Rathbone Brothers Plc 2018 Preliminary results

This is a preliminary statement of annual results published in accordance with FCA Listing Rule 9.7A.

It covers the year ended 31 December 2018.

Highlights

- Total funds under management and administration were £44.1 billion at 31 December 2018, up 12.8% from £39.1 billion at 31 December 2017. The FTSE 100 Index decreased by 12.5% and the MSCI WMA Private Investor Balanced Index decreased by 7.2% over the same period.
  - The total net annual growth rate of funds under management and administration for Investment Management was 23.5% (2017: 3.9%). This comprised £1.1 billion of net organic growth (2017: £0.9 billion) and £6.8 billion of acquired inflows (£6.7 billion related to the acquisition of Speirs & Jeffrey) compared to acquired growth of £0.3 billion in 2017. The underlying rate of net organic growth was 3.4% in 2018 (2017: 3.0%).
  - Underlying operating income in Investment Management totalled £275.3 million for the year ended 31 December 2018 (2017: £254.6 million) and includes £8.7 million of income in relation to Speirs & Jeffrey. The average FTSE 100 Index was 7269 on quarterly billing dates in 2018, compared to 7426 in 2017, a decrease of 2.1%.
- Funds under management in Unit Trusts were £5.6 billion at 31 December 2018 (31 December 2017: £5.3 billion) and net inflows totalled £543 million during 2018 (2017: £883 million). Underlying operating income in Unit Trusts was £36.7 million in the year ended 31 December 2018, an increase of 16.9% from £31.4 million in 2017 and the operating margin was stable at 34.6% (2017: 34.1%).
- Underlying operating expenses of £220.4 million (2017: £198.5 million) increased 11.0% year-on-year, not only reflecting £5.9 million of Speirs & Jeffrey operating costs in the year, but also underlying investment in the business as additional capability is added.
- Underlying profit before tax increased 4.7% from £87.5 million to £91.6 million for the year ended 31 December 2018. Profits of £2.8 million from Speirs & Jeffrey are included for the four month period since completion of the transaction. Underlying profit margin remained strong at 29.4% (2017: 30.6%). Underlying earnings per share increased 2.7% to 142.5p (2017: 138.8p). Profit before tax increased 4.1% from £58.9 million to £61.3 million.
- Work to integrate Speirs & Jeffrey into Rathbones is progressing well and the migration to common systems is planned to be completed by mid 2019 as previously guided.

Declaration of final dividend

- The board recommends a final dividend of 42p for 2018 (2017: 39p), making a total of 66p for the year (2017: 61p), an increase of 8.2% on 2017.

Board changes

- Philip Howell will retire as chief executive by 9 May 2019 and Paul Stockton, current group finance director and managing director of Rathbone Investment Management, will take on the role of chief executive.
- Jennifer Mathias will take on the role of group finance director when she joins the company on 1 April 2019.

Ends

Issued on 21 February 2019

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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 1,400 staff in 15 UK locations and Jersey; its headquarters is 8 Finsbury Circus, London.

rathbones.com

Chairman's statement

Mark Nicholls
Chairman

A review of 2018

Despite weaker investment markets in the final quarter of the year, 2018 was a good year financially for Rathbones. During the year we also implemented considerable regulatory changes associated with MiFID II, the Asset Management Market Study and General Data Protection Regulation successfully. These changes had a significant impact on our clients and across the business.

Rathbones continues to grow organically but our growth in 2018 was dominated by the completion of the Speirs & Jeffrey acquisition in August. The business is a strong cultural fit, adding £6.7 billion of funds under management and administration at the time of acquisition, and creating a leading presence in Scotland. We are enjoying working with the Speirs & Jeffrey team and look forward to welcoming their clients on to our systems in mid-2019.

Our financial results reflected the relatively strong investment markets that featured for most of the year but the final quarter of 2018 was a poor one for investors and asset managers alike. Despite weak markets at the end of the year, our funds under management and administration reached £44.1 billion at 31 December 2018, up 12.8% from £39.1 billion last year. Profit before tax for the year of £61.3 million increased 4.1% year on year (2017: £58.9 million) and reflected the impact of a number of non-underlying items, including costs associated with the acquisition of Speirs & Jeffrey. Basic earnings per share of 88.7p represented a decrease of 4.3% from 92.7p in 2017.

Our overall growth helped deliver underlying profit before tax of £91.6m (2017: £87.5 million), resulting in an underlying operating profit margin of 29.4% for the year (2017: 30.6%). Underlying earnings per share of 142.5p represented an increase of 2.7% from 138.8p in 2017. In line with our progressive dividend policy, the board is recommending a final dividend of 42p per share. This brings the total dividend for the year to 66p per share, an increase of 8.2% over last year.

Governance and culture

Rathbones' culture (based on professionalism, putting clients first, a collegiate approach and integrity) remains a priority of the board and at the heart of our success. We have ongoing discussions at board level about how we measure and monitor our culture. As our business grows, the board recognises the continued importance of good communication and will ensure that the strong client-centric behaviours that are embedded within the business continue to thrive. Throughout 2018, the board had particular focus on the impact of growth on our culture. Outside of board meetings, non-executive directors have held a number of constructive meetings, both individually and as a whole, with groups of employees across the business to share experiences more directly.

Corporate governance and stewardship continue to be important in Rathbones. We believe that the active approach we take on corporate governance and stewardship issues arising in the companies we invest in is in the best interests of our clients. It also helps us strive for high standards in our own corporate governance and disclosure, and we are supportive of the 2018 UK Corporate Governance Code changes which we plan to adopt in full by the end of 2019.

Risk and regulation

The past year has involved considerable work to implement changes driven by continued regulatory developments. The effects of these changes will be felt for some time. Our risk management processes continue to play an important role in decision-making and managing the business.. In 2018 we paid particular attention to the risks associated with cybercrime and business resilience, and the operational risks of implementing GDPR and MiFID II. Non-executive members of the board have also participated in a number of training and operational exercises associated with these risks. We will continue to see the impacts of regulatory change in 2019.

At the beginning of June we significantly reduced our exposure to property risk when we successfully assigned all legacy Curzon Street leases to a third party. This has resulted in a net write-back of non-underlying head office relocation costs of £2.8 million (2017: net costs of £16.2 million) in the year.

The board also recognises the additional operational risks associated with the integration of Speirs & Jeffrey and will ensure these are managed to within a sensible risk appetite.

Brexit

Brexit is likely to be one of the most significant political and economic events to impact the United Kingdom in our lifetimes. The lack of consensus on the United Kingdom's strategy for the future creates unprecedented levels of uncertainty and the longer term implications will not be clear for some time.

For these reasons we continue to monitor Brexit-related developments closely. As a UK business with no operations in other European Union countries, no material dependencies on goods or people from other European Union countries and a predominantly UK client base, we anticipate that the operational impacts on our business will be relatively small. In particular Brexit will bring no changes to the basis or nature of the services we provide to the vast majority of our clients and investors who are based in the UK. However, we recognise the impact of Brexit more generally could affect the value of our funds under management and administration.

Investors in the Luxembourg SICAV funds managed by Rathbone Unit Trust Management will see some changes to the basis on which these funds are delivered. It is also possible that there may be some implications for our private clients based in other EEA countries depending on the exact nature of the services they receive and regulatory framework agreed in the transitional period or in the event of an exit from the EU without agreement.

We continue to devote considerable resources to the investment implications of Brexit for client portfolios and our range of funds, and communicate through formal and informal briefings from our research team to clients and advisers regularly on our views.

Board changes and succession

As part of our normal succession planning, the board continues to monitor its capabilities and assesses what new skills are necessary to strengthen both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity. This year, we have implemented a number of changes in accordance with our succession plans which place us in a strong position to lead the business successfully in the future.

Taking these in order, in July 2018 we welcomed Terri Duhon to the board. Terri has wide experience in the financial services industry and was appointed chair of the risk committee on the departure of Kathryn Matthews after nine years of excellent service. We were also delighted to welcome Colin Clark to the board in October 2018. Colin's considerable experience in the investment management industry will be of great value to Rathbones in the years ahead.

Following a rigorous recruitment process, we announced the appointment of Jennifer Mathias to the group finance director role in October 2018. Jennifer's knowledge and experience in the wealth management and private banking sectors will be welcome and she will join us on 1 April 2019.

Finally, in November 2018, we announced that Philip Howell would be retiring from his role as chief executive by our Annual General Meeting on 9 May 2019 having achieved a successful period of considerable growth. Under Philip's leadership, Rathbones has firmly established itself as the leading independent UK wealth manager and, on behalf of the board, I would like to thank him for the strong direction, unfailing commitment and dedication he has provided to Rathbones during his tenure.

Philip is to be succeeded by Paul Stockton, currently group finance director and managing director of Rathbone Investment Management. Having worked with Paul for many years, I am delighted with his promotion to the role of chief executive. Paul has both considerable experience and a deep knowledge of Rathbones, its values and culture. I wish him every success as he takes on his new responsibilities.

Strategy

When we set our five-year strategy in 2014, we had the ambition to reach £40 billion of funds under management by the end of 2018. A combination of organic growth, earnings-enhancing acquisitions, positive investment performance and favourable markets has helped us to realise this ambition and we now manage £44.1 billion (2014 opening funds: £22.0 billion). We expect to update the market on the next phase of our growth during the second half of 2019.

Supporting our employees

We support the broader initiatives in the 2018 Corporate Governance Code which include workforce engagement, diversity and cultural issues. We believe that these require separate but related initiatives and we are actively considering how best to give them impetus. The board holds a strong desire for Rathbones to be a business where every employee has the opportunity to build a successful career and find the right balance between work and personal life. This has been our broad goal for some time and, over the past year, we have made specific improvements including signing the Women in Finance Charter and rolling out training programmes covering diversity, inclusion and unconscious bias across the firm.

The board recognises that the securing of true diversity is not an overnight change and will take time, but we are committed to tackling the underlying causes of our gender imbalance in particular. This will involve attracting talented people, enabling their career paths to senior management, removing any unconscious bias in our behaviours and actively creating a culture of inclusion across the company.

Engaging with shareholders

We are fortunate to have many supportive long-term shareholders with whom we engage on a regular basis. In 2018 and at the beginning of 2019 we have consulted with them on executive remuneration and we continue to hold an open and constructive dialogue in analyst and investor meetings. Shareholder support was evidenced this year by the success of our £60 million share placing to support the acquisition of Speirs & Jeffrey.

Outlook

Our priorities for 2019 will be the successful integration of Speirs & Jeffrey, the roll-out of the next phase of our growth and the smooth transition of our executive management team.

Despite political and economic uncertainties, we remain confident in the underlying strength of our business and its longer-term prospects.

Mark Nicholls
Chairman

20 February 2019

Chief executive's review

Philip Howell
Chief Executive

A resilient year

The wealth management industry continues to grow with sector assets reaching close to £1 trillion according to a recent Compeer study. The case for independent wealth managers providing discretionary investment management through a personalised client relationship model continues to be compelling. A discretionary service can respond dynamically to volatile market conditions and deliver a quality outcome. Capitalising on the market opportunity requires continuous investment in technology and professional talent which in turn calls for the advantages of scale. In this environment, Rathbones is well-positioned.

Markets during the first half of 2018 were slow to react to the growing economic and political uncertainties that were widely reported. They did however begin to reflect sentiment more closely during the second half of the year when we saw the considerable falls in asset levels that have perhaps reset expectations for 2019. Our own funds under management and administration grew to £44.1 billion at 31 December 2018 (2017: £39.1 billion).

The year was characterised by some additional demands placed upon the business. On the one hand, we needed to adapt to new regulatory regimes and navigate increasingly complex investment conditions. On the other, we continued to progress our five-year strategic initiatives and completed the most significant acquisition in our history. Our positive financial results despite this significant level of activity demonstrate the resilience of our business.

A strong 2018 financial performance and the completion of the acquisition of Speirs & Jeffrey

The 12.8% growth in our total funds under management and administration in 2018 reflected continued net organic growth and the completion of our acquisition of Speirs & Jeffrey in August 2018 which added funds of £6.7 billion at the time of completion. Total funds in our Investment Management business were £38.5 billion (2017: £33.8 billion), whilst our Unit Trusts business totalled £5.6 billion (2017: £5.3 billion). This growth helped deliver underlying profit before tax of £91.6 million (2017: £87.5 million), resulting in an underlying operating profit margin of 29.4% for the year (2017: 30.6%). Underlying earnings per share of 142.5p, increased 2.7% from 138.8p in 2017. Profit before tax of £61.3 million (2017: £58.9 million) reflected a number of non-underlying items including costs associated with the acquisition of Speirs & Jeffrey.

