Funds under management up 17.1% to £34.2 billion

This is a preliminary statement of annual results published in accordance with FCA Listing Rule 9.7A.
It covers the year ended 31 December 2016.

Mark Nicholls, Chairman of Rathbone Brothers Plc, said:

"After a nervous start to 2016, the FTSE 100 performed increasingly strongly as the year progressed, largely reflecting the impact of a sharp fall in sterling after the EU Referendum vote. Nevertheless, the recovery in the second half had a favourable impact on our financial performance, helping our total funds under management to grow by 17.1% to £34.2 billion.

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

Highlights:

- Total funds under management were £34.2 billion at 31 December 2016, up 17.1% from £29.2 billion at 31 December 2015. The FTSE 100 Index increased by 14.4% and the FTSE WMA Balanced Index increased by 13.6% over the same period.

- The total net annual growth rate of funds under management for Investment Management was 4.5% (2015: 5.7%). This comprised £0.8 billion of net organic growth (2015: £0.7 billion) and £0.4 billion of acquired inflows (2015: £0.7 billion). The underlying rate of net organic growth was 2.9% in 2016 (2015: 3.0%).

- Unit Trusts saw gross sales of £1.3 billion in 2016 (2015: £0.9 billion) and funds under management increase by 29.0% to £4.0 billion at 31 December 2016 (2015: £3.1 billion).

- Underlying operating income in Investment Management of £226.3 million for the year ended 31 December 2016 (2015: £209.0 million) represents an increase of 8.3%. The average FTSE 100 Index was 6659 on our quarterly billing dates (2015: 6415), an increase of 3.8%.

- Total underlying operating expenses increased 11.1% to £176.4 million largely reflecting continued investment in strategic initiatives as well as underlying growth in the business.

- Underlying profit before tax (excluding acquisition-related costs, head office relocation costs and charges in relation to client relationships and goodwill) increased 6.4% to £74.9 million from £70.4 million. Underlying earnings per share increased by 4.4% to 122.1p (2015: 117.0p).

- Reflecting acquisition-related costs, head office relocation costs and charges in relation to client relationships and goodwill, profit before tax was £50.1 million for the year ended 31 December 2016, a decrease of 14.5%, compared to £58.6 million in 2015. Basic earnings per share decreased 19.0% to 78.9p (2015: 97.4p).

- The board recommends a final dividend of 36p for 2016 (2015: 34p), making a total of 57p for the year (2015: 55p), an increase of 3.6% on 2015.

Ends
Issued on 23 February 2017

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Rathbone Brothers Plc

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

Rathbones has over 1,100 staff in 16 locations across the UK and Jersey; its headquarters is 8 Finsbury Circus, London.

rathbones.com

Chairman’s Statement

Overview of 2016

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

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

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

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

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

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

Our strategy

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

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

Culture, governance and the board

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

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

During the year, in addition to regulatory matters, the board paid particular attention to the progress of our strategic growth initiatives referred to above, the bedding in of management structures put in place last year, the volatility associated with our defined benefit pension scheme, and the financial implications of our London office move. The last of these included the adverse impact of the Brexit vote on the availability of prospective tenants for our existing space

in Curzon Street. We have also discussed how we operate as a board and the interaction between executive and non-executive directors as well as considering both management and non-executive succession plans which remain a work in progress.

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

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

We also had a helpful and positive board effectiveness review carried out this year.

Risks

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

Remuneration

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

Employees

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

Shareholders

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

Outlook

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

Mark Nicholls, Chairman
22 February 2017

Chief executive's statement

Growth in an unpredictable market

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

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

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

Financial performance

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

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

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

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

Profit before tax decreased 14.5% to £50.1 million (2015: £58.6 million) reflecting the full impact of the acquisition and head office relocation costs.

