Rathbone Brothers Plc
2019 Preliminary results

Highlights

- Total funds under management and administration passed a significant milestone, reaching £50.4 billion at 31 December 2019, up 14.3% from £44.1 billion at 31 December 2018. The FTSE 100 Index increased 12.1% and the MSCI PIMFA Private Investor Balanced Index increased 13.1% over 2019.
  - Funds in Rathbone Investment Management grew 11.7% to £43.0 billion (31 December 2018: £38.5 billion). Operating income in Investment Management was strong, increasing 12.9% to £310.9 million for the year ended 31 December 2019 (2018: £275.3 million), reflecting a full year of income of Speirs & Jeffrey. The average FTSE 100 Index was 7456 on quarterly billing dates in 2019, compared to 7269 in 2018. Net organic outflows for the year totalled £0.6 billion (2018: net inflows £1.1 billion).
  - Rathbone Unit Trust Management continued to perform exceptionally well with funds under management increasing 32.1% to £7.4 billion at 31 December 2019 (31 December 2018: £5.6 billion). Net inflows increased 73.7% to £943 million during 2019 (2018: £543 million) and operating income totalled £37.2 million in the year ended 31 December 2019 (2018: £36.7 million).
- Underlying[1] operating expenses of £259.4 million (2018: £220.4 million) not only included the full year impact of a number of growth led investments and Speirs & Jeffrey, but also software impairment costs of £3.1 million and a considerable increase in the Financial Services Compensation Scheme levy (2019: £4.5 million, 2018: £2.8 million).
- Underlying[1] profit before tax of £88.7 million (2018: £91.6 million) reflected the above in addition to the expected cessation of 'risk-free' managers' box dealing profits in our Unit Trusts business from mid-January 2019 and the acceleration of some deferred executive awards in relation to recent executive retirements.
- Statutory profit before tax of £39.7 million (2018: £61.3 million) reflected anticipated items, most notably the costs associated with the acquisition of Speirs & Jeffrey. The majority of these costs were in relation to deferred consideration payments to former shareholders of the business which have been treated as remuneration in accordance with accounting standards.

1. A reconciliation between the underlying measure and its closest IFRS equivalent is provided in Table 2 of the financial performance section.

Declaration of final dividend

- The board recommends a final dividend of 45p for 2019 (2018: 42p), making a total of 70p for the year (2018: 66p), an increase of 6.1% on 2018.

Ends

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Chairman's statement

Our year in review

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

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

Profit before tax for the year totalled £39.7 million (2018: £61.3 million) and reflects anticipated costs associated with the acquisition of Speirs & Jeffrey. Consequently, basic earnings per share decreased to 50.3p from 88.7p in 2018.

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

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

Our purpose

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

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

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

Governance and culture

The board strongly believes that robust corporate governance makes a significant contribution to the long-term success of the firm and the achievement of its strategy. A good governance framework creates a solid foundation, which enables us to act in the best interests of our stakeholders.

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

We also believe it is in the best interests of our clients that the companies in which we invest adopt best practices in corporate governance. Mindful of our responsibilities to our clients, we seek to be good, long-term stewards of the investments we manage on their behalf, as expressed in our stewardship policy.

2019 also marked the 10th anniversary since we became a signatory to the Principles of Responsible Investment (PRI). In this time, we have seen our scoring on the PRI annual benchmarking improve steadily and we now boast an A+ rating for our strategy and governance around responsible investment. Our footprint is substantial in this area and we are widely known for our active engagement on environmental, social and governance (ESG) issues.

Inspiring our people

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

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

Engaging with shareholders

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

Risks

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

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

Board changes and succession

As part of our normal succession planning, the board continues to monitor its capabilities and assesses what new skills are necessary to strengthen both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity.

This year saw the implementation of our succession plans, with Jennifer Mathias being appointed to the group finance director role on 1 April 2019. Paul Stockton, the former group finance director, became chief executive on 9 May 2019. The transition and handover process has gone smoothly and Paul and Jennifer are working well together in their respective new roles.

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

Looking forward

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

Mark Nicholls
Chairman

19 February 2020

Chief executive's review

A look back

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

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

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

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

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

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

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

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

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

A look forward

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

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

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

Delivering client service

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

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

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

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

Focusing on growth

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

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

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

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

The inorganic opportunity

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

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

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

Building on a successful culture

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

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

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

Investing in productivity

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

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

Ongoing risk management

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

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

Outlook

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

Paul Stockton
Chief Executive

19 February 2020

Financial performance

Overview of financial performance

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

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

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

The board primarily considers underlying measures of income, expenditure and earnings when assessing the performance of the group. These are considered by the board to be a better reflection of true business performance than reviewing results on a statutory basis only. These measures are also widely used by research analysts covering the group. A full reconciliation between underlying results and the closest IFRS equivalent is provided in Table 2.

Table 1. Group's overall performance

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

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

Underlying operating income

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

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

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

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

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

Underlying operating expenses

Operating expenses increased from £250.7 million to £308.4 million during the year. Operating expenses include expenditure falling into the three categories explained under Table 2.

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

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

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

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

Alternative performance measures

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

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

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

Charges in relation to client relationships and goodwill (note 10)

As explained in note 4.1, client relationship intangible assets are recognised when we acquire a business or hire a team of investment managers. The charges associated with these assets represent the proportion of acquisition costs which are charged to profit or loss as amortisation each year over the estimated duration of the client relationships. The quantum of the accounting charge will vary depending on the terms of each individual acquisition or team hire and represents a significant non-cash profit and loss item. They have, therefore, been excluded from underlying profit, which represents largely cash-based earnings and more directly relates to the financial reporting period.

Acquisition-related costs (note 7)

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

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

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

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

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

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

Head office relocation costs

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

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

Taxation

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

A full reconciliation of the income tax expense is provided in note 8.

The Finance Bill 2016, which included provisions for the UK corporation tax rate to be reduced to 17% in April 2020, from 19% in April 2017, gained royal assent in September 2016. Although the Government has announced its intention to delay these reductions, the legislation to effect this amendment has not yet been passed. Deferred tax balances have therefore been calculated based on these reduced rates where timing differences are forecast to unwind in future years.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2019 were 50.3p compared to 88.7p in 2018. This reflects the full impact of non-underlying charges as well as the issue of 3.9 million shares in June 2018 to partially finance the acquisition of Speirs & Jeffrey and to satisfy share based remuneration scheme awards. On an underlying basis, earnings per share were 132.8p in 2019, compared to 142.5p in 2018 (see note 14).

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); and
– actuarial changes in the value of the pension schemes that are recognised in the company's other comprehensive income, net of deferred tax.

At 31 December 2019 the company's distributable reserves were £72.0 million (2018: £68.9 million).

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

Capital expenditure

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

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

Underlying return on capital employed

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

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

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

Outlook

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

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

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

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

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

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

Other financial impacts

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

Segmental review

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

Investment Management

The results of the Investment Management segment described below include the trading results of Speirs & Jeffrey for the full year in 2019, compared with only four months of trading results in 2018 post acquisition on 31 August 2018.

