---|
| Cash and cash equivalents at the end of the year | **1,653.6** | 2,056.7 |
| Net cash inflows from operating activities | **(214.2)** | 32.0 |
| Net change in cash and cash equivalents | **(403.1)** | (91.3) |

# Risk management and control

We have a well established approach to risk management, which has continued to evolve in response to the firm's growth and external developments. Our risk governance, processes and infrastructure are designed to ensure that appropriate risk management is applied to existing and emerging challenges to the firm's day-to-day activities and strategic objectives. Our priority for 2022 is to continue managing risk effectively in accordance with our risk appetite, to support the long-term future of the firm.

## Managing risk

The board is ultimately accountable for risk management across the group. It regularly assesses the most significant risks and emerging threats to the group's strategy. Oversight of risk management activities is also undertaken through the group risk and audit committees.

Our risk management approach and governance framework support the group chief executive officer and executive committee members with their risk management responsibilities, underpinned by the executive risk and banking committees. Day-to-day responsibility for managing risk is delegated to the group chief executive officer and executive committee members.

## Risk culture

The risk culture embedded across the group continues to enhance the effectiveness of risk management and decision-making. The board sets a constructive tone in support of a strong risk culture and, supported by our executive and senior management team, encourages appropriate behaviours and collaboration on risk management across the group. Risk management is therefore an integral 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. We aim to create an open and transparent working environment, encouraging employees to engage positively in risk management in support of the achievement of our strategic objectives.

## Risk appetite

The board, group risk committee and executive committee regularly review and, at least annually, formally approve the group's risk appetite statement, ensuring it remains consistent with our strategy and objectives. We define risk appetite as the amount and type of risk the board is prepared to take or accept in pursuit of our long-term strategic objectives.

Our appetite framework is aligned with the group's overall prudential requirements for strategic, financial and non-financial (conduct and operational) risk. Specific appetite statements are set and measures established for each principal risk. The risk appetite framework is used to support strategic decision making, as well as providing a mechanism to monitor risk exposure.

The position against our risk appetite measures is assessed and reported on a regular basis to the executive committee, group risk committee and the board, so that risk mitigation can be reviewed and strengthened if needed.

In line with our strategy, the current economic outlook and the evolving 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 our performance is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and non-financial risks from time to time, either as reductions in income or increases in operating costs.

| Risk categories | Risk appetite statement | Example of measures |
|---|---|---|
| Business & strategic risk | The board expects business and strategic risks to be understood and managed to limit the impact on delivering sustainable growth and change initiatives required to meet longer term client, stakeholder, and societal expectations. | Underlying dividend cover<br>Net zero and diversity targets |
| Financial risk | The board requires financial risks to be actively monitored and prudently managed to protect company assets, maintain liquidity and regulatory own funds, limit credit and market risk exposures, and respond to our pension obligations. | Prudential ratios (e.g. CET Tier 1, Total Capital) |
| Non-financial risk (conduct & operational) | The board accepts that non-financial risks and losses can arise from failures in processes, people, systems or external events however expects appropriate conduct and behaviours to minimise the impact on clients, stakeholders and our reputation. | Significant operational loss<br>Pass rate of assurance checks |

## Three lines of defence

We operate a three lines of defence model across the group to support governance and risk management:

### 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 risk management, including 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 audit committee on the effectiveness of the group's governance, risk management and internal controls.

Throughout the group, everyone has responsibility for managing risk and adhering to our control framework in line with their roles and our conduct expectations.

## Identification of risks

Our risks are classified hierarchically in a three-level register, to reflect our current and anticipated future risk profile. Our highest level of risk (Level 1) comprises business and strategic, financial, conduct and operational risks. We continue to separate conduct and operational risk, rather than combine them into a non-financial risk category, to ensure that both elements receive appropriate focus. Our next level (Level 2) contains 20 risk categories, which are each allocated to a Level 1 risk. Detailed risks (Level 3) are identified as sub-sets of Level 2 risks. There are 52 Level 3 risks in our 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, which is facilitated through a process of primary and secondary considerations.

The risks in the register are reviewed with risk owners, senior management, and business units leaders to identify the principal risks which have the potential to impact future performance and the delivery of our strategic objectives and business priorities. All risks in the register are monitored through top down and bottom up reviews which consider the potential impact, existing internal controls and management actions required to mitigate the impact and likelihood of emerging issues and potential future events.

## Risk assessment process

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

Our process considers both the impact and likelihood of risks materialising which could affect the delivery of strategic objectives and annual business plans and 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 other committees to support this assessment.

We have a consistent approach to identifying and assessing our Level 3 risks. We consider risk on both an inherent and residual basis over a three-year period 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, which includes consideration of the internal control environment and/or insurance mitigation. The assessment of our control environment includes contributions from first, second and third line colleagues, data, and monitoring and assurance activity.

We maintain a watch list as part of our approach to identify and evaluate any current, emerging or future issues, threats, business developments and regulatory or legislative changes, which could have the potential to impact the firm's current or longer term risk profile. Any material changes may require active risk management, usually through process changes or systems development.

Stress tests are also undertaken to include consideration of the impact of a number of severe but plausible events that could impact the business. This work 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 group's risk profile, risk register, watch list and stress tests are regularly reviewed and challenged by the executive, senior management, group risk committee and the board.

## Three lines of defence

### Overview

External independent assurance

Third line: Internal independent assurance

Second line: Oversight and challenge functions

First line: Business operations and support

Executive risk committee

Executive committee

Audit and group risk committee

## Profile and mitigation of principal risks

The group's underlying risk profile has improved over the last 12 months, despite another year of mostly remote working. Although the risk ratings for many Level 2 risks are unchanged , there have been improvements in the management of some principal risks as opportunities were taken to invest further in people, processes and technology to improve risk mitigation, including against cyber threats. We have remained focused on service to clients, the reliability of business operations and the wellbeing of our colleagues and we believe this approach has been effective.

Based upon our risk assessment processes, 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 risks reflect our strategic initiatives and change programme, changes to the group's business model following the acquisition of Saunderson House, environmental and societal challenges, the cyber threat landscape, operational resilience in relation to our suppliers, and the political environment. The board remains vigilant to potential risks that could arise from the longer-term impact of COVID-19 on our business and suppliers, society and the economy, and also to regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

Further information about the principal risks is set out below. We include 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 ours where the outcome of a risk event can be influenced by market conditions as well as internal control factors.

We use ratings of high, medium, low and very low in our 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 group. Likelihood is similarly based on a qualitative assessment.

## Key principal risk profile trends

| Risk | Description | Risk trend in 2021 |
|---|---|---|
| Change | In 2021, we have remained agile and adapted to the continuing effects of COVID-19, while delivering growth opportunities through the Saunderson House acquisition and digital enhancements for clients. | → |
| Sustainability | We continue to monitor external market conditions, including environmental and social factors, which could adversely affect sustainable growth, market share or profitability. We broadened the risk appetite measures for this risk for 2021, which now include diversity and our climate risk indicators. | → |
| Suitability | We continue to refine our processes and improve investment risk oversight, focusing on both client suitability and portfolio construction. Further technology enhancements are expected in 2022. | → |
| Information security and cyber | We have continued to invest in improving our security posture, including staff awareness, preparedness and technology developments to ensure we progress and are prepared for the evolving threat landscape. | ↘ |
| People | People risk fluctuated during 2021 as a result of the pandemic, with turnover increasing against last year and labour market challenges impacting some areas. Management action has been taken to address the concerns raised by our colleagues. Our new employee survey tool is well established and employee engagement is positive. | → |
| Third-party supplier | This was a key area of focus in 2021, with framework improvements and increased supplier oversight introduced. Together with our suppliers, we have improved the management of risks associated with their activities, including potential service disruption and other client impacts. Work will continue in 2022, in line with our change agenda. | ↘ |

## 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. Some of these risks increased in 2021, although they have since stabilised.

| Risk owner(s) | Level 2 risk | How the risk arises | Residual rating I | Residual rating L | Control environment |
|---|---|---|---|---|---|
| Group Chief Financial Officer | **Credit**<br>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 and senior management oversight<br>– Counterparty limits and credit reviews<br>– Treasury policy and procedures<br>– Client lending policy and procedures<br>– Active monitoring of exposures<br>– Annual ICAAP |
| Group Chief Financial Officer | **Pension**<br>The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and regulatory own funds | 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 | Medium | – Board, senior management and trustee oversight<br>– Monthly valuation estimates<br>– Triennial independent actuarial valuations<br>– Investment policy<br>– Senior management review and defined management actions<br>– Annual ICAAP |