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

Pension scheme and share placing

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

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

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

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

Building for the future

In 2014, we embarked on a comprehensive 5 year strategic plan. From a starting point at 1 January 2014 of FUM £22.0 billion, our projections demonstrated that the strategy, inclusive of acquisitions and moderate market growth, could achieve £40.0 billion by 31 December 2018 and included an ambition to achieve a sustained net organic growth rate of 5.0% per annum derived from:

- Improved organisation and management discipline driving organic growth;
- Development of the core investment process and research capability;
- Investment in core IT infrastructure and operational efficiency and;
- New strategic growth initiatives

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

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

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

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

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

During 2016, we made progress in establishing Rathbones Private Office, intending to provide an advisory service to clients with over £10 million of investable assets. The nucleus team is now in place and the infrastructure fully operational. This includes our strategic partnership with Credit Suisse, which provides us with a full international private banking capability. Whilst run rate costs are expected to increase by c.£1 million in 2017, we anticipate proving the concept with our first clients joining us by mid-2017, targeting c.£200 million of funds under management by the end of the year.

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

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

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

Developing our infrastructure

In August 2016, we made the senior appointment of a Chief Information Officer charged with ensuring that planned investment in our technology architecture and skills base is synchronised with business growth and meets our digital strategy aspirations. This medium term programme will focus on further improving our client experience, including installation of a new client relationship management system during 2017, and strive for greater operational efficiency in our support functions. We expect IT related capital expenditure to increase by c.£1 million in 2017 as a result, with operating expenditure upgrading our IT skills and infrastructure adding approximately £2 million to the 2016 cost run rate in 2017.

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

Outlook

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

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

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

Philip Howell, Chief Executive
22 February 2017

Our performance

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

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

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

Table 1. Group's overall performance

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

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

Group underlying operating income

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

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

Group underlying operating expenses

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

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

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

Underlying operating expenses also included £4.0 million (2015: £3.3 million) for awards payable to new investment managers for the introduction of new clients where those managers have been in situ for more than 12 months (see note 2).

Outlook for expenditure

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

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

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

Capital expenditure

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

Group underlying profit before tax/operating margin

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

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

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

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

Charges in relation to client relationships and goodwill

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

Head office relocation costs

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

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

Acquisition related costs

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

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

Taxation

The corporation tax charge for 2016 was £11.9 million (2015: £12.2 million), and represents an effective tax rate of 23.8% (2015: 20.8%). A full reconciliation of the income tax expense is provided in note 4.

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

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

Basic earnings per share

Basic earnings per share for the year ended 31 December 2016 were 78.9p compared to 97.4p in 2015. This reflects the full impact of planned non-underlying charges and the placing of 2.2 million shares during 2016. On an underlying basis, earnings per share increased by 4.4% to 122.1p in 2016 (see note 6).

Dividends

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

Segmental review

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

Investment Management

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

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

Table 3. Investment Management – key performance indicators

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

1 See table 4
2 See table 7

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

Funds under management

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

Table 4. Investment Management – funds under management

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

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

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

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

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

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

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

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

Financial performance

Table 5. Investment Management – financial performance

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

1 Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2 Presented net of interest expense paid on client accounts; excludes interest on own reserves and interest payable on Tier 2 loan notes issued
3 Fees from advisory services includes income from trust, tax and financial planning services
4 See table 8
5 Underlying profit before tax as a percentage of underlying operating income

Investment Management income is derived from:

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

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

Table 6. Investment Management – average funds under management

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

1 Based on the corresponding valuation dates for billing

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

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

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

Table 7. Investment Management – revenue margin

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

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

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

Table 8. Investment Management – underlying operating expenses

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

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

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

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

Unit Trusts

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Unit Trusts are shown in table 9 below.