Net new organic inflows totalled £1.1 billion in 2018, representing a growth rate of 3.4% (2017: 3.0%). This was a relatively steady performance compared to last year. Outflows reflected the ongoing use of funds for lifestyle and property, as well as the departure of a small number of investment managers over the past year.

Net flows into Unit Trusts totalled £543 million in the year (2017: £883 million) representing 10.1% of opening funds under management. Encouragingly this meant Rathbones funds ranked 11th overall for net retail sales in 2018 according to numbers published in the February 2019 Pridham report.

Our balance sheet remains stable with a consolidated Common Equity Tier 1 ratio at 31 December 2018 of 20.6% compared with 20.7% at 31 December 2017. We remain very lightly geared with a consolidated leverage ratio at 31 December 2018 of 8.9% compared with 7.8% at 31 December 2017. Our underlying return on capital employed was lower at 16.9% as a result of the £60 million share placing to part fund the acquisition of Speirs & Jeffrey (2017: 19.5%).

Performance against our strategy

Our aim to build trusted relationships with our clients and be accountable for the outcome of their portfolios is as relevant today as it was five years ago.

The combination of organic growth, earnings-enhancing acquisitions, positive investment performance and effective cost management has helped Rathbones create and maintain value for shareholders and employees alike. In an environment of continued growth and favourable markets we have delivered underlying operating profit margins at around the 30% mark over a period of significant change. This has been achieved while investing in our infrastructure, managing regulatory developments and pursuing a number of growth initiatives.

Market growth has not been particularly strong over the last five years with the FTSE 100 Index average of 7269 for 2018 representing only a 13.2% increase over the average in 2014 of 6419. In spite of this, our underlying profits over that period have grown 81.4% to £91.6 million in the year ended 31 December 2018 (31 December 2013: £50.5m).

Funds under management and administration in the Investment Management business have grown 90.6% to £38.5 billion at 31

December 2018 from £20.2 billion five years ago. While our average net organic growth of 3.3% did not meet the 5% expectation we aimed for, it does reflect somewhat the headwinds of a sustained period of low yields and a continuing client appetite to invest away from public investment markets and into property.

Our strategic focus on distribution of our discretionary fund management services through UK IFA networks continues to positively contribute to organic growth.

Our charity and Greenbank specialist mandate businesses have continued to perform strongly. Rathbones is the fourth largest charity investment manager in the UK with £5.3 billion of charity related funds at 31 December 2018 and now competes for some of the largest charity business in the country. Our ethical business, Rathbone Greenbank Investments, has also benefited from momentum in this period, growing funds to £1.2 billion at 31 December 2018.

The Unit Trusts business in particular has gained considerable momentum and is now a £5.6 billion business (funds under management at 31 December 2018) in its own right and importantly does not rely on internal funds for growth. We now manage three funds of over £1 billion and have launched several new funds and strategies to keep up with growing demand and the ever-changing investment market.

Some other growth initiatives have been slower to bear fruit. Our in-house financial planning business has been restructured recently. It will require investment in the short-term to ensure that all of our key offices have an appropriate level of access to financial advisers to support business development. We will continue to invest selectively in financial planning talent in 2019. The Rathbone Private Office has also recently been restructured to simplify its proposition and build closer links with private client discretionary managers. We will continue to leverage the professional network it has established to add to growth.

Supplementing our growth through acquisitions

Our growth strategy has always been supported by the acquisition of teams and businesses, and our approach here has and will remain opportunistic. Our acquisitions and recruitment have added 137 investment professionals over the past five years. In 2014, we acquired Deutsche Bank's London and Jupiter's private client businesses (£2.6 billion) and in 2018 we acquired Speirs & Jeffrey (£6.7 billion). This was in addition to the acquisition of Vision Independent Financial Planning in 2015.

Our acquisition of Speirs & Jeffrey makes Rathbones the largest independent discretionary wealth manager in Scotland and further reinforces our long-held commitment to the region. Like Rathbones, Speirs & Jeffrey has a long-standing heritage and client-centric philosophy and our combined scale enables greater financial and organisational capacity to invest in our people, technology and processes. Work to bring the business into Rathbones is progressing well and the migration to our systems is intended to complete by mid-2019. Our commitment to keeping clients at the forefront of what we do will remain as we bring our two businesses together.

We will continue to focus on our key competencies to take advantage of industry trends, driving organic growth, while also seeking out acquisition opportunities that fit our culture.

Steady investment in our infrastructure

Capital expenditure excluding property costs was relatively stable at £9.7 million in 2018 (£9.3 million in 2017) but as an overall trend it has been increasing in recent years. Our investment systems remain market-leading and these have been enhanced by an ability to deal more efficiently, manage asset allocation and measure investment performance. The roll-out of our asset allocation modelling software across Rathbone Investment Management five years ago was an exciting step for us and enabled each of our investment managers to better manage client portfolios through the ability to actively compare them to model strategies. This tool is now a critical part of our infrastructure. Over the same period we have steadily grown our research skills and capability which now represents a strong backbone to our investment process and a considerable source of investment intellectual property.

Like many other businesses we continue to strive to make all our desired improvements to our client relationship management systems and will continue to work diligently this year to achieve our goals. Our other operational systems remain well controlled, supported by a technology infrastructure that is considerably more resilient than it was five years ago.

Managing the impacts of greater regulation

2018 was a year in which significant new regulation was implemented, adding to both capital and operating costs and involving some considerable internal resource. We were not alone as many industry participants wrestled with MiFID II and GDPR implementation projects whilst continuing to pursue a busy change agenda. Notwithstanding a sustained period of heavy regulatory change in 2018, we expect the impact to continue to be felt in 2019. Income in 2018 for example continued to benefit from the generation of 'risk-free' managers box dealing profits (£3.4 million in the year ended 31 December 2018 and £3.1 million in 2017) in our Unit Trust business, but such profits will not recur in 2019. Alongside the wider asset management industry, we also expect to face greater public scrutiny of costs and charges following the implementation of MiFID II. We remain confident in our value proposition but will continue to improve our services to clients.

Employees

Our employees remain the most valuable part of our business and without them we would not be the leading wealth manager we are today. We explained last year that current employee share ownership had been falling and we are pleased to have addressed this during the year with our new Staff Equity Plan. From May 2018, this adds £4.5 million per annum over five years to operating expenses. We also continue to support the Share Incentive Plan (SIP) and it is encouraging to see that 1,055 (nearly 80%) of employees now actively participate in that plan. The increased employee share ownership provided by all of these plans ensures employees are directly incentivised by, and motivated to ensure, the positive performance of the group and its continuing long-term success.

Training and career development is important to us and we strive to provide a high-quality learning and development experience for all of our employees to ensure they are well-informed and to help them achieve both their professional and personal potential. In 2019, we also expect our emphasis to move away from the considerable amount of regulatory training completed in recent years to pay greater attention to other areas such as leadership development and succession planning.

Outlook and succession

We have made some significant progress over the last five years, but there is still work to do to develop our services and strive for greater operational efficiency. This year will be a busy one, with strategic investment decisions being made amid the heightened uncertainties in investment markets. During 2019, we will not only focus on ensuring that the transfer of Speirs & Jeffrey clients to our platform is successful, but we will also improve our customer relationship management systems and client reporting tools, while continuing to develop other systems and processes as we progress our digital agenda and continue to grow. We will continue to maintain our cost discipline, investing as market conditions allow and ensuring that our infrastructure supports the business and manages operational risks appropriately.

On 27 November 2018 we announced that I will be retiring from my role as chief executive by the Annual General Meeting in May 2019. When I joined Rathbones in 2013, we were a business with £22.0 billion of funds under management, 41,000 clients and around 800 people. Back then, I could not have imagined the opportunities and challenges that we would face along the way but five years later we have emerged as the largest independent discretionary fund management provider in the UK with £44.1 billion of funds under management and administration, some 60,000 clients and over 1,400 people at the end of 2018. These achievements are down to the many talented employees who compose Rathbones.

Paul Stockton will take on the role of chief executive and, having worked closely with him for several years, I believe he is the right person to lead the company into the next chapter of its history.

I leave Rathbones with great confidence that the business is well-positioned for the next phase of growth which will be announced in the second half of 2019. It has been my privilege to lead Rathbones and I thank you all for your support over the last five years.

Philip Howell
Chief Executive

20 February 2019

Financial performance

Paul Stockton
Finance Director

Table 1. Group's overall performance

	2018 £m (unless stated)	2017 £m (unless stated)
Underlying operating income	312.0	286.0
Underlying operating expenses	(220.4)	(198.5)
Underlying profit before tax[1]	91.6	87.5
Underlying operating margin[2]	29.4%	30.6%
Profit before tax	61.3	58.9
Effective tax rate	24.6%	20.5%
Taxation	(15.1)	(12.1)
Profit after tax	46.2	46.8
Underlying earnings per share	142.5p	138.8p
Earnings per share	88.7p	92.7p
Dividend per share[3]	66.0p	61.0p
Return on capital employed[4]	16.9%	19.5%

1. A reconciliation between underlying profit before tax and profit before tax is shown in table 2
2. Underlying profit before tax as a % of underlying operating income
3. The total interim and final dividend proposed for the financial year
4. Underlying profit after tax (note 8) as a % of average equity at each quarter end

Overview of financial performance

Our financial results in 2018 were reasonably strong, as underlying profit before tax grew by 4.7% to £91.6 million. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 29.4% for the year; in line with our target of 30% over the cycle (2017: 30.6%). Profit before tax increased by 4.1% to £61.3 million.

Profits from Speirs & Jeffrey are included for the four month period since completion of the transaction on 31 August 2018, together with all of the associated acquisition related profit and loss charges.

Underlying operating income

Fee income of £233.4 million in 2018 increased 7.3% compared to £217.5 million in 2017, reflecting organic and acquired new business over the period. Fees represented 74.8% of total underlying operating income in 2018, lower than the 76.0% in 2017, largely reflecting a higher proportion of commissions in Speirs & Jeffrey and increased interest margins. Net commission income increased 7.0% to £41.4 million (2017: £38.7 million) in 2018. Net interest income increased 31.9% to £15.3 million, reflecting higher interest rates and a longer average duration in treasury assets.

Underlying operating expenses

Underlying operating expenses increased by 11.0%, not only reflecting £5.9 million of Speirs & Jeffrey operating costs, but also underlying growth in the business as well as additional research costs totalling £2.3 million now borne by the company rather than our investment funds following the adoption of MiFID II.

Planned additions to headcount increased fixed staff costs by 5.5% to £92.6 million, with Speirs & Jeffrey adding a further £3.3 million of fixed staff costs and 156 heads. In total, average headcount increased by 15.9% to 1,329 in 2018.

Total variable staff costs increased by 3.4% to £55.1 million, reflecting improved performance pay levels and the additional cost of share incentives to staff. Variable staff costs in 2018 represented 17.7% of underlying operating income (2017: 18.6%) and 37.6% of underlying profit before variable staff costs and tax (2017: 37.9%).

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 reviewing results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude income and expenditure falling into the four categories explained below.

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

	2018 £m	2017 £m
Underlying profit before tax	91.6	87.5
Gain on plan amendment of defined benefit pension schemes	–	5.5
Charges in relation to client relationships and goodwill	(13.2)	(11.7)
Acquisition-related costs	(19.9)	(6.2)
Head office relocation costs	2.8	(16.2)
Profit before tax	61.3	58.9

Charges in relation to client relationships and goodwill

As explained in note 3.1, client relationship intangible assets are created when we acquire a business or a team of investment managers. The charges associated with these assets represent a significant non-cash item and they have, therefore, been excluded from underlying profit, which represents largely cash-based earnings more directly relates to the financial reporting period. Charges for amortisation of client relationship intangibles in the year ended 31 December 2018 were £13.2 million (2017: £11.7 million), reflecting the Speirs & Jeffrey and other acquisitions.

Acquisition-related costs

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

Net costs of £18.4 million were incurred in 2018 in relation to the acquisition of Speirs & Jeffrey. These amounts are largely capital in nature but, in accordance with IFRS 3, any deferred consideration payments to shareholders of the acquired business who remain in employment with the group must be treated as remuneration. During 2018, £14.7 million of deferred consideration payments were expensed to the income statement and are considered separately for executive remuneration purposes.