Very High High Medium Low

| Risk owner(s) | Level 2 risk | How the risk arises | Residual rating | | Control environment |
|---|---|---|---|---|---|
| | | | I | L | |
| Chief Operating Officer | **Change**<br>The risk that the change portfolio does not support delivery of the group's strategy | 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 | Very High | Low | – Executive and board oversight of material change programmes<br>– Transformation Office Programme Board oversight and delivery-focused operating model<br>– Differentiated governance approach to strategic change programmes and business projects<br>– Dedicated change delivery function and use of internal and, where required, external subject matter experts<br>– Two-stage assessment, challenge and approval of project plans<br>– Documented project and change procedures |
| Group Chief Executive Officer | **Sustainability**<br>The risk that the business model does not respond in an optimal manner to changing market conditions, including environmental and social factors, 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, our stakeholders' expectations, or can be influenced by external factors such as environmental and social factors | High | Medium | – Board, executive and responsible business committee oversight<br>– A documented strategy, including responsible investment policy<br>– Monitoring of strategic risks<br>– Annual business targets, subject to regular review and challenge<br>– Regular reviews of pricing structure<br>– Continued investment in the investment process, service standards and marketing<br>– Trade body participation<br>– Regular competitor benchmarking and analysis<br>– Monitoring of strategic risks<br>– Commitment to diversity and inclusion themes |
| Group Chief Executive Officer & Chief Risk Officer | **Regulatory compliance and legal**<br>The risk of failure by the group or a subsidiary to fulfil its regulatory or legal requirements and comply with the introduction of new or updated regulations and laws | This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change | High | Medium | – Board and executive oversight<br>– Management oversight and active involvement with industry bodies<br>– Compliance monitoring programme to examine the control of key regulatory risks<br>– Separate anti-money laundering function with specific responsibility<br>– Oversight of industry and regulatory developments<br>– Documented policies and procedures<br>– Staff training and development |

Very High  High  Medium  Low

| Risk owner(s) | Level 2 risk | How the risk arises | Residual rating I | Residual rating L | Control environment |
|---|---|---|---|---|---|
| Managing Director Rathbone Investment Management | **Suitability**<br>The risk of an unsuitable client outcome either through service, investment mandate, investment decisions taken, investment recommendations made or portfolio or fund construction | 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 | | | – Board, executive and general managers committee oversight<br>– Investment governance and structured committee oversight<br>– Management oversight and segregated quality assurance and performance teams<br>– Performance measurement and attribution analysis<br>– 'Know your client' (KYC) suitability processes<br>– Weekly investment management meetings<br>– Investment manager reviews through supervisor sampling<br>– Compliance monitoring |
| Chief Operating Officer | **Information security and cyber**<br>The risk of inappropriate access to, manipulation, 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 | | | – Board and executive oversight<br>– Data governance committee oversight<br>– Information security policy, data protection policy and associated procedures<br>– System access controls and encryption<br>– Penetration testing and multi-layer network security<br>– Training and employee awareness programmes<br>– Physical security |
| Chief People Officer | **People**<br>The risk of loss of key staff, lack of skilled resources or 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, litigation or regulatory action | 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 | | | – Board and executive oversight<br>– Succession and contingency planning<br>– Transparent, consistent and competitive remuneration schemes<br>– Contractual clauses with restrictive covenants<br>– Continual investment in staff training and development<br>– Employee engagement survey<br>– Appropriate balanced performance measurement system<br>– Culture monitoring and reporting |
| Chief Operating Officer & Chief Executive Officer of Rathbone Unit Trust Management | **Third-party supplier**<br>The risk of one or more third party suppliers failing to provide or perform authorised and/or outsourced services to standards expected by the group, impacting the ability to deliver core services. This includes intra-group outsourcing activity | This risk can arise when the firm does not have appropriate governance and oversight of its supplier relationships, in particular those considered key and material to the operational resilience of business services provided to clients or investors | | | – Board and executive oversight<br>– Senior dedicated relationship managers<br>– Supplier contracts and defined service level agreements/KPIs<br>– New supplier due diligence and approval process<br>– Close liaison and regular service review meetings<br>– Documented procedures |

## 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. In addition, throughout 2021 we have continued to develop and maintain our approach to monitoring strategic risks and horizon threats. Key emerging risks and threats are:

| | | | |
|---|---|---|---|
| Near-term | Cyber threats and supply chain resilience | Climate change transition risk<br>ESG acceleration | Post pandemic UK and global economic challenges |
| Medium-term | UK specific and global political tensions | Sector consolidation<br>Changing regulatory expectations | Digital currencies<br>Open finance |
| Longer-term | Generational wealth change | Social care financing | More extreme pandemics |

Our view for 2022 is that we can reasonably expect current market conditions and uncertainties to remain, given the implications of COVID-19 variants and the wide range of global economic and political scenarios which could emerge.

## Assessment of the company's prospects

The board reviews its strategic plan annually. This, alongside the ICAAP and ILAAP, forms the basis for capital planning which is discussed periodically 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 (defined as credit, market and operational risks, including conduct) to the required regulatory standards. In addition, the crystallisation of the following events were considered for enhanced stress testing: an equity market fall, a loss of business/competitive threat, business expansion, pension obligation and a combined market fall and reputational event. The economic and commercial impacts of the global pandemic on the prospects of the company were also factored into the assessment.

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

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

## Viability statement

In accordance with the UK Corporate Governance Code, the board has assessed the prospects and viability of the group over a three-year period considering the risk assessments identified above. The directors have considered 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, and its future performance, solvency or liquidity.

The board regularly reviews business performance and at least annually its current strategic plan through to 2024, alongside a strategic risk assessment. The board also considers five-year projections as part of its annual regulatory reporting cycle, including strategic and investment plans. However, the directors have determined and continue to believe that a three-year period to 31 December 2024 constitutes an appropriate and prudent period over which to provide its viability statement given the uncertainties associated with the global pandemic, as well as economic and political factors and their potential impact on investment markets over a longer period. This three-year view is also more aligned to the firm's detailed stress testing and capital planning activity. There is no reason to believe the five year view would be different but as always, there is more uncertainty over a longer time horizon particularly in relation to external factors.

Stress testing and scenario analysis shows that the group would remain profitable in excess of our risk appetite tolerances for capital and liquidity, and able to withstand the impact of such scenarios. 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.

## Scenarios modelled include:

Market wide stress (capital & liquidity): a 30% fall in all market levels for a prolonged 18-month period and FX illiquidity.

Idiosyncratic stress (capital & liquidity): a reputation-affecting cyber event causing outflow of 20% of FUMA with associated compensation and rectification costs.

Combined stress (capital & liquidity): aggregation of the above stresses, together with negative interest rates and additional FUMA outflow to fund personal lifestyle changes.

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 2024.

## 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 chair's statement, chief executive's review, financial performance and segmental review.

The group companies are regulated by the Prudential Regulation Authority (PRA) and/or the Financial Conduct Authority (FCA) and perform annual capital adequacy and liquidity 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 which were repaid in August 2021. In October 2021, Rathbones Group Plc issued £40 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.

# Consolidated statement of comprehensive income

for the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| Interest and similar income | | **7,710** | 14,976 |
| Interest expense and similar charges | | **(3,834)** | (6,554) |
| **Net interest income** | | **3,876** | 8,422 |
| Fee and commission income | | **457,696** | 378,240 |
| Fee and commission expense | | **(29,062)** | (24,491) |
| **Net fee and commission income** | | **428,634** | 353,749 |
| Net trading income | | **–** | (12) |
| Other operating income | | **3,417** | 3,929 |
| **Operating income** | | **435,927** | 366,088 |
| Charges in relation to client relationships and goodwill | | **(15,595)** | (14,302) |
| Acquisition-related costs | 5 | **(10,089)** | (34,449) |
| Other operating expenses | | **(315,208)** | (273,558) |
| **Operating expenses** | | **(340,892)** | (322,309) |
| **Profit before tax** | | **95,035** | 43,779 |
| Taxation | 6 | **(19,806)** | (17,127) |
| **Profit after tax** | | **75,229** | 26,652 |
| **Profit for the year attributable to equity holders of the company** | | **75,229** | 26,652 |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Net remeasurement of defined benefit liability | 10 | **17,091** | (4,682) |
| Deferred tax relating to net remeasurement of defined benefit liability | | **(3,247)** | 1,668 |
| **Other comprehensive income net of tax** | | **13,844** | (3,014) |
| **Total comprehensive income for the year net of tax attributable to equity holders of the company** | | **89,073** | 23,638 |
| Dividends paid and proposed for the year per ordinary share | 7 | **81.0p** | 72.0p |
| Dividends paid and proposed for the year | | **49,501** | 38,728 |
| **Earnings per share for the year attributable to equity holders of the company:** | | | |
| – basic | 12 | **133.5p** | 49.6p |
| – diluted | | **129.3p** | 47.6p |

# Consolidated statement of changes in equity

for the year ended 31 December 2021

| | Note | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Own shares £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | | 2,818 | 210,939 | 71,756 | (41,971) | 241,851 | 485,393 |
| Profit for the year | | | | | | 26,652 | 26,652 |
| Net remeasurement of defined benefit liability | 10 | | | | | (4,682) | (4,682) |
| Deferred tax relating to components of other comprehensive income | | | | | | 1,668 | 1,668 |
| Other comprehensive income net of tax | | – | – | – | – | (3,014) | (3,014) |
| Dividends paid | 7 | | | | | (37,831) | (37,831) |
| Issue of share capital | | 56 | 4,153 | – | | | 4,209 |
| Share-based payments: | | | | | | | |
| – value of employee services | | | | | | 43,635 | 43,635 |
| – cost of own shares acquired | | | | | (5,077) | | (5,077) |
| – cost of own shares vesting | | | | | 304 | (304) | – |
| – tax on share-based payments | | | | | | (140) | (140) |
| **At 31 December 2020** | | **2,874** | **215,092** | **71,756** | **(46,744)** | **270,849** | **513,827** |
| Profit for the year | | | | | | **75,229** | **75,229** |
| Net remeasurement of defined benefit asset | 10 | | | | | **17,091** | **17,091** |
| Deferred tax relating to components of other comprehensive income | | | | | | **(3,247)** | **(3,247)** |
| Other comprehensive income net of tax | | **–** | **–** | **–** | **–** | **13,844** | **13,844** |
| Dividends paid | 7 | | | | | **(43,960)** | **(43,960)** |
| Issue of share capital | | **226** | **75,934** | **5,209** | | | **81,369** |
| Share-based payments: | | | | | | | |
| – value of employee services | | | | | | **(3,247)** | **(3,247)** |
| – cost of own shares acquired | | | | | **(15,130)** | | **(15,130)** |
| – cost of own shares vesting | | | | | **25,248** | **(25,248)** | **–** |
| – tax on share-based payments | | | | | | **1,350** | **1,350** |
| **At 31 December 2021** | | **3,100** | **291,026** | **76,965** | **(36,626)** | **288,817** | **623,282** |