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

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

Table 3. Investment Management – key performance indicators

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

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

Funds under management and administration

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

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

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

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

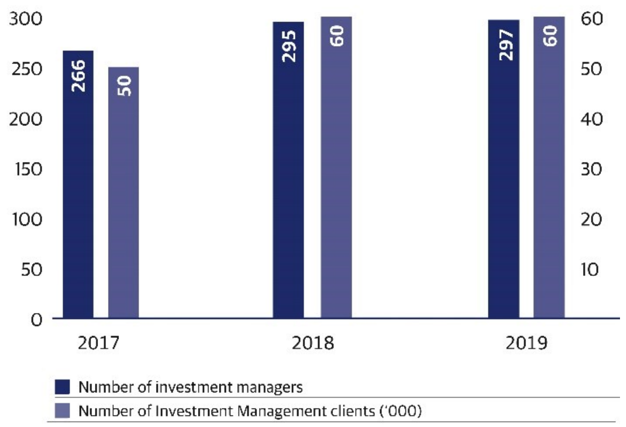


Table 4. Investment Management – funds under management and administration

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

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

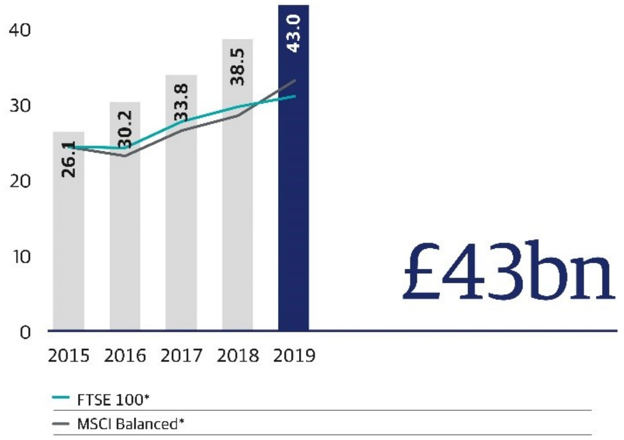
Gross organic inflows of £3.3 billion remained resilient at 8.6% of opening funds under management and administration, with approximately half coming from existing client relationships. Organic inflows of £3.8 billion in 2018 included £0.4 billion of short term mandates.

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

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

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

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



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

Table 5. Investment Management – service level breakdown

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

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

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

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

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

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

Financial performance

Table 6. Investment Management – financial performance

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

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

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

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

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

	2019 £bn	2018 £bn
Valuation dates for billing		
– 5 April	**41.4**	32.4
– 30 June	**42.5**	34.1
– 30 September[1]	**42.2**	41.3
– 31 December	**43.0**	38.5
Average	**42.3**	36.6
Average FTSE 100 level[2]	**7456**	7269

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

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

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

Table 8. Investment Management – revenue margin

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

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

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

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

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

Table 9. Investment Management – underlying operating expenses

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

1. Represents the costs of investment managers and teams directly involved in client-facing activities
2. Underlying operating expenses as a % of underlying operating income (see table 6)
3. In 2018, the cost of the Staff Equity Plan for Investment Management staff was reported within centrally allocated costs. In 2019 these costs are reported as variable staff costs directly incurred by the segment. Accordingly, the 2018 comparative figures have been represented to present the costs on a consistent basis.

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

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

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

Unit Trusts

Table 10. Unit Trusts – funds

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

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

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Unit Trusts are shown in table 11.

Table 11. Unit Trusts – key performance indicators

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

1. See table 12
2. See table 14

Funds under management

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

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

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

Net inflows continued to be spread across the range of funds. The multi asset portfolios, Global Opportunities fund and Ethical Bond fund continued to attract particularly strong net flows in the year.

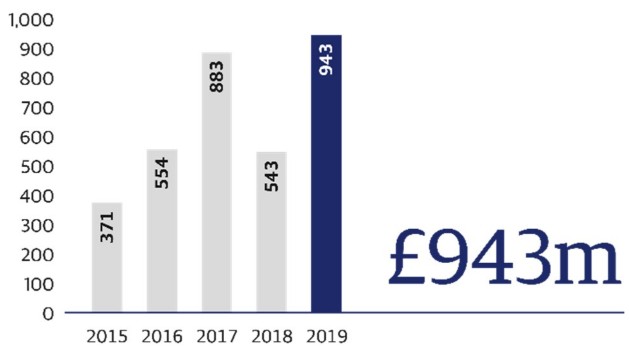
Unit Trusts funds under management closed the year up 32.1% at £7.4 billion (see table 12).

Table 12. Unit Trusts – funds under management

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

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

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



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

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

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

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

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

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

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

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

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

Financial performance

Unit Trusts' income is primarily derived from annual management charges, which are calculated on the daily value of funds under management, net of rebates payable to intermediaries.

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

Table 14. Unit Trusts – financial performance

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

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

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

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

Table 15. Unit Trusts – underlying operating expenses

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

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

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

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

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

Financial position

Table 16. Group's financial position

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

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 17) as a proportion of total risk exposure amount
3. Represents the carrying value of the Tier 2 loan notes
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 (note 10)
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

Own funds

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

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

Table 17. Regulatory own funds

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

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

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

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

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

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 £485.4 million at 31 December 2019, up 4.6% from £464.1 million at the end of 2018, primarily reflecting the issue of new share capital and retained profits for the year.

Own funds and liquidity requirements

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

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

The group's own funds requirements were as follows:

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

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

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

Pillar 1 – minimum requirement for capital

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

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

Pillar 2 – supervisory review process

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

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

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

Pension obligation risk

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

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress and was phased in over 4 years from 1 January 2016. On 1 January 2019, it increased to 2.5% of risk-weighted assets, which was the final increase of this phasing.

Countercyclical capital buffer (CCyB)

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

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

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

PRA buffer

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

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

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

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

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

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

Total assets

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

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.7 billion (2018: £2.2 billion) represented 6.2% of total Investment Management funds under management and administration at 31 December 2019, compared to 5.8% at the end of 2018. Cash held in client money accounts was £5.7 million (2018: £3.0 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk. It invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be single 'A'-rated or higher by Fitch and are regularly reviewed by the banking committee.

During the year, we increased the share of treasury assets held with the Bank of England to £1.9 billion from £1.2 billion at 31 December 2018. During the year, £0.3 billion from maturing certificates of deposit was invested with the Bank of England due to unattractive rates offered elsewhere in the market.

Loans to clients

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

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

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

Intangible assets

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

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

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2019, including the impact of any lost relationships, was £15.4 million (2018: £12.9 million).

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.6 million was recognised in relation to this element of goodwill (2018: £0.3 million), which reduced its carrying value to £nil. Further detail is provided in note 10.

Capital expenditure

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

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

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

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

Right-of-use assets

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

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

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

Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years. With effect from 30 June 2017, we closed both schemes, ceasing all future benefit accrual and breaking the link to salary.

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

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

Liquidity and cash flow

Table 19. Extracts from the consolidated statement of cash flows

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

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

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

Cash and balances at central banks was £1.9 billion at 31 December 2019 (2018: £1.2 billion).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits, which had an original maturity of less than three months (see note 16). Consequently, cash flows include the impact of capital flows in treasury assets.

Net cash flows from operating activities reflect a £442.6 million increase in banking client deposits (2018: £54.2 million increase), as a result of the migration of cash held in the portfolios of Speirs & Jeffrey clients onto a banking basis and a slight increase in the proportion of funds under management and administration held as cash.

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

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

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

Risk management and control

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

Risk culture

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

Risk appetite

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

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

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

Managing risk

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

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

Three lines of defence

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

First line

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

Second line

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

Third line

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

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

Identification and profiling of principal risks

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

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

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

Risk assessment process

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

Day to day, our risk assessment process considers both the impact and likelihood of risk events which could materialise, affecting the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of Level 2 risk categories and detailed Level 3 risks is challenged and reviewed on a regular basis. The board, executive committee and executive risk committee receive regular reports and information from senior management, operational business units, risk oversight functions and specific risk committees.

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

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

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

Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 17 Level 2 risks and 47 Level 3 risks, all of which form the basis of the group's risk register. Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time. For 2019, the underlying risk profile and ratings for the majority of Level 2 risks have remained reasonably stable despite the challenging year faced by the wealth management sector. There have, however, 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 continuing focus on client suitability, the on-going cyber threat to the financial services sector landscape, the macroeconomic environment and continuing political challenges for the UK. These were regular areas of focus for the firm in 2019, together with the operational integration of Speirs & Jeffrey. The board remains vigilant to the risks associated with the pension schemes' deficit. Other key risks are operational risks that arise from growth and regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

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

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

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

Emerging risks and threats

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

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

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

Brexit

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

Principal risks

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

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

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

Assessment of the company's prospects

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

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

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

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

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

Viability statement

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

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

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

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022.