Deferred costs of £1.5 million (2017: £1.3 million) were incurred in relation to the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions, which were completed on 31 December 2015. These amounts include the cost of payments to vendors of the business who remain in employment with the group. The final payment for this acquisition of £7.0 million is due at the end of 2019.

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

Head office relocation costs

During February 2017, we relocated our London head office to new premises following a nine-month fit out period. Charges incurred in relation to the double running of both London premises and the relocation amounted to £16.2 million in 2017. This included the recognition of a provision for the cost of the surplus property until the end of the existing lease, net of any expected rental income from sub-letting the space.

On 6 June 2018, our legacy lease was assigned, several months earlier than anticipated, triggering a release of the unused element of the provision. Professional costs were also incurred in 2018 and, consequently, a net credit of £2.8 million has been recognised in the result for 2018.

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

Gain on plan amendment of defined benefit pension schemes

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

Taxation

The corporation tax charge for 2018 was £15.1 million (2017: £12.1 million) and represents an effective tax rate of 24.6% (2017: 20.5%). The effective tax rate in 2018 reflects the disallowable costs of the deferred consideration payments in relation to the acquisition of Speirs & Jeffrey. The effective tax rate in 2019 and 2020 is expected to remain elevated as the group continues to recognise these costs. Thereafter, the group expects it to return to 1-2% above the statutory rate.

A full reconciliation of the income tax expense is provided in note 5.

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

Basic earnings per share

Basic earnings per share for the year ended 31 December 2018 were 88.7p compared to 92.7p in 2017. This reflects the full impact of non-underlying income and charges as well as the issue of 3.9 million shares to partially finance the acquisition of Speirs & Jeffrey and to satisfy share based remuneration scheme awards. On an underlying basis, earnings per share increased by 2.7% to 142.5p in 2018 (see note 8).

Dividends

We operate a generally progressive dividend policy.

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

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

At 31 December 2018 the company's distributable reserves were £68.9 million (2017: £63.9 million).

In light of the results for the year, the board has proposed a final dividend for 2018 of 42.0p. This results in a full year dividend of 66.0p, an increase of 5.0p on 2017 (8.2%). The proposed full year dividend is covered 1.3 times by basic earnings and 2.2 times by underlying earnings.

Capital expenditure

Overall, capital expenditure of £11.0 million in 2018 was down £0.3 million compared to 2017, a fall of 2.8%. As planned, expenditure on software increased by £0.7 million as we continued with the IT change programme announced in 2017. These activities are expected to continue in to 2019 with a similar level of capital expenditure.

Premises related capital expenditure fell by £1.0 million following the completion of our Head Office relocation in 2017.

Return on capital employed

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

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

In 2018, ROCE was 16.9%, a decrease of 2.6% on 2017. Quarterly average total equity increased by £73 million in 2018 compared to 2017, reflecting the issue of £60 million of new share capital in 2018 and the impact of retained earnings.

Outlook

The group's profitability remains closely linked with the performance in investment markets, which are expected to be more volatile in 2019. In 2019, the group's results will reflect a full year of profits from Speirs & Jeffrey, together with the associated costs of acquisition and integration. Client migration to Rathbones' systems is expected to complete towards the middle of 2019.

Staff costs in 2019 will reflect the full impact of hiring activity in 2018 in addition to salary inflation of 3.6% and the cost of five year share based awards made in May 2018, which will be spread on a straight line basis over five years from launch. Following the announcement of Philip Howell's planned retirement from the role of chief executive in May 2019, the cost of his outstanding deferred awards are being accelerated to recognise the full cost over the shorter service period.

Following publication of the final rules associated with the FCA's Asset Management Market Study, we have converted our unit trust funds to single priced units from 21 January 2019. The £3.4 million of associated managers' box dealing profits earned in 2018 (2017: £3.1 million) are not expected to recur in 2019.

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

Other financial impacts

The group is required to adopt IFRS 16, a new accounting standard for leases, with effect from 1 January 2019. As described in note 1, IFRS 16 requires a change in the accounting requirements for operating leases which accelerates the charge to profit or loss associated with the leases. In 2019, we expect this change will add approximately £0.3 million to the group's net charge for leases.

Deferred consideration payments to former shareholders of Speirs & Jeffrey will be made in 2019 to 2022. The ultimate amounts payable are conditional on performance against certain operational targets. The final payment to the sellers of Vision Independent Financial Planning and Castle Investment Solutions will be made at the end of 2019. We currently expect to recognise a non-underlying charge of approximately £31 million in 2019 in relation to these deferred payments.

Segmental review

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

Investment Management

The results of the Investment Management segment described below include the trading results of Speirs & Jeffrey for the last four months of the year, following their acquisition on 31 August 2018.

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

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

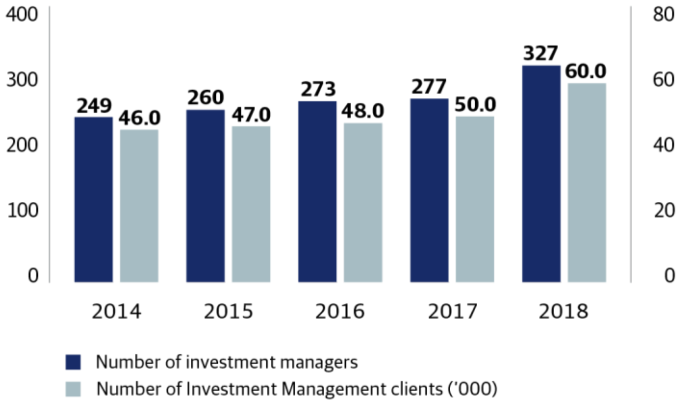
Table 3. Investment Management – key performance indicators

	2018	2017
Funds under management and administration at 31 December[1]	£38.5bn	£33.8bn
Underlying rate of net organic growth in Investment Management funds under management and administration[1]	3.4%	3.0%
Underlying rate of total net growth in Investment Management funds under management and administration[1]	23.5%	3.9%
Average net operating basis point return[2]	71.4 bps	72.7 bps
Number of Investment Management clients	60,000	50,000
Number of investment managers	327	277

1. See table 4
2. See table 7

During 2018, 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 50,000 in 2017 to approximately 60,000 during the year. During 2018, the total number of investment managers increased to 327 at 31 December 2018 from 277 at the end of 2017. Of these, approximately 8,500 clients and 38 investment managers joined the group with the acquisition of Speirs & Jeffrey on 31 August 2018.

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



Funds under management and administration

Investment Management funds under management and administration increased by 13.9% to £38.5 billion at 31 December 2018 from £33.8 billion at the start of the year. This increase is analysed in table 4.

Table 4. Investment Management – funds under management and administration

	2018 £bn	2017 £bn
As at 1 January	33.8	30.2
Inflows	10.6	3.4
– organic[1]	3.8	3.1
– acquired[2]	6.8	0.3
Outflows[1]	(2.7)	(2.2)
Market adjustment[3]	(3.2)	2.4
As at 31 December	38.5	33.8
Net organic new business[4]	1.1	0.9
Underlying rate of net organic growth[5]	3.4%	3.0%
Underlying rate of total net growth[6]	23.5%	3.9%

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

Net organic growth in our Investment Management business was 3.4% (2017: 3.0%). Total gross organic inflows grew 22.6% to £3.8 billion, approximately half coming from existing client relationships.

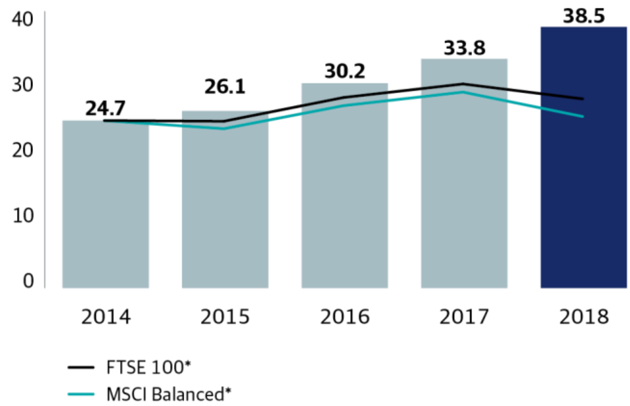
Charity funds under management and administration continued to grow strongly and reached £5.3 billion at 31 December 2018, up 12.8% from £4.7 billion at the start of the year.

Funds under management and administration in accounts linked to independent financial advisers and provider panel relationships increased by £0.1 billion during 2018, ending the year at £7.8 billion.

The acquisition of Speirs & Jeffrey on 31 August 2018 added £6.7 billion to funds under management and administration.

Outflows of funds under management and administration during the year were 8% of the opening balance (2017: 7%) largely reflecting some recent losses of investment managers.

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



* Index figures show how funds under management and administration would have changed between 2014 and 2018 if they had tracked each index

In total, net organic and acquired growth added £7.9 billion to Investment Management funds under management and administration in 2018 (2017: £1.2 billion), representing 23.5% of opening funds under management and administration (2017: 3.9%).

As at 31 December 2018, Vision advised on client assets of £1.54 billion, up 10.0% from 2017.

2018 was an extremely testing year for UK investors, beset by Brexit concerns. This was exacerbated in the final quarter as investors worried about the impact on global growth of the US Federal Reserve raising interest rates more quickly. The ongoing trade dispute between the US and China also hit sentiment later in the year. Reflecting these factors, the MSCI WMA Balanced index finished the year down 7.18%.

Against this backdrop, the average investment return across all Investment Management client portfolios slightly outperformed the WMA index by 0.2%. This outperformance was largely driven by UK equities, which have benefitted from the weakness in Sterling, and more defensive alternative asset classes as well as UK property and gold. 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

	2018 £m	2017 £m
Net investment management fee income[1]	200.5	189.5
Net commission income	41.4	38.7
Net interest income	15.3	11.6
Fees from advisory services[2] and other income	18.1	14.8
Underlying operating income	275.3	254.6
Underlying operating expenses[3]	(196.5)	(177.8)
Underlying profit before tax	78.8	76.8
Underlying operating margin[4]	28.6%	30.2%

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2. Fees from advisory services includes income from trust, tax and financial planning services (including Vision)
3. See table 8
4. Underlying profit before tax as a percentage of underlying operating income

Net investment management fee income increased by 5.8% to £200.5 million in 2018, benefiting from positive markets for most of the year as well as organic and acquired growth in funds under management and administration. Fee income in Speirs & Jeffrey in the period post acquisition totalled £4.3 million.

Fees are applied to the value of funds on quarterly charging dates. Average funds under management and administration on these billing dates in 2018 were £36.6 billion, up 8.3% from 2017 (see table 6).

Table 6. Investment Management – average funds under management and administration

	2018 £bn	2017 £bn
Valuation dates for billing		
– 5 April	32.4	31.5
– 30 June	34.1	32.0
– 30 September[1]	41.3	32.5
– 31 December	38.5	33.8
Average	36.6	32.4
Average FTSE 100 level[2]	7269	7426

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

In 2018, net commission income of £41.4 million, an increase of 7.0% on 2017, including £4.2 million earned by Speirs & Jeffrey during the last four months of the year. Excluding the acquisition, commission levels were £1.5 million lower than 2017, reflecting the continued trend towards to our fee only tariff as well as challenging investment markets.

Net interest income increased 32.1% to £15.3 million in 2018 as a result of higher interest rates during 2018, coupled with an increase in both the average maturity of the treasury book and the level of exposure to higher yielding asset classes. Cash held at the Bank of England reduced from £1.4 billion at 31 December 2017 to £1.2 billion at the end of 2018.

The investment management loan book grew to £131.7 million by the end of the year and contributed £3.5 million to net interest income in 2018 (2017: £3.1 million). Also included in net interest income is £1.3 million (2017: £1.3 million) of interest payable on the Tier 2 notes which are callable in August 2020.

As shown in table 7, the average net operating basis point return on funds under management and administration has decreased by 1.3 bps to 71.4 bps in 2018.

Table 7. Investment Management – revenue margin

	2018 bps	2017 bps
Basis point return[1] from:		
– fee income	56.5	58.4
– commission	11.7	11.9
– interest	3.2	2.4
Basis point return on funds under management and administration	71.4	72.7

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 and administration on the quarterly billing dates (see table 6). Speirs & Jeffrey funds under management and administration have been included pro-rata for the period of ownership.

Fees from advisory services and other income increased 22.3% to £18.1 million. This largely reflects a higher level of retained advisory fees earned by Vision and growth in trust administration revenues.

Underlying operating expenses in Investment Management for 2018 were £196.5 million, compared to £177.8 million in 2017, an increase of 10.5%. This is highlighted in table 8.