# Consolidated balance sheet

as at 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | | **1,463,294** | 1,802,706 |
| Settlement balances | | **69,750** | 90,373 |
| Loans and advances to banks | | **203,589** | 159,430 |
| Loans and advances to customers | | **179,840** | 166,221 |
| Investment securities: | | | |
| – fair value through profit or loss | | **29,934** | 107,559 |
| – amortised cost | | **761,654** | 651,427 |
| Prepayments, accrued income and other assets | | **115,992** | 98,714 |
| Property, plant and equipment | | **13,059** | 14,846 |
| Right-of-use assets | | **43,895** | 44,856 |
| Current tax asset | | **2,272** | – |
| Net deferred tax asset | | **–** | 3,342 |
| Intangible assets | 8 | **376,187** | 231,144 |
| Retirement benefit asset | 10 | **12,287** | – |
| **Total assets** | | **3,271,753** | 3,370,618 |
| **Liabilities** | | | |
| Deposits by banks | | **2,212** | 893 |
| Settlement balances | | **60,075** | 95,412 |
| Due to customers | | **2,333,011** | 2,561,767 |
| Accruals, provisions and other liabilities | 9 | **144,498** | 112,071 |
| Lease liabilities | | **54,971** | 56,124 |
| Current tax liabilities | | **–** | 971 |
| Net deferred tax liability | | **13,811** | – |
| Subordinated loan notes | | **39,893** | 19,768 |
| Retirement benefit obligation | 10 | **–** | 9,785 |
| **Total liabilities** | | **2,648,471** | 2,856,791 |
| **Equity** | | | |
| Share capital | | **3,100** | 2,874 |
| Share premium | | **291,026** | 215,092 |
| Merger reserve | | **76,965** | 71,756 |
| Own shares | | **(36,626)** | (46,744) |
| Retained earnings | | **288,817** | 270,849 |
| **Total equity** | | **623,282** | 513,827 |
| **Total liabilities and equity** | | **3,271,753** | 3,370,618 |

Company registered number: 01000403

# Consolidated statement of cash flows

for the year ended 31 December 2021

| | Note | 2021 £'000 | 2020 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **95,035** | 43,779 |
| Change in fair value through profit or loss | | **(670)** | (1,881) |
| Net interest income | | **(3,876)** | (8,422) |
| (Recoveries)/Impairment losses on financial instruments | | **(712)** | 582 |
| Net charge for provisions | 9 | **3,118** | 143 |
| Profit on disposal of property, plant and equipment | | **-** | - |
| Depreciation, amortisation and impairment | | **31,279** | 31,229 |
| Foreign exchange movements | | **(519)** | 1,245 |
| Defined benefit pension scheme charges | 10 | **105** | 200 |
| Defined benefit pension contributions paid | 10 | **(5,086)** | (3,111) |
| Share-based payment charges | | **20,132** | 39,986 |
| Interest paid | | **(4,994)** | (5,300) |
| Interest received | | **11,225** | 12,376 |
| | | **145,037** | 110,826 |
| Changes in operating assets and liabilities: | | | |
| net (increase)/decrease in loans and advances to banks and customers | | **(41,409)** | 29,852 |
| net decrease/(increase) in settlement balance debtors | | **20,624** | (37,852) |
| net increase in prepayments, accrued income and other assets | | **(9,113)** | (722) |
| net decrease in amounts due to customers and deposits by banks | | **(227,435)** | (106,013) |
| net (decrease)/increase in settlement balance creditors | | **(35,336)** | 37,718 |
| net (decrease)/increase in accruals, deferred income, provisions and other liabilities | | **(39,381)** | 19,616 |
| **Cash (used in)/generated from operations** | | **(187,013)** | 53,425 |
| Tax paid | | **(27,207)** | (21,410) |
| **Net cash (outflow)/inflow from operating activities** | | **(214,220)** | 32,015 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | | **(79,736)** | (12,048) |
| Purchase of property, plant, equipment and intangible assets | | **(12,632)** | (13,294) |
| Purchase of right-of-use assets | | **(70)** | (238) |
| Purchase of investment securities | | **(932,386)** | (886,847) |
| Proceeds from sale and redemption of investment securities | | **821,790** | 833,712 |
| **Net cash used in investing activities** | | **(203,034)** | (78,715) |
| **Cash flows from financing activities** | | | |
| Net (repurchase)/issue of ordinary shares | 14 | **44,335** | (868) |
| Repayment of subordinated loan notes | | **(20,114)** | - |
| Net proceeds from the issue of subordinated loan notes | | **39,893** | - |
| Dividends paid | 7 | **(43,960)** | (37,831) |
| Payment of lease liabilities | | **(5,109)** | (4,880) |
| Interest paid | | **(895)** | (1,060) |
| **Net cash generated from/(used in) financing activities** | | **14,150** | (44,639) |
| **Net decrease in cash and cash equivalents** | | **(403,104)** | (91,339) |
| Cash and cash equivalents at the beginning of the year | | **2,056,694** | 2,148,033 |
| **Cash and cash equivalents at the end of the year** | 14 | **1,653,590** | 2,056,694 |

# Notes to the preliminary announcement

## 1 Accounting policies

In preparing the financial information included in this statement the group has applied accounting policies which are in accordance with UK-adopted International Accounting Standards at 31 December 2021. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

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

### 2.1 Client relationship intangibles (note 8)

#### 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. 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 £15.6 million (2020: £14.3 million) was charged during the year. At 31 December 2021, the carrying value of client relationship intangibles was £193.6 million (2020: £121.1 million).

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 £6.3 million.

### 2.2 Retirement benefit obligations (note 10)

#### Estimation uncertainty

The principal assumptions underlying the reported surplus of £12,287,000 (2020: £9,785,000 deficit) are set out in note 10.

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 sensitivities of the retirement benefit obligations to changes in all of the underlying estimates are set out in note 10. Of these, the most sensitive assumption is the discount rate used to measure the defined benefit obligation. Increasing the discount rate by 0.5% would decrease the schemes' liabilities by £14,966,000 (2020: £15,689,000). A 0.5% decrease would have an equal and opposite effect.

## 2 Critical accounting judgements and key sources of estimation uncertainty (continued)

### 2.3 Business combinations (note 4)

#### Critical judgement

Treatment and fair value of consideration transferred

During the year, the group acquired the entire share capital of Saunderson House Limited. The group has accounted for the transaction as a business combination.

The purchase price payable in respect of the acquisition is split into a number of different components. The payment of certain elements has been deferred; the timing and value of these are contingent on certain employment conditions and operational and financial targets being met.

The proportion of the deferred payments that are contingent on the recipients remaining employees of the group for a specific period are accounted for as remuneration for ongoing services in employment. The group's estimate of the amounts ultimately payable will be expensed over the deferral period.

#### Estimation uncertainty

Treatment and fair value of consideration transferred

The deferred payments subject to the achievement of certain operational and performance targets at 31 December 2024 were assessed, and a provision for the expected consideration to be paid has been made. Under the terms of the agreements, the award ranges from a payment of £nil to a maximum possible payment of £7.2 million.

Management's best estimate of this award at the year end was £4.75 million, based on expected qualifying funds under management at 31 December 2024 of £5.0 billion. The maximum award of £7.2 million would result in an additional charge to profit or loss in 2021 of £0.1 million.

Amortisation of client relationship intangibles

Client relationships of £79.4 million were recognised in the period in relation to the acquisition of Saunderson House. These are being amortised over a 15 year useful life. A reduction of three years in the amortisation period of the client relationship intangible asset would increase the annual amortisation charge by £1.3 million.