Going concern

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

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest and similar income		**28,553**	20,968
Interest expense and similar charges		**(12,141)**	(5,647)
Net interest income		**16,412**	15,321
Fee and commission income		**352,519**	314,013
Fee and commission expense		**(23,547)**	(22,903)
Net fee and commission income		**328,972**	291,110
Net trading income		**170**	3,405
Other operating income		**2,517**	2,127
Operating income		**348,071**	311,963
Charges in relation to client relationships and goodwill		**(15,964)**	(13,188)
Acquisition-related costs	7	**(33,057)**	(19,925)
Head office relocation costs		**–**	2,861
Other operating expenses		**(259,398)**	(220,405)
Operating expenses		**(308,419)**	(250,657)
Profit before tax		**39,652**	61,306
Taxation	8	**(12,729)**	(15,137)
Profit after tax		**26,923**	46,169
Profit for the year attributable to equity holders of the company		**26,923**	46,169
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability	12	**310**	1,219
Deferred tax relating to net remeasurement of defined benefit liability		**(53)**	(207)
Other comprehensive income net of tax		**257**	1,012
Total comprehensive income for the year net of tax attributable to equity holders of the company		**27,180**	47,181
Dividends paid and proposed for the year per ordinary share	9	**70.0p**	66.0p
Dividends paid and proposed for the year		**37,714**	35,204
Earnings per share for the year attributable to equity holders of the company:	14		
– basic		**50.3p**	88.7p
– diluted		**48.7p**	86.2p

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018		2,566	143,089	31,835	(4,864)	198,947	371,573
Profit for the year						46,169	46,169
Net remeasurement of defined benefit liability	12					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	9					(32,691)	(32,691)
Issue of share capital		194	87,134				87,328
Prior period adjustment (note 2)			(24,950)	24,950			-
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 (restated)		**2,760**	**205,273**	**56,785**	**(32,737)**	**232,059**	**464,140**
Profit for the year						**26,923**	**26,923**
Net remeasurement of defined benefit liability	12					**310**	**310**
Deferred tax relating to components of other comprehensive income						**(53)**	**(53)**
Other comprehensive income net of tax		**-**	**-**	**-**	**-**	**257**	**257**
Dividends paid	9					**(35,959)**	**(35,959)**
Issue of share capital		**58**	**5,666**	**14,971**			**20,695**
Share-based payments:							
– value of employee services						**19,387**	**19,387**
– cost of own shares acquired					**(10,033)**		**(10,033)**
– cost of own shares vesting					**799**	**(799)**	**-**
– tax on share-based payments						**(17)**	**(17)**
At 31 December 2019		**2,818**	**210,939**	**71,756**	**(41,971)**	**241,851**	**485,393**

Consolidated balance sheet

as at 31 December 2019

	Note	2019 £'000	2018 £'000 (restated - note 2)
Assets			
Cash and balances with central banks		**1,932,997**	1,198,479
Settlement balances		**52,520**	39,754
Loans and advances to banks		**177,832**	166,200
Loans and advances to customers		**138,412**	138,959
Investment securities:			
– fair value through profit or loss		**105,967**	79,797
– amortised cost		**600,261**	907,225
Prepayments, accrued income and other assets		**95,390**	81,552
Property, plant and equipment		**15,432**	16,838
Right of use assets		**49,480**	-
Net deferred tax asset		**2,636**	-
Intangible assets	10	**227,807**	238,918
Total assets		**3,398,734**	2,867,722
Liabilities			
Deposits by banks		**28**	491
Settlement balances		**57,694**	36,692
Due to customers		**2,668,645**	2,225,536
Accruals, provisions and other liabilities	11	**93,263**	103,393
Lease liabilities		**61,004**	-
Current tax liabilities		**4,766**	5,985
Net deferred tax liability		**-**	481
Subordinated loan notes		**19,927**	19,807
Retirement benefit obligations	12	**8,014**	11,197
Total liabilities		**2,913,341**	2,403,582
Equity			
Share capital		**2,818**	2,760
Share premium		**210,939**	205,273
Merger reserve		**71,756**	56,785
Own shares		**(41,971)**	(32,737)
Retained earnings		**241,851**	232,059
Total equity		**485,393**	464,140
Total liabilities and equity		**3,398,734**	2,867,722

Company registered number: 01000403

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit before tax		**39,652**	61,306
Change in fair value through profit or loss		**(410)**	185
Net interest income		**(16,412)**	(15,321)
Impairment losses on financial instruments		**103**	44
Net charge/(credit) for provisions	11	**3,572**	(1,498)
Loss on disposal of property, plant and equipment		**428**	1
Depreciation, amortisation and impairment		**33,799**	21,673
Foreign exchange movements		**2,152**	(2,297)
Defined benefit pension scheme charges	12	**255**	491
Defined benefit pension contributions paid	12	**(3,128)**	(3,673)
Share-based payment charges		**31,012**	19,838
Interest paid		**(11,421)**	(3,892)
Interest received		**28,264**	21,362
		107,866	98,219
Changes in operating assets and liabilities:			
– net increase in loans and advances to banks and customers		**(31,076)**	(10,482)
– net (increase)/decrease in settlement balance debtors		**(12,765)**	7,030
– net increase in prepayments, accrued income and other assets		**(13,725)**	(3,887)
– net increase in amounts due to customers and deposits by banks		**442,646**	54,191
– net increase/(decrease) in settlement balance creditors		**21,002**	(17,760)
– net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**2,802**	(222)
Cash generated from operations		**516,750**	127,089
Tax paid		**(17,133)**	(14,697)
Net cash inflow from operating activities		**499,617**	112,392
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**-**	(72,914)
Purchase of property, plant, equipment and intangible assets		**(17,705)**	(18,338)
Proceeds from sale of property, plant and equipment		**(239)**	-
Purchase of investment securities		**(754,958)**	(1,051,150)
Proceeds from sale and redemption of investment securities		**1,058,874**	847,323
Net cash generated from/(used in) investing activities		**285,972**	(295,079)
Cash flows from financing activities			
Net (repurchase)/issue of ordinary shares	16	**(4,340)**	57,440
Dividends paid	9	**(35,959)**	(32,691)
Payment of lease liabilities		**(4,623)**	-
Interest paid		**(1,171)**	(1,283)
Net cash (used in)/generated from financing activities		**(46,093)**	23,466
Net increase/(decrease) in cash and cash equivalents		**739,496**	(159,221)
Cash and cash equivalents at the beginning of the year		**1,408,537**	1,567,758
Cash and cash equivalents at the end of the year	16	**2,148,033**	1,408,537

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 2019. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

2 Prior period adjustment

Following the issue of contingent consideration shares to the vendors of Speirs & Jeffrey, the group revisited the terms attaching to the initial consideration shares issued in the prior year (note 6). Having concluded that both share issuances were, in fact, in pursuance of the arrangement to acquire the shares in Speirs & Jeffrey, any premiums on the issuance of these shares should be recognised within the merger reserve. Premiums on issuance of the initial consideration shares were previously reported as share premium. The group has restated comparative information as at 31 December 2018 to report this amount within merger reserve. As at 31 December 2018, merger reserve has increased by £24,950,000 and share premium has decreased by the same amount. There is no impact on total equity as at that date and no impact on profit before tax or earnings per share for the period then ended.

3 Changes in significant accounting policies

The group has adopted IFRS 16 'Leases' with effect from 1 January 2019.

IFRS 16 'Leases'

IFRS 16 removes the classification of leases as either operating leases or finance leases for lessees. The standard introduces a single, on-balance sheet accounting model, which requires:

- recognition of a right of use asset and corresponding lease liability with respect to all lease arrangements in which the group is the lessee, except for short term leases and leases of low value assets;
- recognition of a depreciation charge on the right of use asset on a straight line basis over the shorter of the expected life of the asset and the lease term;
- recognition of an interest charge arising from the unwinding of the discounted lease liability over the lease term; and
- recognition of a finance lease in respect of the group acting as an intermediate lessor in a sub-lease agreement.