Table 8. Investment Management – underlying operating expenses

	2018 £m	2017 £m
Staff costs[1]		
– fixed	66.5	59.5
– variable	37.7	40.2
Total staff costs	104.2	99.7
Other operating expenses	92.3	78.1
Underlying operating expenses	196.5	177.8
Underlying cost/income ratio[2]	71.4%	69.8%

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

Fixed staff costs of £66.5 million increased by 11.8% year-on-year, principally reflecting an 11% increase in average headcount, including c. 1% from Speirs & Jeffrey, and salary inflation.

Variable staff costs of £40.2 million in 2017 include £5.1 million for the cost of variable awards for new teams who had been in situ for longer than 12 months. Following the adoption of IFRS 15, such costs are now capitalised (see note 2). Excluding these costs from 2017, variable staff costs increased by 7.4% to £37.7 million in 2018, reflecting both the higher profitability in the period and the introduction of the Staff Equity Plan in May 2018.

Other operating expenses of £92.3 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £14.2 million (18.2%) reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.

Unit Trusts

Table 9. Unit Trusts – funds

	2018 £m	2017 £m
Rathbone Global Opportunities Fund	1,351	1,168
Rathbone Ethical Bond Fund	1,236	1,100
Rathbone Income Fund	1,091	1,433
Rathbone Multi Asset Portfolios	965	736
Rathbone Active Income Fund for Charities	179	173
Rathbone Strategic Bond Fund	145	108
Rathbone Global Alpha Fund	111	127
Rathbone High Quality Bond Fund	52	–
Rathbone UK Opportunities Fund	48	61
Rathbone Blue Chip Income and Growth Fund[1]	–	78
Other funds	464	383
	5,642	5,367

1. The Rathbone Blue Chip Income and Growth Fund was merged into the Rathbone Income Fund on 5 October 2018

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

Table 9. Unit Trusts – key performance indicators

	2018	2017
Funds under management at 31 December[1]	5.6	5.3
Underlying rate of net growth in Unit Trusts funds under management[1]	10.1%	21.8%
Underlying profit before tax[2]	12.7	10.7

1. See table 10
2. See table 12

Funds under management

Net retail sales in the asset management industry totalled approximately £7 billion in 2018, as reported by the Investment Association (IA), down around £41 billion on 2017. Fixed income funds saw significant outflows in the final quarter, as did UK equity funds throughout the year, reflecting signs of faster US interest rate hikes and the potential for a disorderly Brexit. Global equity was the best-selling sector overall during 2018 and mixed asset funds were also strong sellers, attracting net sales in every month during 2018.

Industry-wide funds under management dropped 6.5% to £1.15 trillion at the end of the year. In total, the IA sectors in which we manage funds saw net inflows of £0.8 billion, down 93% from £11.9 billion in 2017. However, gross sales in those sectors were up 28.7% at £128.4 billion in 2018.

Against this backdrop, overall positive momentum in sales of our funds continued through 2018, with gross sales up 11.8% in the year to £1.9 billion. However, redemptions also increased markedly to £1.4 billion (2017: £0.8 billion), reflecting experience across the industry.

Net inflows of £0.5 billion (2017: £0.9 billion) continued to be spread across the range of funds. The multi asset portfolios, Global Opportunities fund and Ethical Bond fund attracted particularly strong net flows in the year, the latter notably contrasting with the industry trend in its sector. This level of net retail sales ranked as the 11th highest in the UK according to the Pridham Sales Report for 2018.

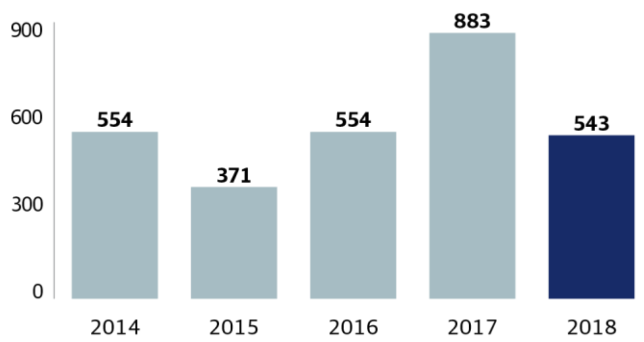
Unit Trusts funds under management closed the year up 5.7% at £5.6 billion (see table 10). Included within this was £464 million managed through Luxembourg-based feeder funds; up 8.4% from £428 million at the end of 2017.

Table 10. Unit Trusts – funds under management

	2018 £bn	2017 £bn
As at 1 January	5.3	4.0
Net inflows	0.5	0.9
– inflows[1]	1.9	1.7
– outflows[1]	(1.4)	(0.8)
Market adjustments[2]	(0.2)	0.4
As at 31 December	5.6	5.3
Underlying rate of net growth[3]	10.1%	21.8%

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

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



Reflecting the general market trends, the Ethical Bond and UK Opportunities funds under-performed their peers during the year. The more defensive positioning of the Income and Strategic Bond funds helped relative performance and the funds out performed their peers over the year. The Global Opportunities Fund's overweight position in the US equity market helped it to generate top quartile performance for the year, despite a weaker performance in the final quarter. Long term performance for most of our retail funds remains strong and the funds are performing in line with expectations given their investment mandates.

Our multi asset funds posted negative overall returns in 2018, although risk-adjusted returns remained relatively strong compared to peers. Longer term performance of the multi asset funds remains ahead of benchmark.

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

2018/(2017) Quartile ranking³ over	1 year	3 years	5 years
Rathbone Ethical Bond Fund	4 (1)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	1 (1)	1 (1)	1 (1)
Rathbone Income Fund	2 (4)	3 (3)	1 (3)
Rathbone UK Opportunities Fund	4 (1)	4 (1)	4 (2)
Rathbone Strategic Bond Fund	1 (2)	1 (2)	2 (2)

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds (for which quartile rankings are prohibited by the IA), non-publicly marketed funds and segregated mandates. Funds included in the above table account for 72% of the total FUM of the Unit Trusts business.
3. Ranking of institutional share classes at 31 December 2018 and 2017 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)

As at 31 December 2018, 92% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2017: 88%).

During 2018, the total number of investment professionals in Unit Trusts increased to 14 at 31 December 2018 from 13 at the end of 2017.

Financial performance

Unit Trusts' income is primarily derived from:

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

Net annual management charges increased 17.5% to £32.9 million in 2018, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management and administration fell to 58 bps (2017: 60 bps) reflecting the increased proportion of holdings in institutional units and the continued growth in the fixed income mandate funds, which levy a lower rate of annual management charges.

Table 12. Unit Trusts – financial performance

	2018 £m	2017 £m
Net annual management charges	32.9	28.0
Net dealing profits	3.4	3.1
Interest and other income	0.4	0.3
Underlying operating income	36.7	31.4
Underlying operating expenses¹	(24.0)	(20.7)
Underlying profit before tax	12.7	10.7
Operating % margin²	34.6%	34.1%

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

Net dealing profits of £3.4 million were marginally higher than the previous year (2017: £3.1 million). These revenues will no longer be earned following the conversion of all funds to single priced units, with effect from 21 January 2019, in compliance with the final rules published by the FCA following its Asset Management Market Study.

Underlying operating income as a percentage of average funds under management and administration fell to 65 bps in 2018 from 67 bps in 2017 reflecting reduced revenue margins.

Table 13. Unit Trusts – underlying operating expenses

	2018 £m	2017 £m
Staff costs¹		
– Fixed	3.3	3.0
– Variable	7.6	7.2
Total staff costs	10.9	10.2
Other operating expenses	13.1	10.5
Underlying operating expenses	24.0	20.7
Underlying cost/income ratio¹	65.4%	65.9%

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

Fixed staff costs of £3.3 million for the year ended 31 December 2018 were 10% higher than 2017, reflecting salary inflation and growth in headcount in response to regulatory changes.

Variable staff costs of £7.6 million were 5.6% higher than £7.2 million in 2017 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 24.8% to £13.1 million, reflecting an increase in third party administration costs in line with growth in the business, the absorption of £0.9 million of research costs, which were previously charged to the funds, and project costs related to the high level of regulatory change during the year.

Financial position

Table 14. Group's financial position

	2018 £m (unless stated)	2017 £m (unless stated)
Capital resources:		
– Common Equity Tier 1 ratio[1]	20.6%	20.7%
– Total Own Funds ratio[2]	22.0%	22.2%
– Total equity	464.1	363.3
– Tier 2 subordinated loan notes	19.8	19.7
– Risk-weighted assets	1,141.8	977.2
– Return on assets[3]	1.6%	1.8%
– Leverage ratio[4]	8.9%	7.8%
Other resources:		
– Total assets	2,867.7	2,738.9
– Treasury assets[5]	2,351.7	2,303.9
– Investment management loan book	131.7	120.5
– Intangible assets from acquired growth[6]	160.1	151.7
– Tangible assets and software[7]	30.2	26.7
Liabilities:		
– Due to customers[8]	2,225.5	2,170.5
– Net defined benefit pension liability	11.2	15.6

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 15) as a proportion of total risk exposure amount
3. Profit after tax divided by average total assets
4. Common Equity Tier 1 capital as a % of total assets, excluding intangible assets, plus certain off balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. 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

Capital resources

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

At 31 December 2018, the group's regulatory capital resources (including verified profits for the year) were £251.4 million (2017: £216.8 million).

Table 15. Regulatory capital resources

	2018 £m	2017 £m
Share capital and share premium	233.0	145.7
Reserves	263.9	222.5
Less:		
– Own shares	(32.7)	(4.9)
– Intangible assets[1]	(229.3)	(161.3)
Total Common Equity Tier 1 capital resources	234.9	202.0
Tier 2 capital resources	16.5	14.8
Total own funds	251.4	216.8

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

Common Equity Tier 1 capital (CET1) resources increased by £32.9 million during 2018, largely due to the inclusion of verified profits for the 2018 financial year and the capital raised from the placing of 2.4 million shares on 18 June 2018, net of dividends paid in the year and the intangible assets acquired through the acquisition of Speirs & Jeffrey.

The CET1 ratio was 20.6%, inline with 20.7% at the previous year end. Our consolidated CET1 ratio remains higher than the banking industry norm, reflecting the low risk nature of our banking activity.

The leverage ratio was 8.9% at 31 December 2018, up from 7.8% at 31 December 2017. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures.

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

The consolidated balance sheet total equity was £464.1 million at 31 December 2018, up 27.7% from £363.3 million at the end of 2017, primarily reflecting the issue of new share capital and retained profits for the year.

Own funds and liquidity requirements

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

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

The group's own funds requirements were as follows:

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

	2018 £m	2017 £m
Credit risk requirement	44.6	39.5
Market risk requirement	0.4	0.4
Operational risk requirement	46.3	38.4
Pillar 1 own funds requirement	91.3	78.3
Pillar 2A own funds requirement	48.4	46.1
Total Pillar 1 and 2A own funds requirements	139.7	124.4
CRD IV buffers:		
– capital conservation buffer (CCB)	28.5	18.3
– countercyclical buffer (CCyB)	8.9	0.1
Total Pillar 1 and 2A own funds requirements and CRD IV buffers	177.1	142.8

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

Pillar 1 – minimum requirement for capital

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

At 31 December 2018, the group's total risk exposure amount was £1,142.7 million (2017: £977.2 million).

Pillar 2 – supervisory review process

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

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

Our Pillar 2A own funds requirement was reviewed by the PRA during 2017.

Pension obligation risk

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

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress and is being phased in from 1 January 2016 to 1 January 2019. As at 31 December 2017, the buffer rate was 1.25% of risk-weighted assets. On 1 January 2018, it increased to 1.875% of risk-weighted assets and it finally increased to 2.5% of risk weighted assets from 1 January 2019.

Countercyclical capital buffer (CCyB)

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

The buffer rate is currently set at 1.0% for the UK. The group also has some small, relevant credit exposures in Canada and Australia, both of whom have applicable buffer rates of 0%, resulting in a weighted buffer rate of 0.78% of the group's total risk exposure amount as at 31 December 2018.

PRA buffer

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

The surplus of own funds (including verified profits for the full year) over total Pillar 1 and 2A own funds requirements and CRD IV buffers was £74.1 million, up from £74.0 million at the end of 2017.