## 3 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Funds. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure; principally, these are 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 2021 | Investment Management £'000 | Funds £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 288,089 | 61,289 | – | 349,378 |
| Net commission income | 53,596 | – | – | 53,596 |
| Net interest income | 3,874 | 2 | – | 3,876 |
| Fees from advisory services and other income | 27,265 | 1,812 | – | 29,077 |
| **Operating income** | **372,824** | **63,103** | **–** | **435,927** |
| Staff costs – fixed | (89,343) | (5,210) | (35,260) | (129,813) |
| Staff costs – variable | (61,872) | (16,833) | (11,426) | (90,131) |
| **Total staff costs** | **(151,215)** | **(22,043)** | **(46,686)** | **(219,944)** |
| Other direct expenses | (37,488) | (10,084) | (47,692) | (95,264) |
| Allocation of indirect expenses | (85,767) | (8,611) | 94,378 | – |
| **Underlying operating expenses** | **(274,470)** | **(40,738)** | **–** | **(315,208)** |
| **Underlying profit before tax** | **98,354** | **22,365** | **–** | **120,719** |
| Charges in relation to client relationships and goodwill (note 8) | (15,595) | – | – | (15,595) |
| Acquisition-related costs (note 5) | (9,635) | – | (454) | (10,089) |
| **Segment profit before tax** | **73,124** | **22,365** | **(454)** | **95,035** |
| **Profit before tax attributable to equity holders of the company** | | | | **95,035** |
| Taxation (note 6) | | | | (19,806) |
| **Profit for the year attributable to equity holders of the company** | | | | **75,229** |

## 3 Segmental information (continued)

| | Investment Management £'000 | Funds £'000 | Total £'000 |
|---|---|---|---|
| Segment total assets | **3,132,898** | **126,568** | **3,259,466** |
| Unallocated assets | | | **12,287** |
| **Total assets** | | | **3,271,753** |

| 31 December 2020 | Investment Management £'000 | Funds £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 230,309 | 43,929 | – | 274,238 |
| Net commission income | 62,297 | – | – | 62,297 |
| Net interest income | 8,422 | – | – | 8,422 |
| Fees from advisory services and other income | 19,629 | 1,502 | – | 21,131 |
| **Operating income** | 320,657 | 45,431 | – | 366,088 |
| | | | | |
| Staff costs – fixed | (83,673) | (4,118) | (29,697) | (117,488) |
| Staff costs – variable | (56,414) | (12,015) | (9,299) | (77,728) |
| **Total staff costs** | (140,087) | (16,133) | (38,996) | (195,216) |
| Other direct expenses | (33,371) | (8,693) | (36,278) | (78,342) |
| Allocation of indirect expenses | (67,753) | (7,521) | 75,274 | – |
| **Underlying operating expenses** | (241,211) | (32,347) | – | (273,558) |
| **Underlying profit before tax** | 79,446 | 13,084 | – | 92,530 |
| Charges in relation to client relationships and goodwill (note 8) | (14,302) | – | – | (14,302) |
| Acquisition-related costs (note 5) | (32,433) | – | (2,016) | (34,449) |
| **Segment profit before tax** | 32,711 | 13,084 | (2,016) | 43,779 |
| **Profit before tax attributable to equity holders of the company** | | | | 43,779 |
| Taxation (note 6) | | | | (17,127) |
| **Profit for the year attributable to equity holders of the company** | | | | 26,652 |

| | Investment Management £'000 | Funds £'000 | Total £'000 |
|---|---|---|---|
| **Segment total assets** | 3,243,198 | 121,320 | 3,364,518 |
| **Unallocated assets** | | | 6,100 |
| **Total assets** | | | 3,370,618 |

The following table reconciles underlying operating expenses to operating expenses:

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| Underlying operating expenses | **315,208** | 273,558 |
| Charges in relation to client relationships and goodwill (note 8) | **15,595** | 14,302 |
| Acquisition-related costs (note 5) | **10,089** | 34,449 |
| **Operating expenses** | **340,892** | 322,309 |

### Geographic analysis

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

| | **2021 £'000** | 2020 £'000 |
|---|---|---|
| United Kingdom | **421,386** | 353,712 |
| Jersey | **14,541** | 12,376 |
| **Operating income** | **435,927** | 366,088 |

## 3 Segmental information (continued)

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

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| United Kingdom | **429,345** | 286,409 |
| Jersey | **3,796** | 4,437 |
| **Non-current assets** | **433,141** | 290,846 |

### Timing of revenue recognition

The following table presents operating income analysed by the timing of revenue recognition of the operating segment providing the service:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Investment Management £'000** | **Funds £'000** | Investment Management £'000 | Funds £'000 |
| Products and services transferred at a point in time | **44,190** | **–** | 56,300 | (12) |
| Products and services transferred over time | **327,486** | **64,251** | 264,851 | 44,949 |
| **Operating income** | **371,676** | **64,251** | 321,151 | 44,937 |

### Major clients

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

## 4 Business combinations

### Speirs & Jeffrey

On 31 August 2018, the group acquired 100% of the ordinary share capital of Speirs & Jeffrey Limited ('Speirs & Jeffrey').

#### Other deferred payments

The group has now provided for the total cost of deferred and contingent payments to be made to vendors for the sale of the shares of Speirs & Jeffrey. These payments required the vendors to remain in employment with the group for the duration of the respective deferral periods. Hence, they have been treated as remuneration for post-combination services and the grant date fair value has been charged to profit and loss over the respective vesting periods. The group continues to provide for related incentivisation awards for other staff.

During the prior year, the group replaced a share-based incentivisation award for support staff with a cash award. The accumulated charge recognised in equity over the related vesting period was reversed, and a provision was recognised in the 2020 financial statements in respect of the cash award. The award was settled during the year.

The remainder of payments are to be made in shares and have been 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 vested during the year at the third anniversary of the acquisition date.

— earn-out consideration and related incentivisation awards were subject to the delivery of certain operational and financial performance targets. The awards were payable in two parts in the third and fourth years following the acquisition date. The second earn-out vested during the year.

Further details of each of these elements are as follows:

| | Gross amount £'000 | Grant date | Grant date fair value £'000 | Vesting date |
|---|---|---|---|---|
| Initial share consideration | 25,000 | 31 August 2018 | 23,462 | 31 August 2021 |
| Earn-out consideration and incentivisation awards | 40,500 | 31 August 2018 | 41,111 | 31 December 2020/21 |

The gross amount in respect of the earn-out consideration and incentivisation awards represents the extent to which the performance targets were achieved at the respective vesting dates.

The charge recognised in profit or loss for the year ended 31 December 2021 for the above elements is as follows:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Initial share consideration | **4,533** | 9,215 |
| Earn-out consideration and incentivisation awards | **1,430** | 23,042 |
| | **5,963** | 32,257 |

## 4 Business combinations (continued)

A net credit of £2,600,000 was charged to profit or loss in the year for the second earn-out consideration. This related in part to a release of a portion of the accumulated charge recognised since the acquisition date, which was based on a higher estimate of the expected award at the time than the final qualifying amount. These costs are being reported as staff costs within acquisition-related costs (see note 5).

### Barclays Wealth's Personal Injury and Court of Protection business

On 3 April 2020, the group acquired the trade and assets of Barclays Wealth's Personal Injury and Court of Protection business. The acquired trade relates to the provision of discretionary investment management services to Personal Injury and Court of Protection clients.

Cash consideration of £12,048,000 was transferred on the date of acquisition. The sale and purchase agreement also comprised an employee incentive plan that was payable in two tranches. The last tranche of the award vested on 31 December 2020 and was paid during the year.

The awards under this plan are considered to be directly attributable costs of acquiring new client relationships, hence these costs have been capitalised in line with IFRS 15 and amortised over a 15 year useful life (note 8).

### Saunderson House

On 20 October 2021, the group acquired 100% of the ordinary share capital of the Saunderson House group.

Saunderson House is a UK-based advice-led wealth management business with a focus on professional services clients. It has a long-standing heritage in serving London and South East-based professional services clients, who tend to hold market-leading positions in accountancy and law firms.

### Consideration transferred

The following table summarises the acquisition date fair value of each class of consideration transferred:

| | Fair value £'000 |
|---|---|
| Initial cash consideration | 87,981 |
| Deferred cash consideration | 10,873 |
| **Total consideration** | **98,854** |

Total consideration comprises an initial cash payment of £87,981,000, which was paid on 20 October 2021. A further £45,208,000 was paid to the vendors on completion to settle debt of the acquired group. This debt, now payable to Rathbone Brothers Plc, has been included in the value of net assets acquired.

Deferred cash consideration is payable on the first anniversary of the acquisition date to vendors who are not required to remain in employment with the group. As the payment is due within one year, the consideration has not been discounted.

### Other deferred payments

The sale and purchase agreement details other deferred and contingent payments to be made to the vendors for the sale of the shares of Saunderson House. However, these payments require the recipients to remain in employment with the group for the duration of the respective deferral periods. Hence, they are being treated as remuneration for post-combination services, and the cost charged to profit and loss over the respective vesting periods. Details of each of these elements is as follows:

| | Gross amount £'000 | Grant date | Grant date fair value £'000 | Expected vesting date |
|---|---|---|---|---|
| Initial share consideration | 5,223 | 20 October 2021 | 5,454 | 20 October 2024 |
| Deferred share consideration | 4,052 | 20 October 2021 | 4,066 | 20 October 2022 |
| Management incentive scheme | 4,750 | 20 December 2021 | 4,093 | 31 December 2024 |

All of these payments are to be made 100% in shares and are being accounted for as equity-settled share-based payments under IFRS 2.

- Initial share consideration of £5,223,000 was issued on the date of acquisition, however does not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date. As the share issuance is in pursuance of the arrangement to acquire the shares of the Saunderson House group, the premium of £5,209,000 on the issuance of these shares has been recognised within the merger reserve.
- Deferred share consideration of £4,052,000 is payable on the first anniversary of the acquisition date subject to the vendors remaining in employment with the group.
- An incentive plan is in place for the Saunderson House senior management team, which is subject to certain operational and financial performance targets. The consideration vests in the fourth year following the acquisition date. The gross amount represents management's best estimate as to the extent to which these targets will be achieved. The award ranges from a minimum payment of £nil to a cap of £7.2 million.