Table 9. Unit Trusts – key performance indicators

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

1 See table 10
2 See table 12

Funds under management

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

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

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

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

Table 10. Unit Trusts – funds under management

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

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

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

Table 11. Unit Trusts – fund performance

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

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

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

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

Financial performance

Unit Trusts' income is primarily derived from:

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

Table 12. Unit Trusts – financial performance

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

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

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

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

Table 13. Unit Trusts – underlying operating expenses

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

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

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

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

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

Financial position

Table 14. Group's financial position

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

* Restated for measurement period adjustment in respect of business combinations (see note 1)
1 Common Equity Tier 1 capital as a proportion of total risk exposure amount
2 Total own funds (see table 15) as a proportion of total risk exposure amount
3 Profit after tax divided by average total assets
4 Common Equity Tier 1 capital as a 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
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

Regulatory own funds

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

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

Table 15. Regulatory capital resources

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

* Restated for measurement period adjustment in respect of business combination (see note 1)
1 Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources

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

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

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

The business is primarily funded by equity, supported by £20 million of 10-year Tier 2 subordinated loan notes. The notes introduce some gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over 6-month LIBOR thereafter.

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

Own funds requirement

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

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

Pillar 1 - minimum requirement for capital

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

At 31 December 2016 the group's risk weighted assets were £892,650,000 (2015 (restated – note 1): £840,800,000).

Pillar 2 - Supervisory review process

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

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

Pension obligation risk

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

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

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

Countercyclical capital buffer (CCyB)

The CCyB is time-varying and is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the FPC for individual countries where the group has credit risk exposures. The buffer rate is currently set at zero for the UK, however non-zero rates for Norway, Sweden and Hong Kong, where the group has small relevant credit risk exposures, results in an overall rate of 0.04% of risk weighted assets for the group as at 31 December 2016. The FPC has announced that it expects to maintain a rate of 0% for the UK until at least June 2017.

PRA buffer

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

The group's own funds requirements were as follows.

Table 16. Group own funds requirement

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

* Restated for measurement period adjustment in respect of business combination (see note 1)

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

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

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

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

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

Total assets

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

Treasury assets

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

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

Loans to clients

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

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

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

Intangible assets

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

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2016, including the impact of any lost relationships, was £11.7 million (2015: £10.7 million).

Goodwill which arises from business combinations is not amortised, but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.1 million was recognised in relation to this element of goodwill (2015: £0.3 million).

Capital expenditure

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

Investment in new systems continues at a steady pace as we continue to improve the efficiency of our systems and our back office. Although some of this is driven by regulatory change, much is driven by our desire to optimise the service that our clients receive and to give our investment managers the tools they need to manage portfolios more easily. In 2017 we plan to install a new client relationship management system.

Excluding the London office fit out costs, new investment accounted for approximately 67% of capital expenditure in 2016, with the balance being maintenance and replacement of existing software and equipment. This split is broadly consistent with the spending pattern in the recent past.

Defined benefit pension schemes

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

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

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

Since 30 September 2016, corporate bond yields have increased and the combined deficit in the schemes at 31 December 2016 had fallen to £39.5 million.

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. Funding valuations of the schemes were last carried out as at 31 December 2013. As a result there have been no changes to the level of regular contributions made to the schemes. Funding valuations as at 31 December 2016 will be carried out during 2017.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

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

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

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

Cash and balances at central banks was £1,075.7 million at 31 December 2016 (2015: £583.2 million).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits which had an original maturity of less than three months. Consequently cash flows, as reported in the financial statements, include the impact of capital flows in treasury assets.

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

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

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

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

Risk management

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

Risk culture

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

Three lines of defence

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

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

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

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

Risk appetite

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

Identification and profiling of principal risks

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

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

We assess risks using a 1 — 4 scoring system, with each Level 3 risk rated by assessing the likelihood of its occurrence in a five year period and the associated impact. A residual risk score and overall risk rating of high, medium, low or very low is then derived for the five year period by taking into account an assessment of the internal control environment or insurance mitigation.

Risk assessment process

As part of the risk management framework, the board and senior management are actively involved in a continuous risk assessment process. A regular review and risk assessment is conducted for the board's 5 year strategic plan, supported by the annual Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) work which assesses the principal risks facing the group.