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

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

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

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

Total assets

Total assets at 31 December 2018 were £2.9 billion (2017: £2.7 billion), of which £2.2 billion (2017: £2.2 billion) represents the investment in the money markets of the cash element of client portfolios that is held as a banking deposit.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.2 billion (2017: £2.2 billion) represented 5.8% of total Investment Management funds at 31 December 2018 compared to 6.4% at the end of 2017. Cash held in client money accounts was £3.0 million (2017: £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 reduced the share of treasury assets held with the Bank of England to £1.2 billion from £1.4 billion at 31 December 2017 and increased the balance invested in certificates of deposit with maturities of up to one year. Interest rates paid by those assets had increased during the year, enabling us to increase the interest margin earned whilst maintaining a consistent appetite for credit risk.

Loans to clients

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

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

Loans advanced to clients totalled £131.7 million at the end of 2018 (2017: £120.5 million).

Intangible assets

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

At 31 December 2018, the total carrying value of intangible assets arising from acquired growth was £225.6 million (2017: £151.7 million). On 31 August 2018, the group completed the purchase of Speirs & Jeffrey, which resulted included the acquisition of £28.1 million of goodwill and £54.3 million of client relationship intangible assets.

During the year, further client relationship intangible assets of £1.3 million were capitalised (2017: £2.7 million) in relation to awards to newly joined investment teams for new client relationships introduced. As described in note 2, the adoption of IFRS 15 in the year required us to change the accounting policy for these awards. Historically, the cost of awards for funds introduced by investment managers who have been in situ for more than 12 months were charged to profit or loss (2017: £5.1 million). Under the new accounting standard, these amounts are also capitalised. Consequently, the opening balance of client relationship intangible assets was increased by £8.3 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 2018, including the impact of any lost relationships, was £12.9 million (2017: £11.4 million).

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.3 million was recognised in relation to this element of goodwill (2017: £0.3 million).

Capital expenditure

During 2018, we have broadly maintained the level of investment in the development of our premises and systems, with capital expenditure for the year totalling £11.0 million (2017: £11.3 million). Capital expenditure in 2017 included £2.8 million for the completion of the fit out of our London Head Office. In 2018, property related spend of £3.2 million included the cost of moving to a new office in Birmingham and the fit out of addition space in Liverpool.

The level of spend on our systems has increased slightly in 2018, as we have continued with the IT change programme announced in 2017. Total costs for the purchase and development of software were £7.7 million in the year (2017: £7.1 million). Key areas of investment during the year included continuing the development of our new client relationship management system and work to streamline the client journey.

Overall, new investment accounted for approximately 77% of total capital expenditure in 2018, broadly consistent with 79% in 2017. The balance of total spend has been incurred for the maintenance and replacement of existing software and equipment.

Defined benefit pension schemes

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

At 31 December 2018 the combined schemes' liabilities, measured on an accounting basis, had fallen to £146.5 million, down 10.7% from £164.1 million at the end of 2017. Reflecting the performance of the schemes' assets over the course of the year, the reported position of the schemes at 31 December 2018 was a deficit of £11.2 million (2017: deficit of £15.6 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. During 2018, funding valuations of the schemes as at 31 December 2016 were finalised, resulting in committed annual contributions to the schemes totalling £12.0 million, paid at a rate of £3.1 million per year until 2022.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

	2018 £m	2017 £m
Cash and cash equivalents at the end of the year	1,408.5	1,567.8
Net cash inflows from operating activities	111.1	351.5
Net change in cash and cash equivalents	(159.2)	304.7

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

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

Cash and balances at central banks was £1.2 billion at 31 December 2018 (2017: £1.4 billion).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits, which had an original maturity of less than three months (see note 11). Consequently, cash flows include the impact of capital flows in treasury assets.

Net cash flows from operating activities include the effect of a £54.2 million increase in banking client deposits (2017: £282.6 million increase) and a £10.5 million increase in the component of treasury assets placed in term deposits for more than three months or lent to clients (2017: £16.6 million increase).

Cash flows from investing activities also included a net outflow of £203.8 million from the purchase of longer dated certificates of deposit (2017: £4.0 million).

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

- net outflows of £72.9 million in relation to the acquisition of Speirs & Jeffrey, being cash consideration of £88.4 million less cash balances of £15.5 million in the acquired entity;
- net cash inflows of £57.4 million from the issue of shares during the year to partially finance the acquisition of Speirs & Jeffrey;
- outflows relating to the payment of dividends of £32.7 million (2017: £29.4 million);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £15.1 million (2017: £11.9 million); and
- £3.2 million of capital expenditure on property, plant and equipment (2017: £4.2 million).

Risk management and control

In 2018, we have continued to evolve our risk management framework in support of our ‘three lines of defence’ model. Our approach to risk governance, risk processes and risk infrastructure ensures that the management of risk across the group considers existing and emerging challenges to our values and strategy. Going forward into 2019, we will continue our approach to ensure that effective risk management is in place to protect our stakeholders.

Risk culture

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

Risk appetite

We define risk appetite as both the amount and type of risk the group is prepared to accept or retain in pursuit of our strategy.

Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. Our risk appetite framework contains some overarching parameters, alongside specific primary and secondary measures for each principal risk. At least annually, the board, executive committee and group risk committee will formally review and approve the group’s risk appetite statement and at each meeting, risks are reported which have triggered key risk indicators or risk appetite measures so that risk mitigation can be reviewed and strengthened if appropriate.

Notwithstanding the continued expectations for business growth, along with a strategic and regulatory change programme for 2018, the board remains committed to having a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels. The board recognises that the business is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time-to-time, either as reductions in income or increases in operating costs.

Managing risk

The board is ultimately accountable for risk management and regularly considers the most significant risks and emerging threats to the group’s strategy. The board, audit and group risk committees exercise further oversight and challenge of risk management and internal control. Day to day, the group chief executive and executive committee are responsible for managing risk and the regular review of key risks facing the group.

In 2018, we merged our conduct and operational risk management committees to form a new executive risk committee, which complements the banking committee that oversees financial risk management.

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

Three lines of defence

Our three lines of defence model supports the risk management framework and the expectations of all employees, with responsibility and accountability for risk management broken down as follows:

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

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

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

Identification and profiling of principal risks

Our risks are classified using a hierarchical approach which is regularly reviewed to ensure we identify all known material risks to the business and consider emerging risks which may impact future performance. Our highest level of risk analysis (Level 1) comprises financial, conduct and operational risks. This year we have made some adjustments to our next level (Level 2) which contains 17 risk categories, each allocated to a Level 1 risk. The changes reflect the future risk landscape and profile of the group. Detailed risks (Level 3) continue to be identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register, which is the principal tool for monitoring risks. We recognise that some Level 2 and Level 3 risks have features which need to be considered under more than one Level 1 risk, and this is facilitated in our framework through a system of primary and secondary considerations.

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

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

This year we have reviewed our risk assessment approach and adjusted our scoring system to a 1—5 matrix. Each Level 3 risk is assessed for the inherent likelihood of its occurrence in a three-year period (a reduction from five years) and against a number of different impact criteria, including financial, client, operations, reputation, strategy and regulation indicators. A residual risk exposure and overall risk profile rating of high, medium, low or very low is then derived for the three-year period by taking into account an assessment of the internal control environment or insurance mitigation. The assessment of our control environment, undertaken by senior management within the firm, includes contributions from first, second and third line people, data, monitoring and/or assurance activity.

Risk assessment process

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

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

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

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

Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 17 Level 2 risks and 47 Level 3 risks, all of which form the basis of the group's risk register. Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time. The underlying risk profile and ratings for the majority of Level 2 risks have remained reasonably stable during 2018. However, there have been some changes to risk ratings and the following table summarises the most important of these.

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group which could impact the delivery of our strategic objectives have been identified below. These reflect the impact of the acquisition of Speirs & Jeffrey, the increased and evolving cyber threat landscape, increasing political risk including Brexit and global trends impacting market volatility, and continuing focus on client suitability. 2018 also saw two material regulatory changes come into effect, MiFID II and the General Data Protection Regulation, which remain areas of focus for the firm. The board remains vigilant to the risks associated with the pension schemes' deficit. The other key risks are operational risks that arise from growth and regulatory risks that may arise from the continuing development of law, regulation and standards in our sector.

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

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

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

Emerging risks and threats

Emerging risks, including legislative and regulatory change, have the potential to impact the group and its strategy. These risk factors are monitored through our watch list. During the year, the executive committee continued to recognise a number of emerging risks and threats to the financial services sector as a whole and to our business. We also recognise that the risk profile associated with outsourced activities can change over time and this will be an area of continued focus in 2019.

The group's view is that we can reasonably expect current market conditions and uncertainties to remain throughout 2019 given the implications of Brexit, and the UK political environment. Other developing risks include, for example, cyber threats, regulatory change and further scenarios potentially arising from geopolitical developments and increasing tensions around global trade.

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

Key changes to risk profile

Risk	Description of change	Risk change in 2018
Business model (including Brexit)	This risk includes the impacts arising from changing market conditions, which are impacted in turn by political uncertainty and the global economy. Although the firm does not have operations in other European Union countries, or material dependencies on goods or people from other European Union countries and has a predominantly UK client base, any impact of Brexit on investment markets will also affect the value of our funds under management and advice.	↑
Suitability and advice	Our forward-looking risk assessment increased during the year, largely reflecting regulatory drivers. In addition to changes delivered in 2017/8, we plan to improve our processes further in 2018 through systems enhancements designed to simplify the workflows involved for our clients and employees.	↑
Change	We increased our risk assessment to reflect the firm's change plans, including the integration programme for Speirs & Jeffrey.	↑
Data Integrity and security	We have increased our risk rating in this area based on our assessment of the increasing external threat profile, despite continuing investment in technology improvements.	↑
People	Our forward-looking risk assessment increased further during the year, reflecting industry-wide trends. We also recognise the importance of addressing the drivers behind our gender pay gap over the coming years.	↑
Pension	The funding deficit decreased materially due to the closure of the schemes in 2017 with a significant number of members transferring benefits out of the schemes. However, this remains an important risk for the firm to manage.	↓

Principal risks

The most significant risks which could impact the delivery of our strategy and annual business plans are detailed below.

Level 2 risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Credit The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients	High	Very low	– Banking committee oversight – Counterparty limits and credit reviews – Treasury policy and procedures – Active monitoring of exposures – Client loan policy and procedures – Annual ICAAP
Pension The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and capital	This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit, including increased life expectancy, falling interest rates and falling asset values	High	Med	– Board, senior management and trustee oversight – Monthly valuation estimates – Triennial independent actuarial valuations – Investment policy – Senior management review and defined management actions – Annual ICAAP
Business model The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected	This risk can arise from strategic decisions which fail to consider the current operating environment, or can be influenced by external factors such as material changes in regulation or legislation within the financial services sector	High	Med	– Board and executive oversight – A documented strategy – Annual business targets, subject to regular review and challenge – Regular reviews of pricing structure – Continued investment in the investment process, service standards and marketing – Trade body participation – Regular competitor benchmarking and analysis
Suitability and advice The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios.	This risk can arise through failure to appropriately understand the wealth management needs of our clients, or failure to apply suitable advice or investment strategies	High	Med	– Investment governance and structured committee oversight – Management oversight and segregated quality assurance and performance teams – Performance measurement and attribution analysis – Know your client (KYC) suitability processes – Weekly investment management meetings – Investment manager reviews through supervisor sampling – Compliance monitoring

Level 2 risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Regulatory The risk of failure by the group or a subsidiary to fulfil regulatory requirements and comply with the introduction of new, or changes to existing, regulation	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	High	Med	– Board and executive oversight – Active involvement with industry bodies – Compliance monitoring programme to examine the control of key regulatory risks – Separate anti-money laundering function with specific responsibility – Oversight of industry and regulatory developments – Documented policies and procedures – Staff training and development
Change The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes, the impact of which may lead to unmitigated financial exposures	This risk can arise if the business is too aggressive and unstructured in its change programme to manage project risks, or fails to make available the capacity and capabilities to deliver business benefits	High	Med	– Executive and board oversight of material change programmes – Dedicated change delivery function, use of internal and, where required, external subject matter experts – Documented business plans and IT strategy – Two-stage assessment, challenge and approval of project plans – Documented project and change procedures
Data integrity and security The risk of a lack of integrity of, inappropriate access to or disclosure of client or company-sensitive information	This risk can arise from the firm failing to maintain and keep secure sensitive and confidential data through its operating infrastructure, including the activities of employees, and through the management of cyber threats	High	Med	– Data security committee oversight – Data protection policy and procedures – System access controls and encryption – Penetration testing and multi-layer network security – Training and employee awareness programmes – Physical security
People The risk of loss of key staff, lack of skilled resources 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	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation	High	Med	– Executive oversight – Succession and contingency planning – Transparent, consistent and competitive remuneration schemes – Contractual clauses with restrictive covenants – Continual investment in staff training and development – Employee engagement survey – Appropriate balanced performance measurement system

Assessment of the company's prospects

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

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

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

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

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

Viability statement

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

The board considers five-year projections as part of its annual regulatory reporting cycle, which includes strategic and investment plans and its opinion of the likelihood of risks materialising. However, given the uncertainties associated with predicting the future impact of investment markets on the business over this longer period, the directors have determined that a three-year period to
31 December 2021 continues to constitute an appropriate period over which to provide its viability statement. This is more closely aligned to its detailed capital planning activity.