## 4 Business combinations (continued)

These costs are being reported as staff costs within acquisition-related costs (see note 5).

### Identifiable assets acquired and liabilities assumed

The identifiable net assets of the acquired business at the acquisition date were as follows:

| 20 October 2021 | Carrying amounts £'000 | Fair value £'000 | Recognised amounts £'000 |
|---|---|---|---|
| Property, plant and equipment | 519 | – | 519 |
| Trade and other receivables | 10,063 | – | 10,063 |
| Software assets | 1,425 | – | 1,425 |
| Client relationship intangibles (note 8) | – | 79,415 | 79,415 |
| Cash held at bank | 8,245 | – | 8,245 |
| Right-of-use assets | 451 | – | 451 |
| Trade creditors | (86) | – | (86) |
| Accruals and other liabilities | (4,485) | – | (4,485) |
| Due to group companies | (47,655) | – | (47,655) |
| Deferred tax liabilities | (6) | (19,386) | (19,392) |
| Lease liabilities | (451) | – | (451) |
| Contingent liabilities | – | – | – |
| Total net assets acquired | (31,980) | 60,029 | 28,049 |

The fair value of the client relationship intangible assets has been measured using a multi-period earnings method (note 8). The model uses estimates of client longevity and investment performance to derive a series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired. The deferred tax liability arises on recognition of the client relationship intangible assets, and is equal to its carrying value.

The fair value of all other net assets acquired were equal to their carrying value.

### Goodwill

Goodwill arising from the acquisition has been recognised as follows:

| | £'000 |
|---|---|
| Total consideration (see above) | 98,854 |
| Fair value of identifiable net assets acquired (see above) | 28,049 |
| | 70,805 |

Goodwill of £70,805,000 arises as a result of the acquired workforce, expected future growth as well as operational and revenue synergies arising post integration. Any impairment of goodwill in future periods is not expected to be deductible for tax purposes.

During the period to 31 December 2021, Saunderson House contributed £6,142,000 to the group's operating income, and £1,122,000 to the group's profit before tax. This excludes the acquisition-related costs of £3,669,000 (see note 5), which were paid by Rathbone Brothers Plc.

If the group had made the acquisition on 1 January 2021, Saunderson House would have contributed £32,481,000 to group operating income and £2,067,000 to profit before tax, as based on the company's full year results.

## 5 Acquisition-related costs

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Acquisition of Speirs & Jeffrey | **6,418** | 34,273 |
| Acquisition of Barclay's Wealth Personal Injury and Court of Protection business | **2** | 176 |
| Acquisition of Saunderson House | **3,669** | – |
| **Acquisition-related costs** | **10,089** | 34,449 |

### 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 following classification within the income statement:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Acquisition costs:** | | |
| – Staff costs | **5,964** | 32,257 |
| – Legal and advisory fees | **5** | 20 |
| **Integration costs** | **449** | 1,996 |
| | **6,418** | 34,273 |

Non-staff acquisition costs of £5,000 (2020: £20,000) and integration costs of £449,000 (2020: £1,996,000) have not been allocated to a specific operating segment (note 3).

### Costs relating to the acquisition of Barclays Wealth's Personal Injury and Court of Protection business

On 3 April 2020, the group acquired the trade and assets of Barclays Wealth's Personal Injury and Court of Protection business. The group incurred professional services costs of £2,000 (2020: £176,000) in relation to the acquisition during the year.

### Costs relating to the acquisition of Saunderson House

The group has incurred the following costs in relation to the acquisition of Saunderson House, summarised by the following classification within the income statement:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| **Acquisition costs:** | | |
| – Staff costs | **1,406** | – |
| – Legal and advisory fees | **2,263** | – |
| **Integration costs** | **–** | – |
| | **3,669** | – |

## 6 Income tax expense

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Current tax: | | |
| – charge for the year | **23,796** | 18,247 |
| – adjustments in respect of prior years | **86** | (727) |
| Deferred tax: | | |
| – credit for the year | **(3,793)** | (1,495) |
| – adjustments in respect of prior years | **(283)** | 1,102 |
| | **19,806** | 17,127 |

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 (2020: higher) than the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%).

The differences are explained below:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Tax on profit from ordinary activities at the standard rate of 19.0% (2020: 19.0%) effects of: | **18,057** | 8,318 |
| – disallowable expenses | **984** | 454 |
| – share-based payments | **87** | 2,228 |
| – tax on overseas earnings | **(56)** | (225) |
| – adjustments in respect of prior year | **(197)** | 375 |
| – deferred payments to previous owners of acquired companies (note 5) | **927** | 5,455 |
| – other | **8** | (49) |
| – Effect of change in corporation tax rate on deferred tax | **(4)** | 571 |
| | **19,806** | 17,127 |

## 7 Dividends

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| – final dividend for the year ended 31 December 2020 of 47.0p (2019: 45.0p) per share | **25,938** | 24,316 |
| – interim dividend for the year ended 31 December 2021 of 27.0p (2020: 25.0p) per share | **18,022** | 13,515 |
| Dividends paid in the year of 74.0p (2020: 70.0p) per share | **43,960** | 37,831 |
| Proposed final dividend for the year ended 31 December 2021 of 54.0p (2020: 47.0p) per share | **31,479** | 25,213 |

An interim dividend of 27.0p per share was paid on 5 October 2021 to shareholders on the register at the close of business on 3 September 2021 (2020: 25.0p).

A final dividend declared of 54p per share (2020: 47.0p) is payable on 10 May 2022 to shareholders on the register at the close of business on 22 April 2022. The final dividend is subject to approval by shareholders at the Annual General Meeting on 5 May 2022 and has not been included as a liability in these financial statements.

## 8 Intangible assets

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Goodwill | **167,677** | 96,872 |
| Other intangible assets | **208,510** | 134,272 |
| | **376,187** | 231,144 |

### 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.

## 8 Intangible assets (continued)

The carrying amount of goodwill has been allocated as follows:

| | Investment Management £'000 | Funds £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2020 | 90,405 | 1,954 | 92,359 |
| Acquired through business combinations (note 4) | 6,467 | – | 6,467 |
| **At 1 January 2021** | **96,872** | **1,954** | **98,826** |
| Acquired through business combinations (note 4) | **70,805** | **–** | **70,805** |
| **At 31 December 2021** | **167,677** | **1,954** | **169,631** |
| **Impairment** | | | |
| At 1 January 2020 | – | 1,954 | 1,954 |
| Charge for the year | – | – | – |
| **At 1 January 2021** | **–** | **1,954** | **1,954** |
| Charge for the year | **–** | **–** | **–** |
| **At 31 December 2021** | **–** | **1,954** | **1,954** |
| **Carrying amount at 31 December 2021** | **167,677** | **–** | **167,677** |
| Carrying amount at 31 December 2020 | 96,872 | – | 96,872 |
| Carrying amount at 1 January 2020 | 90,405 | – | 90,405 |

Goodwill of £70,805,000 acquired through business combinations in the period relates to the acquisition of Saunderson House (2020: £6,467,000 acquired in the prior year relates to the acquisition of the Barclays Wealth's Personal Injury and Court of Protection business). See note 4. This has been 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.

### Impairment

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. 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 Internal Capital Adequacy Assessment Process ('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 CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which each group of CGUs operate.

There was no impairment to the goodwill allocated to the Investment Management group of CGUs during the period. The group has considered any reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the Investment Management group of CGUs to its cash flow projections and the level of risk associated with those cash flows. Based on this assessment, no such change would result in an impairment of the goodwill allocated to this CGU.

| | **Investment Management** | |
|---|---|---|
| **At 31 December** | **2021** | 2020 |
| Discount rate | **12.0%** | 12.2% |
| Annual revenue growth rate | **4.2%** | 5.0% |
| Terminal growth rate | **1.0%** | 1.0% |

## 8 Intangible assets (continued)

### Other intangible assets

| | Client relationships £'000 | Software development costs £'000 | Purchased software £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2020 | 207,136 | 8,182 | 41,148 | 256,466 |
| Internally developed in the year | – | 1,613 | – | 1,613 |
| Acquired through business combinations (note 4) | 6,890 | – | – | 6,890 |
| Purchased in the year | 4,085 | – | 6,269 | 10,354 |
| Disposals | (1,858) | – | (1,228) | (3,086) |
| **At 1 January 2021** | **216,253** | **9,795** | **46,189** | **272,237** |
| Internally developed in the year | **–** | **1,995** | **–** | **1,995** |
| Acquired through business combinations (note 4) | **79,415** | **–** | **5,662** | **85,077** |
| Purchased in the year | **8,620** | **–** | **4,840** | **13,460** |
| Disposals | **(1,716)** | **–** | **(3,699)** | **(5,415)** |
| **At 31 December 2021** | **302,572** | **11,790** | **52,992** | **367,354** |
| **Amortisation and impairment** | | | | |
| At 1 January 2020 | 82,680 | 6,037 | 30,347 | 119,064 |
| Impairment charge | – | – | – | – |
| Amortisation charge | 14,302 | 1,197 | 6,488 | 21,987 |
| Disposals | (1,858) | – | (1,228) | (3,086) |
| **At 1 January 2021** | **95,124** | **7,234** | **35,607** | **137,965** |
| Acquired through business combinations (note 4) | **–** | **–** | **4,237** | **4,237** |
| Amortisation charge | **15,595** | **1,383** | **5,053** | **22,031** |
| Disposals | **(1,716)** | **–** | **(3,673)** | **(5,389)** |
| **At 31 December 2021** | **109,003** | **8,617** | **41,224** | **158,844** |
| Carrying amount at 31 December 2021 | **193,569** | **3,173** | **11,768** | **208,510** |
| Carrying amount at 31 December 2020 | **121,129** | **2,561** | **10,582** | **134,272** |
| Carrying amount at 1 January 2020 | **124,456** | **2,145** | **10,801** | **137,402** |

Client relationships of £79,415,000 acquired through business combinations in the period relate to the acquisition of Saunderson House (2020: £6,890,000 acquired in the prior year relates to the acquisition of the Barclays Wealth's Personal Injury and Court of Protection business). See note 4.