Transition

On transition to IFRS 16, the group was permitted to choose from the following transition approaches:

- full retrospective transition method, whereby IFRS 16 is applied to all of its contracts as if it had always applied; or
- a modified retrospective approach with optional practical expedients.

The group has chosen to apply IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance sheet. There is no restatement of the comparative information which continues to be reported under IAS 17 and IFRIC 4.

On adoption, lease agreements have given rise to both a right of use ('ROU') asset and a lease liability. For leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate as at 1 January 2019. The group's weighted average lessee's incremental borrowing rate as at 1 January 2019 was 5.86%. ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on the group balance sheet at the date of transition. There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application.

The group has identified the leases for which it holds an option to terminate the contract early. The group has assessed the likelihood of exercising these options and has concluded that it is reasonably certain to exercise this option on one of these leases. The group has reflected these revised lease terms in its calculation of the lease liabilities.

3 *Changes in significant accounting policies continued*

The group has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied the practical expedient to grandfather the assessment of which contracts are leases and applied IFRS 16 only to those that were previously identified as leases. Contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. The identification of a lease under IFRS 16 was therefore only applied to contracts entered into (or modified) on or after 1 January 2019;
- applied a single discount rate to a portfolio of leases with similar characteristics; and
- applied the exemption not to recognise right of use assets and liabilities for leases with less than a 12 month lease term and leases of low value assets. The group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

As a lessor

Accounting requirements for lessors are largely unchanged from IAS 17 'Leases'. The group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for instances in which it acts as a sub-lessor. The group sub-leases a property in Jersey.

At the date of application to IFRS 16 the group is required to assess the classification of a sub-lease with reference to the ROU asset. As the sub-lease is for the whole of the remaining term of the head lease, the group reassessed the classification of its sub-lease contract, previously classified as an operating lease under IAS 17, to a finance lease under IFRS 16 from the date of initial application.

The tables below show the impact on each financial statement line item affected by the application of IFRS 16 at the date of transition.

Impact on the consolidated balance sheet as at 1 January 2019

	As reported 31 December 2018 £'000	Adjustments £'000	**As restated 1 January 2019 £'000**
Assets			
Prepayments, accrued income and other assets	81,552	(174)	**81,378**
Right of use assets	–	53,846	**53,846**
Total assets	2,867,722	53,672	**2,921,394**
Liabilities			
Accruals, deferred income, provisions and other liabilities	103,393	(11,486)	**91,907**
Lease liabilities	–	65,158	**65,158**
Total liabilities	2,403,582	53,672	**2,457,254**
Equity			
Retained earnings	232,059	–	**232,059**
Total equity	464,140	–	**464,140**
Total liabilities and equity	2,867,722	53,672	**2,921,394**

The adjustments to the consolidated balance sheet reflect the initial application of IFRS 16.

3 *Changes in significant accounting policies continued*

The below table presents the impact of IFRS 16 on profit and on one of our key performance indicators during the year.

Impact on profit for the year	£'000
Increase in finance costs	3,640
Increase in depreciation	4,895
Expenses relating to short-term leases and low-value assets	371
Increase in finance income	75
Decrease in other expenses	7,124

Impact on earnings per share	
Decrease in earnings per share	
Basic	3.2p
Diluted	3.2p

Lease liabilities

The group is required to identify the difference between the present value of its operating lease commitments disclosed at 31 December 2018 under IAS 17, discounted by using the group's incremental borrowing rate, and its lease liabilities recognised at the date of initial application to IFRS 16. This reconciliation has been presented below:

	£'000
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	90,548
Impact of discounting at the incremental borrowing rate	(27,027)
Discounted using the incremental borrowing rate at 1 January 2019	63,521
Recognition exemption for:	
– Leases of low-value assets	(18)
– Extension options reasonably certain to be exercised	1,655
Lease liabilities at 1 January 2019	**65,158**

4 Critical accounting judgements and key sources of estimation and uncertainty

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

The following key accounting policies involve critical judgements made in applying the accounting policy and involve estimations; care has been taken to distinguish between the two.

4.1 Client relationship intangibles (note 10)

Critical judgements

Client relationship intangibles purchased through corporate transactions

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

Payments to newly recruited investment managers

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

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

Estimation uncertainty

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations that these will continue in the future. During the year, client relationship intangible assets were amortised over a 10 to 15 year period.

Amortisation of £15,369,000 (2018: £12,919,000) was charged during the year. At 31 December 2019, the carrying value of client relationship intangibles was £124,456,000 (2018: £134,556,000).

A reduction of three years in the amortisation period of those client relationship intangible assets currently amortised over 15 years would increase the annual amortisation charge by £4.5 million.

4.2 Retirement benefit obligations (note 12)

Estimation uncertainty

The principal assumptions underlying the reported deficit of £8,014,000 (2018: £11,197,000 deficit) are set out in note 12.

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

The sensitivity of the retirement benefit obligations to changes in all of the underlying estimates are set out in note 12. Of these, the most sensitive assumption is the discount rate used to measure the defined benefit obligation. Increasing the discount rate by 1.0% would decrease the schemes' liabilities by £28,701,000 (2018: £25,610,000). A 1.0% decrease would have an equal and opposite effect.

4.3 Business combinations (note 6)

Critical judgement

Treatment and fair value of consideration transferred

On 31 August 2018, the group acquired the entire share capital of Speirs & Jeffrey ("S&J"). The group accounted for the transaction as a business combination.

As described in note 6, the purchase price payable for the acquisition is split into a number of different parts. The payment of certain elements has been deferred. At 31 December 2019, two elements of deferred consideration remained unvested and subject to ongoing vesting conditions.

Vesting of the £25,000,000 initial share consideration is contingent on continued employment of the vendors and this amount is being charged to profit or loss as a share based payment for employee services over the vesting period.

Vesting of earn out consideration is also payable in shares and conditional on achieving certain operational and financial targets and the continued employment of the vendors.

Estimation uncertainty

Valuation of the earn out consideration and incentivisation awards

The value of earn out consideration, as well as related incentivisation awards to other staff, is variable, dependent on performance by the acquired business against certain operational and financial targets by 31 December 2020 and 31 December 2021. The estimated value of earn out consideration and incentivisation awards that will be payable at these dates is £26.4 million, based on projections of growth in qualifying funds under management over that period. As a result, accumulated charges of £12.9 million have been recognised since acquisition with a corresponding credit to equity, based on forecast qualifying funds under management of £4.8 billion at the end of 2020; with an associated charge to profit or loss during 2019 of £9.7 million (note 6).

If qualifying funds under management do not exceed £4.5 billion then no earn out consideration or incentivisation awards are payable. If qualifying funds under management at 31 December 2020 are £100 million higher or lower than management's estimate then the accumulated charges as at 31 December 2019 for earn out consideration and incentivisation awards would be £1.5 million higher or lower and the charge to profit or loss in 2019 would be £1.5 million higher or lower.

Under the terms of the agreements, the maximum possible payment under the earn out and incentivisation awards is capped at £128,750,000; which represents qualifying funds under management of approximately £10 billion at the end of 2021.