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

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

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

Profile and mitigation of principal risks

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

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

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

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

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

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

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

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

Emerging risks and threats

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

Financial risks

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

Conduct risks

		Residual rating			
Ref	**Level 2 risk**	**I**	**L**	**How the risk arises**	**Control environment**
E	Business model The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected	Med	Med	This risk can arise from both strategic decisions which fail to consider the current operating environment or can be influenced by external factors such as material changes in regulation, or legislation within the financial services sector	— Board and executive oversight — A documented strategy — Annual business targets, subject to regular review and challenge — Regular reviews of pricing structure — Continued investment in the investment process, service standards and marketing — Trade body participation — Regular competitor benchmarking and analysis
F	Performance and advice The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios resulting in a failure to meet clients' investment and/or other objectives or expectations	Med	Med	This risk can arise through a failure to appropriately understand the wealth management needs of our clients and a failure to apply suitable advice or investment strategies, along with having inadequate tools and systems in place to support our client facing financial professionals	— Investment governance and structured committee oversight — Management oversight and segregated quality assurance and performance teams — Performance measurement and attribution analysis — Weekly investment management meetings —Investment manager reviews through supervisor sampling — Compliance monitoring
G	Regulatory The risk of failure by the group or a subsidiary to fulfil regulatory requirements and comply with the introduction of new or changes to the existing regulation	High	Low	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	— Board and executive oversight — Active involvement with industry bodies — Compliance monitoring programme to examine the control of key regulatory risks — Separate anti-money laundering role with specific responsibility — Oversight of industry and regulatory developments — Documented policy and procedures — Staff training and development
H	Reputational The risk of reputational damage from financial and non-financial events or failing to meet stakeholders' expectations	Med	Low	This risk can arise due to a variety of reasons, primarily within Rathbones. This could be from the conduct of the company or its employees, and from the service or products provided to clients	— Staff training and development — Board and executive oversight — Strong corporate values and approach to governance — Positive culture regarding risk and regulation, supported by appropriate remuneration practices — Appropriate emphasis on the control environment through the three lines of defence — Proactive and positive communications with key stakeholders — Crisis response plan — Monitoring of company performance relative to competitors

Operational risks

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

		Residual rating			
Ref	**Level 2 risk**	**I**	**L**	**How the risk arises**	**Control environment**
N	Outsourcing The risk of one or more third parties failing to provide or perform outsourced services to standards expected by the group, impacting the ability to deliver core services	Med	Low	This risk can arise due to significant unknown operational changes at key outsourced relationships or a material change to their business model which affects their ability to provide the required services for Rathbones	— Executive oversight — Supplier due diligence and regular financial reviews — Active relationship management, including regular service review meetings — Service level agreements and monitoring of key performance indicators — Compliance monitoring
O	People The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives or behaviour leading to complaints, regulatory action or litigation	Med	Med	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation	— Executive oversight — Succession and contingency planning — Transparent, consistent and competitive remuneration schemes — Contractual clauses with restrictive covenants — Continual investment in staff training and development — Employee engagement survey — Appropriate balanced performance measurement system
P	Processing The risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets	Low	Med	This risk can arise from the failure of management to implement and control operational processes and systems to support the volumes of transactions processed on a daily basis	— Authorisation limits and management oversight — Dealing limits and supporting system controls — Active investment in automated processes — Counter review/four-eyes processes — Segregation of duties — Document procedures — Annual controls assessment (ISAE 3402 report)

Assessment of the company's prospects

The board prepares or reviews its strategic plan annually, completing the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA) work which forms the basis for capital planning and regular discussion with the Prudential Regulatory Authority (PRA).