Purchases of client relationships of £8,620,000 (2020: £4,085,000) 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 £15,595,000 (2020: £14,302,000).

Purchased software with a cost of £32,363,000 (2020: £23,803,000) has been fully amortised but is still in use.

## 9 Provisions

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Trade creditors | **59** | 785 |
| Other creditors | **23,667** | 20,766 |
| Accruals | **105,448** | 81,805 |
| Other provisions | **15,324** | 8,715 |
| | **144,498** | 112,071 |

| | Deferred, variable costs to acquire client relationship intangibles £'000 | Deferred consideration in business combinations £'000 | Legal and compensation £'000 | Property-related £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 January 2020** | 1,319 | – | 2,175 | 5,238 | 8,732 |
| Charged to profit or loss | | 588 | 639 | (642) | 585 |
| Unused amount credited to profit or loss | – | – | (419) | (23) | (442) |
| Net charge to profit or loss | – | 588 | 220 | (665) | 143 |
| Other movements | 3,857 | – | – | – | 3,857 |
| Utilised/paid during the year | (1,391) | – | (1,801) | (825) | (4,017) |
| **At 1 January 2021** | **3,785** | **588** | **594** | **3,748** | **8,715** |
| Charged to profit or loss | **–** | **–** | **2,278** | **995** | **3,273** |
| Unused amount credited to profit or loss | **–** | **–** | **(155)** | **–** | **(155)** |
| Net charge to profit or loss | **–** | **–** | **2,123** | **995** | **3,118** |
| Other movements | **7,992** | **–** | **–** | **–** | **7,992** |
| Utilised/paid during the year | **(3,239)** | **(588)** | **(574)** | **(100)** | **(4,501)** |
| **At 31 December 2021** | **8,538** | **–** | **2,143** | **4,643** | **15,324** |
| | | | | | |
| Payable within 1 year | **3,567** | **–** | **2,143** | **96** | **5,806** |
| Payable after 1 year | **4,971** | **–** | **–** | **4,547** | **9,518** |
| | **8,538** | **–** | **2,143** | **4,643** | **15,324** |

## 10 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 contributions made to these schemes during the year £12,006,000 (2020: £10,411,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £82,000 (2020: £67,000).

### 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 (GMPs) 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 to achieve equality. The High Court made a further ruling in November 2020 relating to members with GMPs that had previously transferred out, whereby the scheme remains liable for paying any required adjustments arising from GMP equalisation. An estimate of the additional payment was recognised as a past service cost in 2020.

## 10 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 31 December 2019.

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 | |
|---|---|---|---|---|
| | **2021 % (unless stated)** | 2020 % (unless stated) | **2021 % (unless stated)** | 2020 % (unless stated) |
| Rate of increase of salaries | **n/a** | n/a | **n/a** | n/a |
| Rate of increase of pensions in payment | **3.70** | 3.40 | **3.30** | 3.00 |
| Rate of increase of deferred pensions | **3.40** | 3.00 | **3.40** | 3.00 |
| Discount rate | **1.90** | 1.30 | **1.90** | 1.30 |
| Inflation* | **3.40** | 3.00 | **3.40** | 3.00 |
| Percentage of members transferring out of the schemes per annum | **2.00** | 3.00 | **2.00** | 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 Prices Index

Over the year, the financial assumptions have been amended to reflect changes in market conditions. Specifically:

1. the discount rate has been increased by 0.6% to reflect a decrease in the yields available on AA-rated corporate bonds
2. the assumed rate of future inflation has increased by 0.4% and reflects expectations of long-term inflation as implied by changes in the Bank of England inflation yield curve
3. the assumed rates of future increases to pensions in payment increased by 0.3% for both schemes, allowing for the change to the assumed rate of future inflation

Over the year the mortality assumptions have been updated. The CMI model used to project future improvements in mortality has been updated from the 2019 version to the 2020 version.

2% of members not yet in receipt of their pension are assumed to transfer out of the scheme each year (2020: 3%).

The assumed duration of the liabilities for the Laurence Keen Scheme is 15 years (2020: 16 years) and the assumed duration for the Rathbone 1987 Scheme is 20 years (2020: 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 S3PA 'Light' actuarial tables with improvements in line with the CMI 2020 tables with a long-term rate of improvement of 1.5% p.a. The assumed life expectancies on retirement were:

| | | **2021** | | 2020 | |
|---|---|---|---|---|---|
| | | **Males** | **Females** | Males | Females |
| Retiring today: | aged 60 | **28.2** | **29.9** | 28.2 | 29.8 |
| | aged 65 | **23.3** | **24.9** | 23.3 | 24.8 |
| Retiring in 20 years: | aged 60 | **29.9** | **31.6** | 29.9 | 31.5 |
| | aged 65 | **24.8** | **26.6** | 24.8 | 26.5 |

## 10 Long-term employee benefits (continued)

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | **(11,149)** | **(144,428)** | **(155,577)** | (12,374) | (153,030) | (165,404) |
| Fair value of scheme assets | **12,981** | **154,883** | **167,864** | 12,592 | 143,027 | 155,619 |
| **Net defined benefit liability** | **1,832** | **10,455** | **12,287** | 218 | (10,003) | (9,785) |

The amounts recognised in profit or loss, within operating expenses, are as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | 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 | **(5)** | **110** | **105** | 7 | 117 | 124 |
| Past service cost | **–** | **–** | **–** | 76 | – | 76 |
| | **(5)** | **110** | **105** | 83 | 117 | 200 |

Remeasurements of the net defined benefit asset have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £481,000 (2020: £451,000 rise) for the Laurence Keen Scheme and a rise in value of £11,501,000 (2020: £9,660,000 rise) for the Rathbone 1987 Scheme.

Movements in the present value of defined benefit obligations were as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| At 1 January | **12,374** | **153,030** | **165,404** | 12,726 | 146,398 | 159,124 |
| Service cost (employer's part) | **–** | **–** | **–** | – | – | – |
| Interest cost | **158** | **1,961** | **2,119** | 257 | 2,916 | 3,173 |
| Contributions from members | **–** | **–** | **–** | – | – | – |
| Actuarial experience gains | **20** | **5,793** | **5,813** | (1,081) | (3,272) | (4,353) |
| Actuarial gains/(losses) arising from: | | | | | | |
| – demographic assumptions | **(159)** | **(1,200)** | **(1,359)** | (389) | (5,154) | (5,543) |
| – financial assumptions | **(816)** | **(10,761)** | **(11,577)** | 1,158 | 20,482 | 21,640 |
| Past service cost | **–** | **–** | **–** | 76 | – | 76 |
| Benefits paid | **(428)** | **(4,395)** | **(4,823)** | (373) | (8,340) | (8,713) |
| **At 31 December** | **11,149** | **144,428** | **155,577** | 12,374 | 153,030 | 165,404 |

Movements in the fair value of scheme assets were as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| At 1 January | **12,592** | **143,027** | **155,619** | 12,178 | 138,932 | 151,110 |
| Remeasurement of net defined benefit liability: | | | | | | |
| – interest income | **163** | **1,851** | **2,014** | 250 | 2,799 | 3,049 |
| – return on scheme assets (excluding amounts included in interest income) | **318** | **9,650** | **9,968** | 201 | 6,861 | 7,062 |
| Contributions from the sponsoring companies | **336** | **4,750** | **5,086** | 336 | 2,775 | 3,111 |
| Contributions from scheme members | **–** | **–** | **–** | – | – | – |
| Benefits paid | **(428)** | **(4,395)** | **(4,823)** | (373) | (8,340) | (8,713) |
| **At 31 December** | **12,981** | **154,883** | **167,864** | 12,592 | 143,027 | 155,619 |

The statements of investment principles set by the trustees of both schemes were revised in 2020. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between return-seeking assets (primarily equities) and safer assets (corporate bonds and liability-driven investments).