5 Segmental information

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

31 December 2019	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	224,135	36,073	–	260,208
Net commission income	51,132	–	–	51,132
Net interest income	16,412	–	–	16,412
Fees from advisory services and other income	19,247	1,072	–	20,319
Underlying operating income	310,926	37,145	–	348,071
Staff costs - fixed	(78,562)	(3,783)	(28,477)	(110,822)
Staff costs - variable	(49,711)	(8,710)	(8,353)	(66,774)
Total staff costs	(128,273)	(12,493)	(36,830)	(177,596)
Other direct expenses	(40,392)	(7,299)	(34,111)	(81,802)
Allocation of indirect expenses	(63,842)	(7,099)	70,941	–
Underlying operating expenses	(232,507)	(26,891)	–	(259,398)
Underlying profit before tax	78,419	10,254	–	88,673
Charges in relation to client relationships and goodwill (note 10)	(15,964)	–	–	(15,964)
Acquisition-related costs (note 7)	(28,246)	–	(4,811)	(33,057)
Segment profit before tax	34,209	10,254	(4,811)	39,652
Profit before tax attributable to equity holders of the company				39,652
Taxation (note 8)				(12,729)
Profit for the year attributable to equity holders of the company				26,923

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	3,303,691	89,937	3,393,628
Unallocated assets			5,106
Total assets			3,398,734

5 *Segmental information continued*

31 December 2018 (re-presented*)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	200,530	32,865	–	233,395
Net commission income	41,439	–	–	41,439
Net interest income	15,321	–	–	15,321
Fees from advisory services and other income	18,019	3,789	–	21,808
Underlying operating income	275,309	36,654	–	311,963
Staff costs - fixed	(66,512)	(3,300)	(26,152)	(95,964)
Staff costs - variable	(40,656)	(7,552)	(6,886)	(55,094)
Total staff costs	(107,168)	(10,852)	(33,038)	(151,058)
Other direct expenses	(27,629)	(6,950)	(34,768)	(69,347)
Allocation of indirect expenses	(61,676)	(6,130)	67,806	–
Underlying operating expenses	(196,473)	(23,932)	–	(220,405)
Underlying profit before tax	78,836	12,722	–	91,558
Charges in relation to client relationships and goodwill (note 10)	(13,188)	–	–	(13,188)
Acquisition-related costs (note 7)	(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 (note 8)				(15,137)
Profit for the year attributable to equity holders of the company				46,169

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

* In 2018, the cost of the Staff Equity Plan for Investment Management staff was originally reported within the allocation of indirect expenses. In 2019, these costs are reported as variable staff costs directly incurred by the segment. Accordingly, the 2018 comparative figures have been re-presented to show the costs on a consistent basis

Underlying operating income is equal to operating income for the year ended 31 December 2019 (2018: equal).

The following table reconciles underlying operating expenses to operating expenses:

	2019 £'000	2018 £'000
Underlying operating expenses	**259,398**	220,405
Charges in relation to client relationships and goodwill (note 10)	**15,964**	13,188
Acquisition-related costs (note 7)	**33,057**	19,925
Head office relocation costs	**–**	(2,861)
Operating expenses	**308,419**	250,657

5 *Segmental information continued*

Geographic analysis

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

	2019 £'000	2018 £'000
United Kingdom	**335,732**	301,029
Jersey	**12,339**	10,934
Operating income	**348,071**	311,963

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

	2019 £'000	2018 £'000
United Kingdom	**239,056**	251,429
Jersey	**4,183**	4,327
Non-current assets	**243,239**	255,756

Timing of revenue recognition

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

	2019		2018	
	Investment Management £'000	Unit Trusts £'000	Investment Management £'000	Unit Trusts £'000
Products and services transferred at a point in time	**53,599**	**172**	44,392	3,431
Products and services transferred over time	**257,327**	**36,973**	230,917	33,223
Underlying operating income	**310,926**	**37,145**	275,309	36,654

Major clients

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

6 Business combinations

Speirs & Jeffrey

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

Contingent consideration

Contingent consideration of £15,000,000 was paid in May 2019, following the satisfaction of certain operational targets. Of this, £1,050,000 was treated as consideration in the acquisition accounting, as it was paid to vendors who were not required to remain in employment with the group. The amount paid was equal to what was provided for as at the date of acquisition; therefore, no measurement period adjustment has been reflected against the cost of acquisition. The remaining £13,950,000 was paid to vendors required to remain in employment with the group until the targets were met. Hence, it has been treated as remuneration for post-combination services and the grant date fair value charged to profit and loss. The contingent consideration payment was made 100% in shares.

Other deferred payments

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

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

– Initial share consideration was payable on completion. However, although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date.
– Earn Out consideration and related incentivisation awards are payable in two parts in the third and fourth years following the acquisition date. Payment is subject to the delivery of certain operational and financial performance targets.

Further details of each of these elements is as follows:

	Gross amount £'000	Grant date	Grant date fair value £'000	Expected vesting date
Initial share consideration	25,000	31 August 2018	23,462	31 August 2021
Earn Out consideration and incentivisation awards	26,400	31 August 2018	26,790	31 December 2020/21

The gross amount in respect of the earn out consideration and incentivisation awards represents management's best estimate as to the extent to which the performance targets will be achieved. The maximum amount payable under this element, which represents a considerable stretch against the targets, is £128,750,000 (note 4.3).

The charge recognised in profit or loss for the year ended 31 December 2019 for the above elements is as follows:

	2019 £'000	2018 £'000
Initial share consideration	**8,402**	2,607
Contingent consideration	**6,015**	8,021
Earn Out consideration and incentivisation awards	**9,724**	3,144
Other deferred awards	**1,885**	942
	26,026	14,714

Other deferred awards represent cash amounts paid one year following the acquisition date.

These costs are being reported as staff costs within acquisition-related costs (see note 7).

7 Acquisition-related costs

	2019 £'000	2018 £'000
Acquisition of Speirs & Jeffrey	**30,837**	18,411
Acquisition of Vision and Castle	**2,041**	1,514
Acquisition of Barclay's Wealth Personal Injury and Court of Protection business	**179**	–
Acquisition-related costs	**33,057**	19,925

Costs relating to the acquisition of Speirs & Jeffrey

The group has incurred the following costs in relation to the 2018 acquisition of Speirs & Jeffrey, summarised by the classification within the income statement:

	2019 £'000	2018 £'000
Acquisition costs:		
– Staff costs (note 6)	**26,026**	14,714
– Legal and advisory fees	**103**	2,465
– Stamp duty	**–**	653
Integration costs	**4,708**	579
	30,837	18,411

Non-staff acquisition costs of £103,000 (2018: £3,118,000) and integration costs of £4,708,000 (2018: £579,000) have not been allocated to a specific operating segment (note 5).

Costs relating to the acquisition of Vision Independent Financial Planning and Castle Investment Solutions

The group has incurred the following costs in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions, summarised by the classification with the income statement:

	2019 £'000	2018 £'000
Staff costs	**1,375**	1,074
Interest expense	**666**	440
	2,041	1,514

Amounts reported in staff costs relate to deferred payments to previous owners who were required to remain in employment with the acquired companies until payment. The payment was settled at the end of 2019 (see note 11).

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

On 27 November 2019, the group announced that it had agreed to acquire the Personal Injury and Court of Protection business of Barclays Wealth, subject to regulatory approvals. The group incurred professional services costs of £179,000 (2018: £nil) in relation to the acquisition in the year ended 31 December 2019.

8 Income tax expense

	2019 £'000	2018 £'000
Current tax:		
– charge for the year	**16,809**	16,830
– adjustments in respect of prior years	**(893)**	(1,599)
Deferred tax:		
– credit for the year	**(3,767)**	(1,049)
– adjustments in respect of prior years	**580**	955
	12,729	15,137

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

The tax charge on profit for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	2019 £'000	2018 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2018: 19.0%) effects of:	**7,534**	11,650
– disallowable expenses	**537**	1,210
– share-based payments	**410**	211
– tax on overseas earnings	**(233)**	(190)
– adjustments in respect of prior year	**(313)**	(644)
– deferred payments to previous owners of acquired companies (note 7)	**4,508**	2,904
– other	**22**	(36)
– Effect of change in corporation tax rate on deferred tax	**264**	32
	12,729	15,137

9 Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2018 of 42.0p (2017: 39.0p) per share	**22,433**	19,858
– interim dividend for the year ended 31 December 2019 of 25.0p (2018: 24.0p) per share	**13,526**	12,833
Dividends paid in the year of 67.0p (2018: 63.0p) per share	**35,959**	32,691
Proposed final dividend for the year ended 31 December 2019 of 45.0p (2018: 42.0p) per share	**24,188**	22,371

An interim dividend of 25.0p per share was paid on 1 October 2019 to shareholders on the register at the close of business on 6 September 2019 (2018: 24.0p).