Stress testing analysis shows that under scenarios such as a 45% fall in FTSE 100 levels or a 0% interest rate environment for two years, the group would remain profitable and is able to withstand the impact of such scenarios. We see this scenario as also incorporating the potential adverse indirect impact of Brexit on the firm.
An example of a mitigating action in such scenarios would be a reduction in dividend.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

Going concern

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

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

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 2018

	Note	2018 £'000	2017 £'000
Interest and similar income		20,968	13,501
Interest expense and similar charges		(5,647)	(1,907)
Net interest income		15,321	11,594
Fee and commission income		314,013	292,034
Fee and commission expense		(22,903)	(22,715)
Net fee and commission income		291,110	269,319
Net trading income		3,405	3,071
Gain on plan amendment of defined benefit pension schemes		–	5,523
Other operating income		2,127	2,065
Operating income		311,963	291,572
Charges in relation to client relationships and goodwill		(13,188)	(11,716)
Acquisition-related costs		(19,925)	(6,178)
Head office relocation costs		2,861	(16,248)
Other operating expenses		(220,405)	(198,529)
Operating expenses		(250,657)	(232,671)
Profit before tax		61,306	58,901
Taxation	5	(15,137)	(12,072)
Profit after tax		46,169	46,829
Profit for the year attributable to equity holders of the company		46,169	46,829
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability		1,219	17,288
Deferred tax relating to net remeasurement of defined benefit liability		(207)	(2,939)
Items that may be reclassified to profit or loss			
Revaluation of available for sale investment securities:			
– net gain from changes in fair value		–	163
– net profit on disposal transferred to profit or loss during the year		–	(43)
		–	120
Deferred tax relating to revaluation of available for sale investment securities		–	(20)
Other comprehensive income net of tax		1,012	14,449
Total comprehensive income for the year net of tax attributable to equity holders of the company		47,181	61,278
Dividends paid and proposed for the year per ordinary share	6	66.0p	61.0p
Dividends paid and proposed for the year		35,204	30,429
Earnings per share for the year attributable to equity holders of the company:	8		
– basic		88.7p	92.7p
– diluted		86.2p	91.9p

Consolidated statement of changes in equity

for the year ended 31 December 2018

	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 2017	2,535	139,991	31,835	150	(6,243)	156,545	324,813
Profit for the year						46,829	46,829
Net remeasurement of defined benefit liability						17,288	17,288
Revaluation of available for sale investment securities:							
net gain from changes in fair value				163			163
net profit on disposal transferred to profit or loss during the year				(43)			(43)
Deferred tax relating to components of other comprehensive income				(20)		(2,939)	(2,959)
Other comprehensive income net of tax	–	–	–	100	–	14,349	14,449
Dividends paid						(29,420)	(29,420)
Issue of share capital	31	3,098					3,129
Share-based payments:							
– value of employee services						3,591	3,591
– cost of own shares acquired					(441)		(441)
– cost of own shares vesting					1,820	(1,820)	–
– own shares sold							–
– tax on share-based payments						328	328
At 31 December 2017	2,566	143,089	31,835	250	(4,864)	190,402	363,278
Adjustment on initial application of IFRS 9 (net of tax)				(250)		102	(148)
Adjustment on initial application of IFRS 15 (net of tax)						8,443	8,443
Adjusted balance at 1 January 2018	2,566	143,089	31,835	–	(4,864)	198,947	371,573
Profit for the year						46,169	46,169
Net remeasurement of defined benefit liability						1,219	1,219
Deferred tax relating to components of other comprehensive income						(207)	(207)
Other comprehensive income net of tax	–	–	–	–	–	1,012	1,012
Dividends paid						(32,691)	(32,691)
Issue of share capital	194	87,134					87,328
Share-based payments:							
– value of employee services						20,279	20,279
– cost of own shares acquired					(29,888)		(29,888)
– cost of own shares vesting					2,015	(2,015)	–
– tax on share-based payments						358	358
At 31 December 2018	2,760	230,223	31,835	–	(32,737)	232,059	464,140

Consolidated balance sheet
as at 31 December 2018

	2018 £'000	2017 £'000
Assets		
Cash and balances with central banks	1,198,479	1,375,382
Settlement balances	39,754	46,784
Loans and advances to banks	166,200	117,253
Loans and advances to customers	138,959	126,213
Investment securities:		
– fair value through profit or loss	79,797	–
– amortised cost	907,225	–
– available for sale	–	109,312
– held to maturity	–	701,966
Prepayments, accrued income and other assets	81,552	74,445
Property, plant and equipment	16,838	16,457
Net deferred tax asset	–	9,061
Intangible assets	238,918	161,977
Total assets	2,867,722	2,738,850
Liabilities		
Deposits by banks	491	1,338
Settlement balances	36,692	54,452
Due to customers	2,225,536	2,170,498
Accruals, deferred income, provisions and other liabilities	103,393	108,391
Current tax liabilities	5,985	5,598
Net deferred tax liability	481	–
Subordinated loan notes	19,807	19,695
Retirement benefit obligations	11,197	15,600
Total liabilities	2,403,582	2,375,572
Equity		
Share capital	2,760	2,566
Share premium	230,223	143,089
Merger reserve	31,835	31,835
Available for sale reserve	–	250
Own shares	(32,737)	(4,864)
Retained earnings	232,059	190,402
Total equity	464,140	363,278
Total liabilities and equity	2,867,722	2,738,850

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit before tax		61,306	58,901
Net profit on disposal of available for sale investment securities		–	(43)
Change in fair value through profit or loss		185	–
Net interest income		(15,321)	(11,594)
Impairment losses on financial instruments		44	1
Net (credit)/charge for provisions		(1,498)	16,728
Loss/(profit) on disposal of property, plant and equipment		1	–
Depreciation, amortisation and impairment		21,673	19,415
Foreign exchange movements		(2,297)	1,480
Defined benefit pension scheme charges		491	(2,948)
Defined benefit pension contributions paid		(3,673)	(3,619)
Share-based payment charges		19,838	3,871
Interest paid		(5,175)	(1,663)
Interest received		21,362	13,084
		96,936	93,613
Changes in operating assets and liabilities:			
– net increase in loans and advances to banks and customers		(10,482)	(16,643)
– net decrease/(increase) in settlement balance debtors		7,030	(8,997)
– net increase in prepayments, accrued income and other assets		(3,887)	(8,318)
– net increase in amounts due to customers and deposits by banks		54,191	282,647
– net (decrease)/increase in settlement balance creditors		(17,760)	15,163
– net (decrease)/increase in accruals, deferred income, provisions and other liabilities		(222)	8,146
Cash generated from operations		125,806	365,611
Tax paid		(14,697)	(14,087)
Net cash inflow from operating activities		111,109	351,524
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(72,914)	–
Purchase of property, plant, equipment and intangible assets		(18,338)	(16,123)
Proceeds from sale of property, plant and equipment		–	–
Purchase of investment securities		(1,051,150)	(746,566)
Proceeds from sale and redemption of investment securities		847,323	742,581
Net cash used in investing activities		(295,079)	(20,108)
Cash flows from financing activities			
Issue of ordinary shares		57,440	2,688
Dividends paid	6	(32,691)	(29,420)
Net cash generated from/(used in) financing activities		24,749	(26,732)
Net (decrease)/increase in cash and cash equivalents		(159,221)	304,684
Cash and cash equivalents at the beginning of the year		1,567,758	1,263,074
Cash and cash equivalents at the end of the year	11	1,408,537	1,567,758

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 2018. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

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

Developments in reporting standards and interpretations

Standards and interpretations affecting the reported results or the financial position

This is the first set of the group's financial statements where IFRS 9 and IFRS 15 have been applied. These new standards were adopted from 1 January 2018. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 2.

The following amendments to standards have also been adopted in the current period, but have not had a significant impact on the amounts reported in the financial statements:

– Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).

Future new standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing the consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the group's financial statements in the period of initial application.

IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019 and replaces existing lease guidance, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Lease – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard was endorsed by the EU during 2017. The group has not adopted this standard early.

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

Transition

The group plans to apply IFRS 16 initially with effect from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance sheet at 1 January 2019, with no restatement of comparative information.

The group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

Lessee accounting

The group has assessed the impact of adopting the new standard, based on its existing lease contracts.

The group's total assets and total liabilities will be increased by the recognition of lease assets and liabilities. The lease assets will be depreciated over the shorter of the expected life of the asset and the lease term. The lease liability will be reduced by lease payments, offset by the unwinding of the liability over the lease term, which will be recognised in interest expense and similar charges in the consolidated statement of comprehensive income.

The most significant impact is in respect of its London head office premises. Based on the information currently available, the group estimates that it will recognise lease liabilities of approximately £63 million to £67 million as at 1 January 2019 and related right-of-use assets with a value of approximately £50 million to £55 million, reflecting the impact of accrued rent free periods up to 31 December 2018. We do not expect any impact on the group's equity at the date of adoption.

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

In addition to the above impacts, recognition of lease assets will increase the group's regulatory capital requirement.

Lessor accounting

The group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease. Based on the work completed by the group, it expects to reclassify one sub-lease as a finance lease. This results in recognition of a finance lease receivable of approximately £1 million to £2 million as at 1 January 2019.

2 Changes in significant accounting policies

The group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018.

The effect of applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (IFRS 9);
- an increase in client relationship intangibles in respect of the additional capitalisation of payments made to investment managers (IFRS 15); and
- earlier recognition of revenue in Rathbone Trust Company Limited (IFRS 15).

IFRS 9 'Financial Instruments'

IFRS 9 governs the accounting treatment for the classification and measurement of financial instruments and the timing and extent of credit provisioning. The standard replaces IAS 39.

Transition

The group has taken advantage of the exemption from restating comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Under the requirements of IFRS 9, the following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The nature of the business model under which a financial asset is managed.
- Whether the SPPI (solely payments of principal and interest) criterion is met.
- The designation of certain financial assets as measured at fair value through profit or loss.
- If an investment in a debt instrument had a low credit risk (e.g. 'investment grade' credit rating) at the date of initial application of IFRS 9, then the group assumes that the credit risk on the asset has not increased significantly since its initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings:

	Impact of adopting IFRS 9 on opening balance	
	Available for sale reserve £'000	Retained earnings £'000
Recycle to retained earnings of available for sale reserve	(250)	250
Recognition of expected credit losses under IFRS 9	–	(148)
Impact at 1 January 2018	(250)	102

The recognition of expected credit losses under IFRS 9 in opening retained earnings of £148,000 is split out by balance sheet line item in the table below.

The hedge accounting requirements of IFRS 9 have not been applied, as the group was not party to any hedging relationships as at 1 January 2018.

Classification and measurement of financial assets and financial liabilities

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

The classification criteria for allocating financial assets between categories under IFRS 9 require the group to document the business models under which its assets are managed and review contractual terms and conditions.

All of the group's financial assets as at 1 January 2018 were managed within business models whose objective is solely to collect contractual cash flows, except equity securities and money market funds, which are equity instruments not held for trading and were classified as fair value through profit or loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets as at 1 January 2018.

2 *Changes in significant accounting policies continued*

Financial assets	Original classification under IAS 39	Original carrying amount under IAS 39 £'000	New classification under IFRS 9	New carrying amount under IFRS 9 £'000
Cash and balances with central banks	Loans and receivables	1,375,382	Amortised cost	1,375,290
Loans and advances to banks	Loans and receivables	117,253	Amortised cost	117,250
Loans and advances to customers	Loans and receivables	126,213	Amortised cost	126,191
Equity securities	Available for sale	2,565	Fair value through profit or loss	2,565
Money market funds	Available for sale	106,747	Fair value through profit or loss	106,747
Debt securities	Held to maturity	701,966	Amortised cost	701,935
Other financial assets	Loans and receivables	112,483	Amortised cost	112,483
Total financial assets		2,542,609		2,542,461

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39. All financial liabilities continue to be classified as amortised cost, with no financial liabilities designated at fair value through profit or loss. There was no change to carrying value of financial liabilities at 1 January 2018.