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

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

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

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

Viability statement

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

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

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

Going concern

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

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

In 2016, the group has continued to generate organic growth in client funds under management and this is expected to continue. The directors believe that the company is well-placed to manage its business risks successfully despite the continuing uncertain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

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

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	2,395	92,987	31,835	28	(5,531)	149,557	271,271
Profit for the year						46,371	46,371
Net remeasurement of defined benefit liability						6,524	6,524
Net gain on revaluation of available for sale investment securities				53			53
Deferred tax relating to components of other comprehensive income				(10)		(1,509)	(1,519)
Other comprehensive income net of tax	-	-	-	43	-	5,015	5,058
Dividends paid						(25,836)	(25,836)
Issue of share capital	12	4,656					4,668
Share-based payments:							
- value of employee services						1,022	1,022
- cost of own shares acquired					(2,413)		(2,413)
- cost of own shares vesting					1,767	(1,767)	-
- tax on share-based payments						51	51
At 1 January 2016	**2,407**	**97,643**	**31,835**	**71**	**(6,177)**	**174,413**	**300,192**
Profit for the year						**38,157**	**38,157**
Net remeasurement of defined benefit liability						**(37,318)**	**(37,318)**
Net gain on revaluation of available for sale investment securities				**93**			**93**
Deferred tax relating to components of other comprehensive income				**(14)**		**5,936**	**5,922**
Other comprehensive income net of tax	**-**	**-**	**-**	**79**	**-**	**(31,382)**	**(31,303)**
Dividends paid						**(26,479)**	**(26,479)**
Issue of share capital	**128**	**42,003**					**42,131**
Share-based payments:							
- value of employee services						**3,035**	**3,035**
- cost of own shares acquired					**(1,585)**		**(1,585)**
- cost of own shares vesting					**1,084**	**(1,084)**	**-**
- own shares sold		**345**			**435**		**780**
- tax on share-based payments						**(115)**	**(115)**
At 31 December 2016	**2,535**	**139,991**	**31,835**	**150**	**(6,243)**	**156,545**	**324,813**

Consolidated balance sheet
as at 31 December 2016

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

Consolidated statement of cash flows
for the year ended 31 December 2016

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

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 International Financial Reporting Standards as adopted by the EU at 31 December 2016. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

Standards not affecting the reported results or the financial position

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

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

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

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

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

2 Critical accounting judgements and key sources of estimation and uncertainty

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

Client relationship intangibles

Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction, whether ownership of a corporate entity has been acquired and to whom any amounts payable under the transaction are payable, among other factors.

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. Payments made for the acquisition of client relationship intangibles are capitalised whereas those that are judged to be in relation to the provision of ongoing services are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

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

During the year the group capitalised £7,926,000 of payments made to investment managers and expensed £4,005,000 (2015: £11,308,000 capitalised and £3,254,000 expensed). A reduction in the capitalisation period by one month would decrease client relationship intangibles by £617,000 and decrease profit before tax by £617,000 (2015: £256,000 and £256,000 respectively).

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

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations for the future. During the year client relationship intangible assets were amortised over a 10-15 year period. Amortisation of £11,594,000 (2015: £10,698,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,100,000 (2015: £1,000,000). At 31 December 2016, the carrying value of client relationship intangibles was £97,201,000 (2015: £100,869,000).

Retirement benefit obligations

The group makes estimates about a range of long term trends and market conditions to determine the value of the surplus or deficit on its retirement benefit schemes, based on the group's expectations of the future and advice taken from qualified actuaries. Long term forecasts and estimates are necessarily highly judgemental and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

3. Segmental information

For management purposes the group is currently organised into two operating segments: Investment Management and Unit Trusts. The cost of staff providing support services is included in indirect expenses. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the executive committee.

31 December 2016	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	163,268	21,532	-	184,800
Net commission income	38,904	-	-	38,904
Net interest income	11,571	-	-	11,571
Fees from advisory services and other income	12,578	3,430	-	16,008
Underlying operating income	226,321	24,962	-	251,283
Staff costs - fixed	(57,613)	(3,020)	(19,123)	(79,756)
Staff costs - variable	(32,437)	(5,333)	(7,210)	(44,980)
Total staff costs	(90,050)	(8,353)	(26,333)	(124,736)
Other direct expenses	(22,882)	(5,355)	(23,430)	(51,667)
Allocation of indirect expenses	(47,184)	(2,579)	49,763	-
Underlying operating expenses	(160,116)	(16,287)	-	(176,403)
Underlying profit before tax	66,205	8,675	-	74,880
Charges in relation to client relationships and goodwill	(11,735)	-	-	(11,735)
Acquisition-related costs	(5,985)	-	-	(5,985)
Segment profit before tax	48,485	8,675	-	57,160
Head office relocation costs				(7,031)
Profit before tax attributable to equity holders of the company				50,129
Taxation (note 4)				(11,972)
Profit for the year attributable to equity holders of the company				38,157