A final dividend declared of 45.0p per share (2018: 42.0p) is payable on 12 May 2020 to shareholders on the register at the close of business on 24 April 2020. The final dividend is subject to approval by shareholders at the Annual General Meeting on 7 May 2020 and has not been included as a liability in the financial statements.

10 Intangible assets

	2019 £'000	2018 £'000
Goodwill	**90,405**	91,000
Other intangible assets	**137,402**	147,918
	227,807	238,918

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the groups of cash generating units (CGUs) that are expected to benefit from that business combination. During the year, the group revised its methodology by which it defines its CGUs and how it allocated goodwill to groups of CGUs. This resulted in goodwill of £227,000 previously allocated to the Rooper & Whately CGU being re-allocated to the investment management group of CGUs. Under this revised methodology, the carrying amount of goodwill has been allocated as follows:

	Investment management £'000	Trust £'000	Total £'000
Cost			
At 1 January 2018	**62,318**	**1,954**	**64,272**
Acquired through business combinations	**28,087**	**–**	**28,087**
At 1 January 2019 and 31 December 2019	**90,405**	**1,954**	**92,359**
Impairment			
At 1 January 2018	–	1,090	1,090
Charge in the year	–	269	269
At 1 January 2019	**–**	**1,359**	**1,359**
Charge in the year	**–**	**595**	**595**
At 31 December 2019	**–**	**1,954**	**1,954**
Carrying amount at 31 December 2019	**90,405**	**–**	**90,405**
Carrying amount at 31 December 2018	90,405	595	91,000
Carrying amount at 1 January 2018	62,318	864	63,182

Goodwill acquired through business combinations in 2018 comprised goodwill arising on the acquisition of Speirs & Jeffrey. The goodwill was allocated to the investment management group of CGUs. The group do not believe there are any key assumptions where reasonable changes could occur which could give rise to a material adjustment in the carrying value.

The recoverable amounts of the groups of CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins are in line with recent historical rates and equity markets will not change significantly in the forthcoming year. Budgets are extrapolated for 5 years based on annual revenue and cost growth for each group of CGUs (see table below), as well as the group's expectation of future industry growth rates. A 5 year extrapolation period is chosen as this aligns with the period covered by the group's ICAAP modelling. A terminal growth rate is applied to year 5 cash flows, which takes into account the net growth forecasts over the extrapolation period and the long-term average growth rate for the industry. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the group of CGUs.

The pre-tax rate used to discount the forecast cash flows for each group of CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which the group of CGUs operate and, in particular, the relatively small size of the Trust group of CGUs.

10 *Intangible assets continued*

	Investment management		Trust	
At 31 December	**2019**	2018	**2019**	2018
Discount rate	**8.7%**	12.3%	**10.7%**	14.3%
Annual revenue growth rate	**3.0%**	5.0%	**(1.0)%**	(1.0)%
Terminal growth rate	**(2.0)%**	n/a	**(3.0)%**	n/a

During the year ended 31 December 2019, the group recognised an impairment charge of £595,000 in relation to goodwill allocated to the trust group of CGUs. The recoverable amount of the group of CGUs was lower than the carrying value, which reflected the fact that the business associated with this goodwill is contracting. This reduced the carrying value of the goodwill allocated to the trust group of CGUs to £nil. The impairment was recognised in the Investment Management segment in the segmental analysis.

No reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the investment management group of CGUs, including management's assessment of the impact of Brexit, would result in an impairment of the goodwill allocated to it.

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2018	155,103	5,759	30,590	191,452
Internally developed in the year	–	1,450	–	1,450
Acquired through business combinations	54,337	–	–	54,337
Purchased in the year	1,298	–	6,297	7,595
Disposals	(2,182)	–	–	(2,182)
Revaluation of assets	(4,939)	–	–	(4,939)
At 1 January 2019	**203,617**	**7,209**	**36,887**	**247,713**
Internally developed in the year	**–**	**1,485**	**–**	**1,485**
Purchased in the year	**5,269**	**–**	**7,012**	**12,281**
Disposals	**(1,750)**	**(512)**	**(2,751)**	**(5,013)**
At 31 December 2019	**207,136**	**8,182**	**41,148**	**256,466**
Amortisation and impairment				
At 1 January 2018	58,324	4,529	21,536	84,389
Amortisation charge	12,919	686	3,983	17,588
Disposals	(2,182)	–	–	(2,182)
At 1 January 2019	**69,061**	**5,215**	**25,519**	**99,795**
Impairment charge	**–**	**415**	**2,727**	**3,142**
Amortisation charge	**15,369**	**919**	**4,843**	**21,131**
Disposals	**(1,750)**	**(512)**	**(2,742)**	**(5,004)**
At 31 December 2019	**82,680**	**6,037**	**30,347**	**119,064**
Carrying amount at 31 December 2019	**124,456**	**2,145**	**10,801**	**137,402**
Carrying amount at 31 December 2018	134,556	1,994	11,368	147,918
Carrying amount at 1 January 2018	96,779	1,230	9,054	107,063

Client relationships acquired through business combinations in 2018 relate to the acquisition of Speirs & Jeffrey (note 6).

Purchases of client relationships of £5,269,000 (2018: £1,298,000) in the year relate to payments made to investment managers and third parties for the introduction of client relationships.

The total amount charged to profit or loss in the year, in relation to goodwill and client relationships, was £15,369,000 (2018: £13,188,000).

In 2018 the value of certain awards related to client relationships were reduced by £4,939,000 as not all performance conditions were ultimately met.

Purchased software with a cost of £20,373,000 (2018: £18,769,000) has been fully amortised but is still in use.

11 Provisions

	2019 £'000	2018 £'000
Trade creditors	**4,001**	2,513
Other creditors	**7,680**	20,395
Accruals	**72,850**	68,701
Other provisions (see below)	**8,732**	11,784
	93,263	103,393

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property-related £'000	Total £'000
At 1 January 2018	12,147	1,220	677	13,743	27,787
Charged to profit or loss	–	–	449	1,836	2,285
Unused amount credited to profit or loss	–	–	(57)	(3,726)	(3,783)
Net credit to profit or loss	–	–	392	(1,890)	(1,498)
Other movements	(3,641)	3,158	-	600	117
Utilised/paid during the year	(7,445)	(2,000)	(260)	(4,917)	(14,622)
At 1 January 2019	**1,061**	**2,378**	**809**	**7,536**	**11,784**
Charged to profit or loss	**–**	–	**2,852**	**1,350**	**4,202**
Unused amount credited to profit or loss	**–**	–	**(320)**	**(310)**	**(630)**
Net charge to profit or loss	**–**	**–**	**2,532**	**1,040**	**3,572**
Other movements	**5,269**	**179**	**–**	**–**	**5,448**
Utilised/paid during the year	**(5,011)**	**(2,557)**	**(1,166)**	**(3,338)**	**(12,072)**
At 31 December 2019	**1,319**	**–**	**2,175**	**5,238**	**8,732**
Payable within 1 year	**590**	**–**	**2,175**	**845**	**3,610**
Payable after 1 year	**729**	**–**	**–**	**4,393**	**5,122**
	1,319	**–**	**2,175**	**5,238**	**8,732**

Deferred, variable costs to acquire client relationship intangibles

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year. In 2018, there was a net release of £3,641,000 in relation to the value of certain payments where not all performance conditions were ultimately met.

Deferred and contingent consideration in business combinations

Following the satisfaction of certain operational targets, contingent consideration of £1,050,000 was paid to vendors of Speirs & Jeffrey in May 2019 (see note 6). In addition, contingent consideration of £1,507,000 was paid in October 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Legal and compensation

During the ordinary course of business the group may, from time-to-time, be subject to complaints, as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

11 *Provisions continued*

Property-related

Property-related provisions of £5,238,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group; and monies due under the contract with the assignee of leases on the group's former property at 1 Curzon Street (2018: £7,536,000).