Impairment of financial assets

Under IFRS 9, an expected credit loss (ECL) model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred.

Impact of the new impairment model

The initial application of IFRS 9's impairment requirements at 1 January 2018 resulted in an additional impairment provision as follows:

	£'000
Loss provision at 31 December 2017 under IAS 39	66
Additional impairment recognised at 1 January 2018 on:	
treasury book:	
– cash and balances with central banks	92
– loans and advances to banks	3
– debt securities	31
loans and advances to customers:	
– investment management loan book	1
– trust and financial planning debtors	21
	148
Loss provision at 1 January 2018 under IFRS 9	214

Additional impairment recognised at 1 January 2018 relate to financial assets classified and measured at amortised cost.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 changes how and when revenue is recognised from contracts with customers and the treatment of the costs of obtaining a contract with a customer. The standard requires that the recognition of revenue is linked to the fulfilment of identified performance obligations that are enshrined in the customer contract. It also requires that the incremental cost of obtaining a customer contract should be capitalised if that cost is expected to be recovered. The standard replaces existing revenue recognition guidance, in particular under IAS 18.

2 *Changes in significant accounting policies continued*

Transition

The group has adopted IFRS 15 using the cumulative effect method, with the effect of applying the standard recognised at the date of adoption, with no restatement of the comparative period. The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 15 on opening balance £'000
Retained earnings	
Net recognition of intangible assets under IFRS 15	8,268
Reduction in accruals	4,011
Recognition of provisions	(4,075)
Impact of changes to timing of recognition of certain time-based fees	296
Related tax	(57)
Impact at 1 January 2018	8,443

The impact on transition is primarily due to a change in policy for capitalising contract costs under IFRS 15 (see below). Client relationship intangible assets with a carrying value of £8,268,000 were recognised as a result of additional costs capitalised under the new policy. There is also a reclassification between accruals and provisions for amounts payable as at 1 January 2018 under these contracts.

Impact on financial statements for the year ended 31 December 2018

The group has considered the impact of adopting the standard, on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts.

Net fee and commission income

Included within net fee and commission income are initial fees, charged by a number of group companies in relation to certain business activities. Under IFRS 15, the group has made an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, then these fees can be recognised when the relevant performance obligation has been satisfied; if not, then the fees can only be recognised in the period in which the services are provided.

The adoption of IFRS 15 has not had a significant impact on the group's accounting policies for revenue recognition, as the application of the new requirements does not change the treatment under previous guidance, in particular IAS 18, apart from a small change in how we recognise certain fees in Rathbone Trust Company.

A breakdown of the timing of revenue recognition can be found in note 4.

Contract costs

Under the group's previous policy under IAS 18 for capitalising contract costs, incremental payments that were made to secure investment management contracts were capitalised as client relationship intangibles if they were separable, reliably measurable and expected to be recovered. The period during which such payments are capitalised was typically the 12 months following the end of any non-compete period.

Under IFRS 15, the scope requirements are broader such that costs to obtain any contract with a customer should be capitalised if those costs are incremental and the entity expects to recover them.

The group has assessed its previous policy and has removed the 12 month limit on capitalisation of payments to newly recruited investment managers under the new standard. The policy is unchanged in all other respects.

The group has also identified a number of other remuneration schemes where awards are linked to obtaining client contracts and has considered whether any meet the new criteria for capitalising costs under IFRS 15. The group has determined that the adoption of the new standard has not resulted in any awards made under these schemes being capitalised. The costs of these awards continue to be expensed through staff costs.

The following tables summarise the impacts of adopting IFRS 15 on the group's consolidated statement of comprehensive income for the year ended 31 December 2018 and its consolidated balance sheet as at that date for each of the line items affected. There was no impact on the group's consolidated statement of cash flows for the year ended 31 December 2018.

2 *Changes in significant accounting policies continued*

Impact on the consolidated statement of comprehensive income (extract)

	As reported Year to 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Operating income	311,963	579	312,542
Charges in relation to client relationships and goodwill	(13,188)	836	(12,352)
Other operating expenses	(220,405)	(160)	(220,565)
Operating expenses	(250,657)	676	(249,981)
Profit before tax	61,306	1,255	62,561
Taxation	(15,137)	(238)	(15,375)
Profit for the period attributable to equity holders of the company	46,169	1,017	47,186
Other comprehensive income net of tax	1,012	–	1,012
Total comprehensive income for the period net of tax attributable to equity holders of the company	47,181	1,017	48,198

The adjustments to the consolidated statement of comprehensive income primarily relate to amortisation charged on the additional client relationship intangibles recognised under the new policy for capitalising contract costs (see below) and decrease in revenue in Rathbone Trust Company as a result of the revised treatment under IFRS 15.

Impact on the consolidated balance sheet (extract)

	As reported 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Assets			
Prepayments, accrued income and other assets	81,552	283	81,835
Intangible assets	238,918	(7,641)	231,277
Total assets	2,867,722	(7,358)	2,860,364
Liabilities			
Accruals, deferred income, provisions and other liabilities	103,393	(10)	103,383
Current tax liabilities	5,985	181	6,166
Total liabilities	2,403,582	171	2,403,753
Equity			
Retained earnings	232,059	(7,529)	224,530
Total equity	464,140	(7,529)	456,611
Total liabilities and equity	2,867,722	(7,358)	2,860,364

The adjustments to the consolidated balance sheet reflect the initial and subsequent application of the new policy for capitalising contract costs under IFRS 15.

3 Critical accounting judgements and key sources of estimation and uncertainty

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

Both judgements and estimates are made in the following areas in applying accounting policies, and care has been taken to distinguish between the two.

3.1 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 combination in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction and whether ownership of a corporate entity has been acquired, among other factors.

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If these payments are incremental costs of acquiring investment management contracts and are deemed to be recoverable (i.e. through future revenues earned from the funds that transfer), they are capitalised as client relationship intangibles. Otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

Under the broader scope requirements of IFRS 15, judgement is no longer required over the suitable period during which awards accruing to new investment managers are capitalised. Instead, payments are capitalised for the duration of the contractual agreement.

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations that these will continue in the future. During the year, client relationship intangible assets were amortised over a 10 to 15 year period. Amortisation of £12,919,000 (2017: £11,433,000) was charged during the year, which includes the amortisation on the recently acquired Speirs & Jeffrey client relationship intangible. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,303,000 (2017: £1,076,000). At 31 December 2018, the carrying value of client relationship intangibles was £134,556,000 (2017: £88,511,000).

3.2 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 *Critical accounting judgements and key sources of estimation and uncertainty continued*

3.3 Business combinations (note 9)

During the year, the group acquired the entire share capital of Speirs & Jeffrey ("S&J"). The group has accounted for the transaction as a business combination, as set out in note 9.

Treatment and fair value of consideration transferred

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

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

Those deferred payments accounted for as additional consideration were assessed against the operational targets to which they are subject. Based on performance against the operational targets to date, the group has made an assessment of the amount and timing of these payments.
A provision for contingent consideration has been made for the amount expected to be paid.

Identification of assets acquired and liabilities assumed

As at 31 August 2018, the date of acquisition, Speirs & Jeffrey's identifiable assets, liabilities and contingent liabilities have been recognised at their fair value.

In accordance with the process described in note 3.1, the group has recognised a client relationship intangible of £54,337,000, arising from Speirs & Jeffrey's relationship with clients whose assets are managed by the business. Further detail on the sources of estimation in the valuation is provided in note 9.

Goodwill of £28,087,000 has been recognised.

Carrying value of assets acquired

As at 31 December 2018, the carrying value for the client relationship intangible arising from Speirs & Jeffrey was £53,129,000 (2017: £nil). Amortisation in the year ended 31 December 2018 in relation to the client relationship intangible was £1,207,000 (2017: £nil). A reduction in the amortisation period by 1 year would increase the amortisation charge for the year by approximately £87,000 (2017: £nil).

The carrying value of £28,087,000 for goodwill remains unchanged at 31 December 2018 compared to the acquisition date.

4 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Unit Trusts. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure; principally, the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and administration and the segment's total revenue. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the group executive committee, which is the group's chief operating decision maker.

31 December 2018	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	200,530	32,865	–	233,395
Net commission income	41,439	–	–	41,439
Net interest income	15,321	–	–	15,321
Fees from advisory services and other income	18,019	3,789	–	21,808
Underlying operating income	275,309	36,654	–	311,963
Staff costs – fixed	(66,512)	(3,300)	(26,152)	(95,964)
Staff costs – variable	(37,736)	(7,552)	(9,806)	(55,094)
Total staff costs	(104,248)	(10,852)	(35,958)	(151,058)
Other direct expenses	(27,629)	(6,950)	(34,768)	(69,347)
Allocation of indirect expenses	(64,596)	(6,130)	70,726	–
Underlying operating expenses	(196,473)	(23,932)	–	(220,405)
Underlying profit before tax	78,836	12,722	–	91,558
Charges in relation to client relationships and goodwill	(13,188)	–	–	(13,188)
Acquisition-related costs	(16,228)	–	(3,697)	(19,925)
Segment profit before tax	49,420	12,722	(3,697)	58,445
Head office relocation costs				2,861
Profit before tax attributable to equity holders of the company				61,306
Taxation				(15,137)
Profit for the year attributable to equity holders of the company				46,169

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	2,786,718	81,004	2,867,722
Unallocated assets			–
Total assets			2,867,722

4 *Segmental information continued*

31 December 2017	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	189,465	28,020	–	217,485
Net commission income	38,729	–	–	38,729
Net interest income	11,594	–	–	11,594
Fees from advisory services and other income	14,831	3,410	–	18,241
Underlying operating income	254,619	31,430	–	286,049
Staff costs - fixed	(59,457)	(3,040)	(25,294)	(87,791)
Staff costs - variable	(40,240)	(7,246)	(5,843)	(53,329)
Total staff costs	(99,697)	(10,286)	(31,137)	(141,120)
Other direct expenses	(21,893)	(4,415)	(31,101)	(57,409)
Allocation of indirect expenses	(56,188)	(6,050)	62,238	–
Underlying operating expenses	(177,778)	(20,751)	–	(198,529)
Underlying profit before tax	76,841	10,679	–	87,520
Charges in relation to client relationships and goodwill	(11,716)	–	–	(11,716)
Acquisition-related costs	(1,273)	–	(4,905)	(6,178)
Segment profit before tax	63,852	10,679	(4,905)	69,626
Gain on plan amendment of defined benefit pension schemes				5,523
Head office relocation costs				(16,248)
Profit before tax attributable to equity holders of the company				58,901
Taxation				(12,072)
Profit for the year attributable to equity holders of the company				46,829

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	2,659,723	74,672	2,734,395
Unallocated assets			4,455
Total assets			2,738,850

The following table reconciles underlying operating income to operating income:

	2018 £'000	2017 £'000
Underlying operating income	311,963	286,049
Gain on plan amendment of defined benefit pension schemes	–	5,523
Operating income	311,963	291,572

The following table reconciles underlying operating expenses to operating expenses:

	2018 £'000	2017 £'000
Underlying operating expenses	220,405	198,529
Charges in relation to client relationships and goodwill	13,188	11,716
Acquisition-related costs	19,925	6,178
Head office relocation costs	(2,861)	16,248
Operating expenses	250,657	232,671

4 *Segmental information continued*

Geographic analysis

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

	2018 £'000	2017 £'000
United Kingdom	301,029	280,892
Jersey	10,934	10,680
Operating income	311,963	291,572

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

	2018 £'000	2017 £'000
United Kingdom	251,429	173,496
Jersey	4,327	4,938
Non-current assets	255,756	178,434

Timing of revenue recognition

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

	2018		2017	
	Investment Management £'000	Unit Trusts £'000	Investment Management £'000	Unit Trusts £'000
Products and services transferred at a point in time	44,392	3,431	42,036	3,104
Products and services transferred over time	230,917	33,223	212,583	28,326
Underlying operating income	275,309	36,654	254,619	31,430

Major clients

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

5 Income tax expense

	2018 £'000	2017 £'000
Current tax:		
– charge for the year	16,830	13,466
– adjustments in respect of prior years	(1,599)	(303)
Deferred tax:		
– credit for the year	(1,049)	(1,034)
– adjustments in respect of prior years	955	(57)
	15,137	12,072

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

5 *Income tax expense continued*

The tax charge on profit for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.2%). The differences are explained below:

	2018 £'000	2017 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2017: 19.2%) effects of:	11,650	11,338
– disallowable expenses	1,210	1,045
– share-based payments	211	(79)
– tax on overseas earnings	(190)	(230)
– adjustments in respect of prior year	(644)	(360)
– deferred payments to previous owners of acquired companies	2,904	247
– other	(36)	(28)
Effect of change in corporation tax rate on deferred tax	32	139
	15,137	12,072

The effect of disallowable expenses relate to certain operating expenses, which are not deductible for tax purposes. The most significant of these expenses relate to legal and professional fees associated with the acquisition of Speirs & Jeffrey (tax impact of £575,000) and client entertaining (tax impact of £307,000).