## 10 Long-term employee benefits (continued)

The expected asset allocations at 31 December 2021 as set out in the statements of investment principles are as follows:

| Target asset allocation at 31 December 2021 | Laurence Keen Scheme | Rathbone 1987 Scheme |
|---|---|---|
| **Benchmark** | | |
| Safer assets | **60%** | **60%** |
| Growth assets | **40%** | **40%** |
| **Range** | | |
| Safer assets | **50% - 70%** | **50% - 70%** |
| Growth assets | **30% - 50%** | **30% - 50%** |

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

| Laurence Keen Scheme | **2021 Fair value £'000** | 2020 Fair value £'000 | **2021 Current allocation %** | 2020 Current allocation % |
|---|---|---|---|---|
| Equity instruments: | | | | |
| – United Kingdom | **348** | 485 | | |
| – Eurozone | **696** | 555 | | |
| – North America | **2,547** | 2,284 | | |
| – Other | **2,244** | 2,048 | | |
| | **5,835** | 5,372 | **46** | 43 |
| Debt instruments: | | | | |
| – United Kingdom corporate bonds | **4,854** | 4,489 | | |
| | **4,854** | 4,489 | **37** | 36 |
| Liability-driven investments | **1,986** | 2,441 | **15** | 19 |
| – Cash | **181** | 161 | **1** | 1 |
| – Other | **125** | 129 | **1** | 1 |
| **At 31 December** | **12,981** | 12,592 | **100** | 100 |

| Rathbone 1987 Scheme | **2021 Fair value £'000** | 2020 Fair value £'000 | **2021 Current allocation %** | 2020 Current allocation % |
|---|---|---|---|---|
| Equity instruments: | | | | |
| – United Kingdom | **18,035** | 29,299 | | |
| – Eurozone | **9,107** | 5,948 | | |
| – North America | **27,980** | 15,978 | | |
| – Other | **16,823** | 15,497 | | |
| | **71,945** | 66,722 | **47** | 46 |
| Debt instruments: | | | | |
| – United Kingdom corporate bonds | **54,370** | 41,509 | | |
| | **54,370** | 41,509 | **35** | 29 |
| Liability-driven investments | **26,308** | 32,700 | **17** | 24 |
| – Cash | **2,260** | 2,096 | **1** | 1 |
| – Other | **–** | – | **–** | – |
| **At 31 December** | **154,883** | 143,027 | **100** | 100 |

All equity instruments have quoted prices in active markets. 'Other' scheme assets comprise commodities (2020: comprise commodities). Buy and maintain credit funds held with Legal and General Investment Management have been classified as UK corporate bonds.

During the prior year, a proportion of assets was transferred to new fund managers, Legal and General Investment Management, and the interest rate swap instrument that was previously held was sold. The scheme now holds liability-driven investments, which act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation.

## 10 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 0.5% higher than that used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations is set out below.

| | Combined impact on schemes' liabilities | |
|---|---|---|
| | (Decrease)/increase £'000 | (Decrease)/increase % |
| 0.5% increase in: | | |
| – discount rate | (14,966) | (9.6%) |
| 0.5% increase in: | 12,639 | 8.1% |
| – rate of inflation | | |
| Reduce allowance for future transfers to nil | 1,671 | 1.1% |
| 1-year increase to: | | |
| – longevity at 60 | 7,884 | 5.1% |

The total contributions made by the group to the 1987 Scheme during the year were £4,750,000 (2020: £2,775,000). The group has a commitment to pay deficit-reducing contributions of £3,750,000 by 31 August 2022 and a further £2,750,000 by 31 August 2023 and each subsequent 31 August up to and including 31 August 2026, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2022.

The total contributions made by the group to the Laurence Keen Scheme during the year were £336,000 (2020: £336,000). The group has a commitment to pay deficit-reducing contributions of £168,000 by 28 February each year from 2022 to 2026 (inclusive) and a further £168,000 by 31 August in each of those years, so long as that scheme remains in deficit.

## 11 Fair values disclosures

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 2021 | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | **7,376** | **–** | **2,558** | **9,934** |
| – money market funds | **–** | **20,000** | **–** | **20,000** |
| | **7,376** | **20,000** | **2,558** | **29,934** |

| At 31 December 2020 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | 5,728 | – | 2,569 | 8,297 |
| – money market funds | – | 99,262 | – | 99,262 |
| | 5,728 | 99,262 | 2,569 | 107,559 |

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 (2020: 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.

## 11 Fair values disclosures (continued)

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of:

- Investment debt securities measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2021 was £761,763,000 (2020: £654,769,000) and the carrying value was £761,682,000 (2020: £651,533,000). 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 comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2021 was £42,824,000 (2020: £21,726,000) and the carrying value was £39,893,000 (2020: £19,768,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

### Level 3 financial instruments: Fair value through profit or loss

The group holds 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 valuation of €1,684 per share at 31 December 2021 has been calculated by reference to the most readily available data, which is the indicative price derived from recent transactions of the shares in the market. 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 2021, would have reduced equity and profit after tax by £207,000 (2020: £208,000). A 10% strengthening of the euro against sterling would have had 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:

| | 2021 | 2020 |
|---|---|---|
| **At 1 January** | **2,569** | 1,186 |
| Total unrealised (losses)/gains recognised in profit or loss | **(11)** | 1,383 |
| **At 31 December** | **2,558** | 2,569 |

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.

## 12 Earnings per share

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Pre-tax £'000 | Taxation £'000 | Post-tax £'000 | Pre-tax £'000 | Taxation £'000 | Post-tax £'000 |
| Underlying profit attributable to shareholders | **120,719** | **(23,732)** | **96,987** | 92,530 | (20,928) | 71,602 |
| Charges in relation to client relationships and goodwill (note 8) | **(15,595)** | **2,963** | **(12,632)** | (14,302) | 2,717 | (11,585) |
| Acquisition-related costs (note 5) | **(10,089)** | **963** | **(9,126)** | (34,449) | 1,084 | (33,365) |
| **Profit attributable to shareholders** | **95,035** | **(19,806)** | **75,229** | 43,779 | (17,127) | 26,652 |

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 on shares, of 56,334,784 (2020: 53,720,680).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Saunderson House 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. The Speirs and Jeffrey initial share consideration vested during the year.

| | 2021 | 2020 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year – basic | **56,334,784** | 53,720,680 |
| Effect of ordinary share options/Save As You Earn | **521,955** | 231,259 |
| Effect of dilutive shares issuable under the Share Incentive Plan | **237,776** | 73,990 |
| Effect of contingently issuable shares under the Executive Incentive Plan | **811,508** | 929,457 |
| Effect of contingently issuable shares under Speirs & Jeffrey initial share consideration (note 4) | **–** | 1,006,522 |
| Effect of contingently issuable shares under Saunderson House initial share consideration (note 4) | **272,952** | – |
| **Diluted ordinary shares** | **58,178,975** | 55,961,908 |

## 12 Earnings per share (continued)

| | 2021 | 2020 |
|---|---|---|
| Earnings per share for the year attributable to equity holders of the company: | | |
| – basic | **133.5p** | 49.6p |
| – diluted | **129.3p** | 47.6p |
| Underlying earnings per share for the year attributable to equity holders of the company: | | |
| – basic | **172.2p** | 133.3p |
| – diluted | **166.7p** | 127.9p |

Underlying earnings per share is calculated in the same way as earnings per share, but by reference to underlying profit attributable to shareholders.

## 13 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 £nil (2020: £nil). Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report.

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Short-term employee benefits | **12,159** | 9,829 |
| Post-employment benefits | **290** | 298 |
| Other long-term benefits | **1,305** | 941 |
| Share-based payments | **1,997** | 3,170 |
| | **15,751** | 14,238 |

Dividends totalling £229,000 were paid in the year (2020: £98,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2021, the group had outstanding interest-free season ticket loans of £nil (2020: £nil) issued to key management personnel.

At 31 December 2021, key management personnel and their close family members had gross outstanding deposits of £634,000 (2020: £616,000) and gross outstanding banking loans of £nil (2020: nil), all of which (2020: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

### Other related party transactions

The group's transactions with the pension funds are described in note 10. At 31 December 2021, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2020: none).

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 2021, the group managed 33 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2020: 28 unit trusts and OEICs).

## 13 Related party transactions (continued)

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 | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Total management fees | **68,444** | 50,541 |

| As at 31 December | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Management fees owed to the group | **6,240** | 4,885 |
| Holdings in unit trusts | **7,376** | 5,728 |
| | **13,616** | 10,613 |

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.

## 14 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:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Cash and balances at central banks | **1,460,001** | 1,798,000 |
| Loans and advances to banks | **173,589** | 159,432 |
| Fair value through profit or loss investment securities | **20,000** | 99,262 |
| **At 31 December** | **1,653,590** | 2,056,694 |

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:

| | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Share capital issued | **226** | 56 |
| Share premium on shares issued | **75,934** | 4,153 |
| Merger reserve on shares issued | **5,209** | – |
| Shares issued in relation to share-based schemes for which no cash consideration was received | **(21,902)** | – |
| Shares issued in relation to share buybacks | **(15,132)** | (5,077) |
| | **44,335** | (868) |