Dilapidation provisions are calculated using a discounted cash flow model; during the year ended 31 December 2019, dilapidation provisions increased by £677,000 (2018: increased by £1,449,000). The group utilised £3,338,000 (2018: £912,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. The impact of discounting led to an additional £1,364,000 (2018: £125,000) being provided for over the year.

Amounts payable after one year

Property-related provisions of £4,393,000 are expected to be settled within 14 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within two years of the balance sheet date.

12 Long-term employee benefits

Defined contribution pension scheme

The group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to these schemes during the year was £9,726,000 (2018: £7,959,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £58,000 (2018: £36,000).

Defined benefit pension schemes

The group operates two defined benefit pension schemes that operate within the UK legal and regulatory framework; the Rathbone 1987 Scheme and the Laurence Keen Retirement Benefit Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the group.

The trustees of the schemes are required to act in the best interest of the schemes' beneficiaries. The appointment of trustees is determined by the schemes' trust documentation and legislation. The group has a policy that one third of all trustees should be nominated by members of the schemes.

Following a high court ruling in 2018, the cost of equalising pension benefits for the impact of unequal Guaranteed Minimum Pensions (GMP) has been recognised. Only the Laurence Keen Scheme was impacted. The Rathbone 1987 Scheme was never contracted out, meaning there are no GMP benefits in this scheme. Ahead of a specific method for equalisation being agreed with the scheme trustees, the cost has been estimated using a method consistent with that deemed by the high court to be the minimum necessary requirements to achieve equality.

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002 and to future accrual from 30 June 2017.

The schemes are valued by independent actuaries at least every three years using the projected unit credit method, which looks at the value of benefits accruing over the years following the valuation date based on projected salary to the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at the following dates:

Rathbone 1987 Scheme	31 December 2016
Laurence Keen Scheme	31 December 2016

The next triennial valuations of the two schemes will be carried out as at 31 December 2019, and may result in changes to the funding commitments.

The assumptions used by the actuaries, to estimate the schemes' liabilities, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice.

12 *Long-term employee benefits continued*

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2019 % (unless stated)	2018 % (unless stated)	**2019 % (unless stated)**	2018 % (unless stated)
Rate of increase of salaries	**n/a**	n/a	**n/a**	n/a
Rate of increase of pensions in payment	**3.40**	3.60	**3.10**	3.30
Rate of increase of deferred pensions	**3.10**	3.40	**3.10**	3.40
Discount rate	**2.05**	2.85	**2.05**	2.85
Inflation*	**3.10**	3.40	**3.10**	3.40
Percentage of members transferring out of the schemes per annum	**3.00**	3.00	**3.00**	3.00
Average age of members at date of transferring out (years)	**52.5**	52.5	**52.5**	52.5

* Inflation assumptions are based on the Retail Price Index

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

1. the discount rate has been decreased by 0.8% to reflect a decrease in the yields available on AA-rated Corporate Bonds;
2. the assumed rate of future inflation has decreased by 0.3% and reflects expectations of long-term inflation as implied by changes in the fixed-interest and index-linked gilts market; and
3. the assumed rates of future increases to pensions in payment have decreased by 0.2% for both schemes, consistent with the assumed rate of future inflation.

Over the year the demographic assumptions adopted remain unchanged, other than updating the CMI model used to project future improvements in mortality from the 2017 version to the 2018 version.

The assumed duration of the liabilities for the Laurence Keen Scheme is 19 years (2018: 17 years) and the assumed duration for the Rathbone 1987 Scheme is 22 years (2018: 21 years).

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S2NA actuarial tables (2018: S2NA tables). The assumed life expectations on retirement were:

		2019		2018	
		Males	**Females**	Males	Females
Retiring today:	aged 60	**27.9**	**30.0**	28.4	30.5
	aged 65	**23.1**	**25.1**	23.6	25.6
Retiring in 20 years:	aged 60	**29.7**	**31.9**	30.3	32.3
	aged 65	**24.7**	**26.9**	25.3	27.3

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

	2019			2018		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Present value of defined benefit obligations	**(12,726)**	**(146,398)**	**(159,124)**	(12,383)	(134,150)	(146,533)
Fair value of scheme assets	**12,178**	**138,932**	**151,110**	11,624	123,712	135,336
Net defined benefit liability	**(548)**	**(7,466)**	**(8,014)**	(759)	(10,438)	(11,197)

12 *Long-term employee benefits continued*

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

	2019 Laurence Keen Scheme £'000	2019 Rathbone 1987 Scheme £'000	2019 Total £'000	2018 Laurence Keen Scheme £'000	2018 Rathbone 1987 Scheme £'000	2018 Total £'000
Net interest on net liability	15	240	255	14	352	366
Past service cost	–	–	–	125	–	125
	15	240	255	139	352	491

Remeasurements of the net defined benefit liability have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £1,380,000 (2018: £280,000 fall) for the Laurence Keen Scheme and a rise in value of £18,357,000 (2018: £6,279,000 fall) for the Rathbone 1987 Scheme.

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

	2019 Laurence Keen Scheme £'000	2019 Rathbone 1987 Scheme £'000	2019 Total £'000	2018 Laurence Keen Scheme £'000	2018 Rathbone 1987 Scheme £'000	2018 Total £'000
At 1 January	12,383	134,150	146,533	12,980	151,133	164,113
Service cost (employer's part)	–	–	–	–	–	–
Interest cost	336	3,739	4,075	334	3,879	4,213
Contributions from members	–	–	–	–	–	–
Actuarial experience gains	10	121	131	106	(5,446)	(5,340)
Actuarial (gains)/losses arising from:						
– demographic assumptions	(293)	(3,243)	(3,536)	103	1,817	1,920
– financial assumptions	1,452	17,560	19,012	(487)	(7,720)	(8,207)
Past service cost	–	–	–	125	–	125
Benefits paid	(1,162)	(5,929)	(7,091)	(778)	(9,513)	(10,291)
At 31 December	12,726	146,398	159,124	12,383	134,150	146,533

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

	2019 Laurence Keen Scheme £'000	2019 Rathbone 1987 Scheme £'000	2019 Total £'000	2018 Laurence Keen Scheme £'000	2018 Rathbone 1987 Scheme £'000	2018 Total £'000
At 1 January	11,624	123,712	135,336	12,278	136,235	148,513
Remeasurement of net defined benefit liability:						
– interest income	321	3,499	3,820	320	3,527	3,847
– return on scheme assets (excluding amounts included in interest income)	1,059	14,858	15,917	(600)	(9,806)	(10,406)
Contributions from the sponsoring companies	336	2,792	3,128	404	3,269	3,673
Contributions from scheme members	–	–	–	–	–	–
Benefits paid	(1,162)	(5,929)	(7,091)	(778)	(9,513)	(10,291)
At 31 December	12,178	138,932	151,110	11,624	123,712	135,336

The statements of investment principles set by the trustees of both schemes were revised in 2015. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between growth assets (primarily equities) and safer assets (gilts, index-linked gilts, corporate bonds and other fixed income investments) with a switch to a greater percentage of safer assets over time as the schemes mature.

In the Rathbone 1987 Scheme, the target date for the 100% allocation to safer assets is 31 December 2048. The scheme also seeks to hedge around 50% of its interest rate and inflation risk by using Liability Driven Investment (LDI) strategies.

In the Laurence Keen Scheme the target date for the 100% allocation to safer assets is 31 December 2040.