6 Dividends

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2017 of 39.0p (2016: 36.0p) per share	19,858	18,236
– interim dividend for the year ended 31 December 2018 of 24.0p (2017: 22.0p) per share	12,833	11,184
Dividends paid in the year of 63.0p (2017: 58.0p) per share	32,691	29,420
Proposed final dividend for the year ended 31 December 2018 of 42.0p (2017: 39.0p) per share	22,371	19,245

An interim dividend of 24.0p per share was paid on 2 October 2018 to shareholders on the register at the close of business on 7 September 2018 (2017: 22.0p).

A final dividend declared of 42.0p per share (2017: 39.0p) is payable on 14 May 2019 to shareholders on the register at the close of business on 23 April 2019. The final dividend is subject to approval by shareholders at the Annual General Meeting on 9 May 2019 and has not been included as a liability in the financial statements.

7 Distributable reserves

Reserves of Rathbone Brothers Plc available for distribution as at 31 December were comprised as follows:

	2018 £'000	2017 £'000
Net assets of Rathbone Brothers Plc	301,870	209,589
Less:		
– share capital	(2,760)	(2,566)
– share premium	(230,223)	(143,089)
Distributable reserves of Rathbone Brothers Plc	68,887	63,934

8 Earnings per share

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

	2018			2017		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	91,558	(17,388)	74,170	87,520	(17,426)	70,094
Gain on plan amendment of defined benefit pension schemes	–	–	–	5,523	(1,063)	4,460
Charges in relation to client relationships and goodwill	(13,188)	2,506	(10,682)	(11,716)	2,255	(9,461)
Acquisition-related costs	(19,925)	289	(19,636)	(6,178)	944	(5,234)
Head office relocation costs	2,861	(544)	2,317	(16,248)	3,218	(13,030)
Profit attributable to shareholders	61,306	(15,137)	46,169	58,901	(12,072)	46,829

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 52,050,979 (2017: 50,493,984).

8 *Earnings per share continued*

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

	2018	2017
Weighted average number of ordinary shares in issue during the year – basic	52,050,979	50,493,984
Effect of ordinary share options/Save As You Earn	148,564	188,549
Effect of dilutive shares issuable under the Share Incentive Plan	474	59,030
Effect of contingently issuable shares under the Executive Incentive Plan	375,759	228,702
Effect of contingently issuable shares under S&J contingent consideration	1,006,522	–
Diluted ordinary shares	53,582,298	50,970,265

	2018	2017
Earnings per share for the year attributable to equity holders of the company:		
– basic	88.7p	92.7p
– diluted	86.2p	91.9p
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	142.5p	138.8p
– diluted	138.4p	137.5p

9 Business combinations

Speirs & Jeffrey

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

Speirs & Jeffrey has operated as an independent investment management firm for over a century and has established many long term client relationships, with nearly three quarters of clients having been with the company for over 10 years. All of Speirs & Jeffrey's current directors and investment managers have joined the group.

The acquisition of Speirs & Jeffrey will enable Rathbones to establish a much stronger presence in Scotland, with Glasgow becoming the group's largest office after London following the transaction. In turn, Speirs & Jeffrey's clients will benefit from access to Rathbones' broader product and service offering including lending, financial planning and dedicated specialist offerings such as Rathbones' charities team and ethical investment capability.

The group expects to capture scale benefits from ongoing investment in technology and the management of regulatory change for the benefit of its clients, staff and shareholders. Meaningful revenue synergies are expected to be achieved over time by leveraging the strength of Rathbones' brand and complementary product offering and aligning the Speirs & Jeffrey service proposition with that of Rathbones.

Consideration transferred

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

	£'000
Cash consideration	88,374
Contingent consideration (see below)	1,050
Total consideration	89,424

Cash consideration comprises an initial cash payment of £78,725,000, paid on 31 August 2018, and a payment for regulatory capital surplus of £9,649,000, paid in two parts on 31 August 2018 and 25 October 2018.

Contingent consideration

Contingent consideration of £1,050,000 is payable during 2019 to vendors who are not required to remain in employment with the group. The payment is subject to performance against certain operational targets, and is either payable in full or not at all, dependent on whether the targets are met. The amount capitalised represents the maximum amount payable, as the group believe the targets will be met.

As the payment is due within one year, the consideration has not been discounted. The contingent consideration payment will be made 100% in shares.

9 *Business combinations continued*

Other deferred payments

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

	Gross amount £'000	Grant date	Grant date fair value £'000	Expected vesting date
Initial share consideration	25,000	31 August 2018	23,462	31 August 2021
Contingent consideration	13,950	31 August 2018	14,036	31 March 2019
Earn Out consideration	16,320	31 August 2018	16,570	31 December 2020/21

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

- Initial share consideration of £25,000,000 was payable on completion. However, although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date.
- Contingent consideration of £13,950,000 is payable subject to the performance against the same operational targets described above, as well as the vendors remaining in employment with the group until the targets are met.
- Earn Out consideration of £16,320,000 is payable in two parts in the third and fourth years following the acquisition date. Payment is subject to the delivery of certain operational and financial performance targets. The gross amount represents management's best estimate as to the extent to which these targets will be achieved. The maximum amount payable under this element, which represents a considerable stretch against the targets, is £98,210,000.

Incentive plans are also in place for non-sellers, which are subject to the same operational and financial performance targets as the earn out consideration for the vendors.

The charge recognised in profit or loss for the year ended 31 December 2018 for the above elements is as follows:

	£'000
Initial share consideration	2,607
Contingent consideration	8,021
Earn Out consideration and incentivisation awards	4,086
	14,714

These costs are being reported as staff costs within acquisition-related costs.

Acquisition-related costs

Costs of £2,465,000 for legal and advisory fees and £653,000 for stamp duty have been recognised in acquisition-related costs in the year in relation to this transaction.

Identifiable assets acquired and liabilities assumed

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

31 August 2018	Carrying amounts £'000	Fair value adjustments £'000	Recognised values £'000
Property, plant and equipment	943	–	943
Trade and other receivables	3,318	–	3,318
Intangible assets	–	54,337	54,337
Loans and advances to banks	15,462	–	15,462
Loans and advances to customers	2,274	–	2,274
Investment securities - fair value through profit or loss	1,254	–	1,254
Trade and other payables	–	–	–
Accruals and other liabilities	(6,850)	–	(6,850)
Deferred tax liabilities	(140)	(9,261)	(9,401)
Contingent liabilities	–	–	–
Total net assets acquired	16,261	45,076	61,337

The fair value of acquired trade and other receivables and loans and advances to banks is equal to the contractual amounts receivable, all of which were expected to be collected at the acquisition date.

9 *Business combinations continued*

The fair value of Speirs & Jeffrey's client relationship intangible assets has been measured using a multi-period excess earnings method. The model uses estimates of client longevity, investment performance and the level of activity driving commission income to derive a forecast series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired.

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

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£'000
Total consideration (see above)	89,424
Fair value of identifiable net assets acquired (see above)	(61,337)
	28,087

Goodwill of £28,087,000 arises as a result of the acquired workforce, expected future growth as well as operational and revenue synergies arising post integration. Any impairment of goodwill in future periods is not expected to be deductible for tax purposes.

During the 4 months to 31 December 2018, Speirs & Jeffrey contributed to the group's operating income of £8,682,000 and profit before tax of £2,846,000 to the group's consolidated statement of comprehensive income for the year ended 31 December 2018.

If the group had made the acquisition on 1 January 2018, the group operating income and profit before tax would have been £332,626,000 and £64,925,000 respectively.

10 Related party transactions

Transactions with key management personnel

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below.

Gains on options exercised by directors during the year totalled £19,000 (2017: £nil).

	2018 £'000	2017 £'000
Short term employee benefits	12,434	10,951
Post-employment benefits	184	327
Other long term benefits	2,934	2,425
Share-based payments	5,640	2,187
	21,192	15,890

Dividends totalling £247,000 were paid in the year (2017: £408,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2018, the group had outstanding interest-free season ticket loans of £nil (2017: £6,000) issued to key management personnel.

At 31 December 2018, key management personnel and their close family members had gross outstanding deposits of £778,000 (2017: £4,059,000) and gross outstanding banking loans of £nil (2017: £728,000), all of which (2017: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

Other related party transactions

At 31 December 2018, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2017: £nil).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2018, the group managed 27 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2017: 27 unit trusts and OEICs).

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

10 *Related party transactions continued*

The following transactions and balances relate to the group's interest in the unit trusts:

Year ended 31 December	2018 £'000	2017 £'000
Total management fees	37,608	35,525

As at 31 December	2018 £'000	2017 £'000
Management fees owed to the group	3,629	3,266
Holdings in unit trusts	3,205	2,565
	6,834	5,831

Total management fees are included within 'fee and commission income' in the consolidated statement of comprehensive income.

Management fees owed to the group are included within 'accrued income' and holdings in unit trusts are classified as 'fair value through profit or loss equity securities' in the consolidated balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

11 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:

	2018 £'000	2017 £'000
Cash and balances at central banks	1,197,001	1,374,002
Loans and advances to banks	136,203	87,009
Fair value through profit or loss investment securities	75,333	106,747
At 31 December	1,408,537	1,567,758

Fair value thought profit or loss investment securities are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from issuing ordinary shares comprise:

	2018 £'000	2017 £'000
Share capital issued	194	31
Share premium on shares issued	87,134	3,098
Shares issued in relation to share-based schemes for which no cash consideration was received	(29,888)	(441)
	57,440	2,688

11 *Consolidated statement of cash flows continued*

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

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 31 December 2017	19,695	145,655	27,221	190,402	382,973
Adjustment on initial application of IFRS 9 (net of tax)	–	–	(250)	102	(148)
Adjustment on initial application of IFRS 15 (net of tax)	–	–	–	8,443	8,443
At 1 January 2018	19,695	145,655	26,971	198,947	391,268
Changes from financing cash flows					
Proceeds from issue of share capital	–	87,328	–	–	87,328
Proceeds from sale of treasury shares	–	–	(27,873)	(2,015)	(29,888)
Dividends paid	–	–	–	(32,691)	(32,691)
Total changes from financing cash flows	–	87,328	(27,873)	(34,706)	24,749
The effect of changes in foreign exchange rates	–	–	–	–	–
Changes in fair value	–	–	–	–	–
Other changes					
Liability-related					
Interest expense	1,283	–	–	–	1,283
Interest paid	(1,171)	–	–	–	(1,171)
Total liability-related changes	112	–	–	–	112
Total equity-related other changes	–	–	–	67,818	67,818
At 31 December 2018	19,807	232,983	(902)	232,059	483,947

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	19,590	142,526	25,742	156,545	344,403
Changes from financing cash flows					
Proceeds from issue of share capital	–	3,129	–	–	3,129
Proceeds from sale of treasury shares	–	–	1,379	(1,820)	(441)
Dividends paid	–	–	–	(29,420)	(29,420)
Total changes from financing cash flows	–	3,129	1,379	(31,240)	(26,732)
The effect of changes in foreign exchange rates	–	–	–	–	–
Changes in fair value	–	–	–	–	–
Other changes					
Liability-related					
Interest expense	1,276	–	–	–	1,276
Interest paid	(1,171)	–	–	–	(1,171)
Total liability-related changes	105	–	–	–	105
Total equity-related other changes	–	–	100	65,097	65,197
At 31 December 2017	19,695	145,655	27,221	190,402	382,973

12 Events after the balance sheet date

There have been no material events occurring between the balance sheet date and the date of signing this report.

13 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 2018 or 2017. Statutory financial statements for 2017 have been delivered to the Registrar of Companies. Statutory financial statements for 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2017 and 2018 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.

14 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 2018 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.