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

3. Segmental information (continued)

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

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

Centrally incurred indirect expenses are allocated to operating segments on the basis of the cost drivers that generate the expenditure; principally the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and the segment's total revenue.

Geographic analysis

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

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

The following is an analysis of the carrying amount of non-current assets analysed by the geographical area in which the assets are located:

	2016 £'000	2015 £'000 (restated - note 1)
United Kingdom	**178,172**	175,304
Jersey	**5,610**	6,155
Non-current assets	**183,782**	181,459

Major clients

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

4. Taxation

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

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

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

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

5. Dividends

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

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

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

6. Earnings per share

Earnings used to calculate earnings per share on the bases reported in this announcement were:

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

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 48,357,728 (2015: 47,612,026).

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

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

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

7. Related parties

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.

	2016	2015
	£'000	£'000
Short term employee benefits	**10,750**	10,659
Post-employment benefits	**330**	791
Other long term benefits	**1,581**	1,706
Share-based payments	**2,775**	2,878
	15,436	16,034

Dividends totalling £302,000 were paid in the year (2015: £108,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2016, the group had outstanding interest-free season ticket loans of £6,000 (2015: £6,000) issued to key management personnel.

At 31 December 2016, key management personnel and their close family members had gross outstanding deposits of £5,464,000 (2015: £862,000) and gross outstanding banking loans of £959,000 (2015: 5,805,000), all of which (2015: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

At 31 December 2016, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2015: £nil).

7. Related parties (continued)

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2016, the group managed 27 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2015: 22 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

8. Consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months until maturity from the date of acquisition:

	2016	2015
	£'000	£'000
Cash and balances at central banks	**1,075,673**	583,156
Loans and advances to banks	**83,844**	68,156
Available for sale investment securities	**103,557**	52,316
At 31 December	**1,263,074**	703,628

Available for sale investment securities are amounts invested in money market funds which are realisable on demand.

Cash flows arising from issue of ordinary shares comprise:

	2016	2015
	£'000	£'000
Share capital issued	**128**	12
Share premium on shares issued	**42,348**	4,656
Shares issued in relation to share-based schemes for which no cash consideration was received	**(1,631)**	(2,413)
Shares issued in relation to business combinations	**(646)**	-
	40,199	2,255

9. Events after the balance sheet date

Member consultation on closing the pension scheme

On 20 October 2016, the group commenced a consultation with members of the schemes with a view to ceasing future accrual and breaking the link to final salary in both schemes. The consultation period ended on 31 January 2017. Following the consultation period, the group has confirmed to members its intention to close the Rathbone 1987 Scheme to future accrual and to break the link to final salary for both schemes, with effect from 1 July 2017. The impact of these changes, if they had been confirmed on 31 December 2016, would have been to reduce the reported defined benefit obligation by an estimated £6,100,000.

Relocation of the London head office

The move to the 8 Finsbury Circus office concluded on 13 February 2017, which triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing lease. The ultimate amount of the provision is dependent on the timing of any subletting agreement and the associated terms agreed with relevant third parties. Based on management's expectations of future costs for the premises and potential rental income, and timings thereof, a net charge to profit or loss of £10,000,000 was recognised on 13 February 2017.

10. 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 2016 or 2015. Statutory financial statements for 2015 have been delivered to the Registrar of Companies. Statutory financial statements for 2016 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2015 and 2016 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.

11. 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 2016 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.