## 14 Consolidated statement of cash flows (continued)

A reconciliation of the movements of liabilities to cash flows arising from financing activities was as follows:

| | Liabilities | Equity | | | |
|---|---|---|---|---|---|
| | Subordinated loan notes £'000 | Share capital/ premium £'000 | Reserves £'000 | Retained earnings £'000 | Total £'000 |
| **At 1 January 2021** | **19,768** | **217,966** | **25,012** | **270,849** | **533,595** |
| **Changes from financing cash flows** | | | | | |
| Proceeds from issue of share capital | **–** | **54,244** | | **–** | **54,244** |
| Proceeds from issue of treasury shares | **–** | **–** | **(9,909)** | | **(9,909)** |
| Dividends paid | **–** | **–** | **–** | **(43,960)** | **(43,960)** |
| **Total changes from financing cash flows** | **–** | **54,244** | **(9,909)** | **(43,960)** | **375** |
| **The effect of changes in foreign exchange rates** | **–** | **–** | **–** | **–** | **–** |
| **Changes in fair value** | **–** | **–** | **–** | **–** | **–** |
| Repayment of loan notes | **(20,114)** | **–** | **–** | **–** | **(20,114)** |
| **Liability-related** | | | | | |
| Issue of loan notes | **39,893** | | | | **39,893** |
| Interest expense | **1,241** | **–** | **–** | **–** | **1,241** |
| Interest paid | **(895)** | **–** | **–** | **–** | **(895)** |
| **Total liability-related changes** | **20,125** | **–** | **–** | **–** | **20,125** |
| **Total equity-related other changes** | **–** | **21,916** | **25,236** | **61,928** | **109,080** |
| **At 31 December 2021** | **39,893** | **294,126** | **40,339** | **288,817** | **663,175** |

| | Liabilities | Equity | | | |
|---|---|---|---|---|---|
| | Subordinated loan notes £'000 | Share capital/ premium £'000 | Reserves £'000 | Retained earnings £'000 | Total £'000 |
| At 1 January 2020 | 19,927 | 213,757 | 29,785 | 241,851 | 505,320 |
| **Changes from financing cash flows** | | | | | |
| Proceeds from issue of share capital | – | 4,209 | – | – | 4,209 |
| Proceeds from sale of treasury shares | – | – | (4,773) | (304) | (5,077) |
| Dividends paid | – | – | – | (37,831) | (37,831) |
| **Total changes from financing cash flows** | – | 4,209 | (4,773) | (38,135) | (38,699) |
| **The effect of changes in foreign exchange rates** | – | – | – | – | – |
| **Changes in fair value** | – | – | – | – | – |
| **Other changes** | (393) | – | – | – | |
| **Liability-related** | | | | | |
| Interest expense | 1,294 | – | – | – | 1,294 |
| Interest paid | (1,060) | – | – | – | (1,060) |
| **Total liability-related changes** | (159) | – | – | – | (159) |
| **Total equity-related other changes** | – | – | – | 67,133 | 67,133 |
| **At 31 December 2020** | 19,768 | 217,966 | 25,012 | 270,849 | 533,595 |

## 15 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.

## 16 Financial information

The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2021 or 2020. Statutory financial statements for 2020 have been delivered to the Registrar of Companies. Statutory financial statements for 2021 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2020 and 2021 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

## 17 Forward looking statements

This announcement 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 the 2021 annual report. Statements contained within this announcement 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. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.

# Independent auditor's report to the shareholders of Rathbones Group Plc on the preliminary announcement of Rathbones Group Plc

As the independent auditor of Rathbones Group Plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Rathbones Group Plc's preliminary announcement statement of annual results for the period ended 31 December 2021.

The preliminary statement of annual results for the period ended 31 December 2021 includes:

- Disclosures required by the Listing Rules;
- Chair's statement;
- Chief executive's statement;
- Financial performance;
- Segmental review;
- Financial position;
- Liquidity and cash flow;
- Risk management and control;
- Consolidated statement of comprehensive income;
- Consolidated statement of changes in equity;
- Consolidated balance sheet;
- Consolidated statement of cash flows; and
- Notes to the preliminary announcement.

We are not required to agree to the publication of presentations to analysts, trading statement, interim management statement or half-yearly financial report.

The directors of Rathbones Group Plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

## Status of our audit of the financial statements

Our audit of the annual financial statements of Rathbones Group Plc is complete and we signed our auditor's report on 23 February 2022. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

## Valuation of the Saunderson House Limited ("SHL") client relationship intangible asset and associated Useful Economic Life ("UEL")

### Key audit matter description

On 20 October 2021, the Group acquired a 100% equity interest in SHL. In respect of, this the Group has recognised a client relationship intangible of £79.4 million, which is being amortised over 15 years.

As detailed in the critical accounting judgements and key sources of estimation uncertainty note 2, and as disclosed in note 4, acquisition accounting requires management to make a number of judgements to determine the fair value of acquired identifiable assets. We have identified the valuation of the SHL client relationship intangible asset and associated UEL as a fraud risk, given the inherent judgement, complexity and level of estimation involved.

The significant assumptions that underpin the client relationship intangible asset valuation include: the growth rate for assets under management ("AuM"); the revenue margins; the non-staff costs to income ratio; and the applied discount rate.

The UEL has been derived based on the minimum life indicated from the Group's existing advisory book as well as future expectations for the SHL client proposition.

### How our audit responded to this key audit matter

In order to evaluate the appropriateness of the assumptions used by management, we obtained an understanding of relevant controls over the appropriate determination of key assumptions and the calculation of the client relationship intangible asset to be recognised in the financial statements.

In order to challenge the appropriateness of the assumptions used in the valuation model to derive the valuation of the client relationship intangible asset and the assumptions that underpin the associated UEL we have involved our in-house valuation specialists in reviewing the model methodology and the key assumptions; independently recalculating the valuation; and benchmarking the assumptions to determine their reasonableness. We have also evaluated the accuracy of the data inputs and calculations performed by management.

To challenge the assumptions for growth rate in AUM, revenue margin and non-staff costs to income ratio we scrutinised management's business plans which underpinned the acquisition, assessed whether the assumptions were consistent with data from previous acquisitions and evaluated management's ability to forecast with reasonable accuracy by validating recent actual outturns to historic forecasts.

We have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for a business combination under IFRS 3.

### Key observations

We concluded that the valuation of the client relationship intangible asset and associated UEL have been appropriately determined.

## Impairment of client relationship intangible assets and goodwill

### Key audit matter description

The Group holds client relationship intangible assets of £193.6 million (2020: £121.1 million) and goodwill of £167.7 million (2020: £96.9 million) comprising both client relationships acquired through business combinations and through acquisition of individual investment managers and their client portfolios. We have identified this matter as a fraud risk, given the inherent judgement and level of estimation in the annual impairment review.

As detailed in note 8, client relationship intangible assets 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.

For client relationship intangible assets, 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 ("FUM") 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. The discount rate, annual revenue growth rate and terminal growth rate used were 12.0%, 4.2%, and 1.0% respectively as disclosed in note 8.

### How our audit responded to this key audit matter

We obtained an understanding of relevant controls in relation to the impairment review process for client relationship intangible assets for both acquired portfolios and individual client relationships and for goodwill. We tested controls in place over FUM values which form the basis of the impairment assessment.

For client relationship intangible assets, 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". Where the review indicated that an impairment trigger had occurred, we assessed the relevant assumptions and judgements made by management in determining whether an impairment needed to be recognised. We have challenged the key assumptions around the impairment triggers identified for each portfolio, which we have assessed for reasonableness and evaluated the accuracy of the inputs used by management.

For goodwill, 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 recent historical performance and checked for consistency with forecasts used elsewhere in the business. We challenged the determination of the discount rate applied by benchmarking to appropriate market rates of interest and recalculation. We have also independently re-performed management's value-in-use calculation.

Focusing on those assumptions where the impairment test was most sensitive, we also performed sensitivity analysis to assess the risk that reasonably possible changes in assumptions used by management could give rise to an impairment.

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 intangible assets and goodwill.

### Key observations

Through our testing for client relationship intangible assets and goodwill, we concluded that management's approach and conclusion was appropriate.

## Valuation of the Defined Benefit Scheme obligation

### Key audit matter description

The Group has recognised a defined benefit pension scheme asset of £12.3 million (2020: liability of £9.8 million). The net asset comprises scheme assets of £167.9 million (2020: £155.6 million) and a defined benefit obligation of £155.6 million (2020: £165.4 million).

The calculation of the defined benefit scheme obligation 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 2.

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 defined benefit scheme obligation.

### How our audit responded to this key audit matter

In order to evaluate the appropriateness of the assumptions used by management, we obtained an understanding of relevant controls over the appropriate determination of the assumptions used and the calculation of the defined benefit scheme obligation 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 our independently determined benchmarks derived using market and other data.

We have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for a defined benefit pension scheme obligation.

### Key observations

We concluded that each of the key assumptions used by management to estimate the defined benefit scheme obligation are consistent with the requirements of IAS 19 and that the valuation of the defined pension scheme obligation has been appropriately determined.

## Investment management fee revenue relating to bespoke fees

### Key audit matter description

As detailed in note 3, revenue comprises net investment management fee income of £349.4 million (2020: £274.2 million), net commission income of £53.6 million (2020: £62.3 million), net interest income of £3.9 million (2020: £8.4 million) and fees from advisory services and other income of £29.1 million (2020: £21.1 million).

Investment management ("IM") fees from the IM segment account for approximately 80% of total revenue 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 a number of clients are on bespoke rates rather than the current standard rates or legacy rates that were standard previously or at the time of acquisition.

As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, incorrect bespoke fee rates could be used to calculate investment management fees.

### How our audit responded to this key audit matter

We tested 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 fees population.

We agreed a sample of bespoke client fee rates through to client contracts and the value of FUM to third party sources. Where manual fee rate amendments were made to system generated fees, we inspected evidence of authority and rationale.

We have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for revenue.

### Key observations

We concluded that the investment management fee revenue is appropriately recognised for the year ended 31 December 2021.

These key audit matters set out above were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

## Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Rathbones Group Plc we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final period figures and considered whether they are fair, balanced and understandable.

## Use of our report

Our liability for this report, and for our full audit report on the financial statements is 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 our audit report or 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

23 February 2022