12 *Long-term employee benefits continued*

The expected asset allocations at 31 December 2019 as set out in the statements of investment principles are as follows:

Target asset allocation at 31 December 2019	**Laurence Keen Scheme**	**Rathbone 1987 Scheme**
Benchmark		
Safer assets	**58%**	**46%**
Growth assets	**42%**	**54%**
Range		
Safer assets	**52% - 64%**	**40% - 52%**
Growth assets	**36% - 48%**	**48% - 60%**

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

Laurence Keen Scheme	**2019 Fair value £'000**	2018 Fair value £'000	**2019 Current allocation %**	2018 Current allocation %
Equity instruments:				
– United Kingdom	**3,320**	3,007		
– Eurozone	**408**	377		
– North America	**696**	588		
– Other	**704**	734		
	5,128	4,706	**42**	40
Debt instruments:				
– United Kingdom government bonds	**4,693**	4,475		
– Overseas corporate bonds	**158**	–		
– United Kingdom corporate bonds	**1,847**	1,993		
	6,698	6,468	**55**	56
Cash	**79**	84	**1**	1
Other	**273**	366	**2**	3
At 31 December	**12,178**	11,624	**100**	100

Rathbone 1987 Scheme	**2019 Fair value £'000**	2018 Fair value £'000	**2019 Current allocation %**	2018 Current allocation %
Equity instruments:				
– United Kingdom	**42,518**	34,367		
– Eurozone	**6,769**	6,110		
– North America	**9,492**	8,958		
– Other	**8,887**	7,081		
	67,666	56,516	**48**	45
Debt instruments:				
– United Kingdom government bonds	**37,184**	36,055		
– Overseas government bonds	**1,324**	2,042		
– United Kingdom corporate bonds	**11,198**	8,809		
– Overseas corporate bonds	**–**	–		
	49,706	46,906	**36**	38
Derivatives:				
– Interest rate swap funds	**14,615**	15,734		
	14,615	15,734	**11**	13
Cash	**6,945**	4,556	**5**	4
Other	**–**	–	**–**	–
At 31 December	**138,932**	123,712	**100**	100

12 *Long-term employee benefits continued*

During 2019, the Rathbone 1987 Scheme held shares in real time inflation-linked interest rate swap funds, which had a fair value of £14,615,000 at the year end (2018: £15,734,000). The value of these investments is expected to increase when the value of the scheme's liabilities increase (and vice versa). They therefore act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation. The funds are selected so that their average duration is intended to broadly align with the duration of the scheme's liabilities.

All equity and debt instruments have quoted prices in active markets. The majority of government bonds are issued by governments of the United Kingdom, the United States of America and Germany all of which are rated AAA, AA+ or AA, based on credit ratings awarded by Fitch Ratings Limited (Fitch) or Moody's as at the balance sheet date. Other scheme assets comprise commodities and property funds, both of which also have quoted prices in active markets.

The key assumptions affecting the results of the valuation are the discount rate, future inflation, mortality, the rate of members transferring out and the average age at the time of transferring out. In order to demonstrate the sensitivity of the results to these assumptions, the actuary has recalculated the defined benefit obligations for each scheme by varying each of these assumptions in isolation whilst leaving the other assumptions unchanged. For example, in order to demonstrate the sensitivity of the results to the discount rate, the actuary has recalculated the defined benefit obligations for each scheme using a discount rate that is 1.0% higher (and lower) than used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations are set out below. As a result of the change in the discount rate during the year, the sensitivity analysis demonstrates the impact of a 1.0% change in discount rate, compared to a 0.5% change in the disclosures in the 2018 report and accounts.

	Combined impact on schemes' liabilities	
	(Decrease)/ increase £'000	(Decrease)/ increase %
1.0% increase in:		
– discount rate	(28,701)	(18.0%)
0.5% increase in:		
– rate of inflation	10,015	6.3%
Reduce allowance for future transfers to nil	1,417	0.9%
1 year increase to:		
– longevity at 60	7,167	4.5%
– average age of members at the time of transferring out	708	0.4%

The total contributions made by the group to the Rathbone 1987 Scheme during the year were £2,792,000 (2018: £3,269,000). The group has committed to pay deficit reducing contributions of £1,750,000 by 28 February each year from 2020 to 2022 (inclusive) and a further £1,000,000 by 31 August in each of those years, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2019.

The total contributions made by the group to the Laurence Keen Scheme during the year were £336,000 (2018: £404,000). The group has a commitment to pay deficit reducing contributions of £168,000 by 28 February each year from 2020 to 2021 (inclusive) and a further £168,000 by 31 August in each of those years, so long as that scheme remains in deficit.

No allowance has been made for a minimum funding requirement under IFRIC 14. The funding plans only require further contributions if the schemes remain in deficit.

13 Fair values

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Fair value through profit or loss:				
– equity securities	**4,587**	**–**	**1,186**	**5,773**
– money market funds	**–**	**100,194**	**–**	**100,194**
	4,587	**100,194**	**1,186**	**105,967**

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	3,205	–	1,259	4,464
– money market funds	–	75,333	–	75,333
	3,205	75,333	1,259	79,797

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2018: none).

The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

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

- Investment debt securities measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2019 was £604,462,000 (2018: £911,190,000) and the carrying value was £600,291,000 (2018: £907,259,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2019 was £21,302,000 (2018: £20,217,000) and the carrying value was £19,927,000 (2018: £19,807,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

14 Earnings per share

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

	2019 Pre-tax £'000	2019 Taxation £'000	2019 Post-tax £'000	2018 Pre-tax £'000	2018 Taxation £'000	2018 Post-tax £'000
Underlying profit attributable to shareholders	**88,673**	**(17,535)**	**71,138**	91,558	(17,388)	74,170
Charges in relation to client relationships and goodwill (note 10)	**(15,964)**	**3,033**	**(12,931)**	(13,188)	2,506	(10,682)
Acquisition-related costs (note 7)	**(33,057)**	**1,773**	**(31,284)**	(19,925)	289	(19,636)
Head office relocation costs	**–**	**–**	**–**	2,861	(544)	2,317
Profit attributable to shareholders	**39,652**	**(12,729)**	**26,923**	61,306	(15,137)	46,169

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 53,566,271 (2018: 52,050,979).

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

	2019	2018
Weighted average number of ordinary shares in issue during the year – basic	**53,566,271**	52,050,979
Effect of ordinary share options/Save As You Earn	**97,495**	148,564
Effect of dilutive shares issuable under the Share Incentive Plan	**570**	474
Effect of contingently issuable shares under the Executive Incentive Plan	**574,393**	375,759
Effect of contingently issuable shares under S&J initial share consideration (note 6)	**1,006,522**	1,006,522
Diluted ordinary shares	**55,245,251**	53,582,298

	2019	2018
Earnings per share for the year attributable to equity holders of the company:		
– basic	**50.3p**	88.7p
– diluted	**48.7p**	86.2p
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**132.8p**	142.5p
– diluted	**128.8p**	138.4p

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

15 Related party transactions

Transactions with key management personnel

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

Gains on options exercised by directors during the year totalled £7,000 (2018: £19,000).

	2019 £'000	2018 £'000
Short term employee benefits	**14,176**	12,434
Post-employment benefits	**296**	184
Other long term benefits	**2,695**	2,934
Share-based payments	**3,408**	5,640
	20,575	21,192

Dividends totalling £95,000 were paid in the year (2018: £247,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2019, the group had outstanding interest-free season ticket loans of £nil (2018: £nil) issued to key management personnel.

At 31 December 2019, key management personnel and their close family members had gross outstanding deposits of £636,000 (2018: £778,000) and gross outstanding banking loans of £nil (2018: £nil), all of which (2018: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

Other related party transactions

The group's transactions with the pension funds are described in note 12. At 31 December 2019, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2018: £nil).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2019, the group managed 27 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2018: 27 unit trusts and OEICs).

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

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

Year ended 31 December	2019 £'000	2018 £'000
Total management fees	**40,111**	37,608

As at 31 December	2019 £'000	2018 £'000
Management fees owed to the group	**3,904**	3,629
Holdings in unit trusts	**4,587**	3,205
	8,491	6,834

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

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

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

16 Consolidated statement of cash flows

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

	2019 £'000	2018 £'000
Cash and balances at central banks	**1,930,000**	1,197,001
Loans and advances to banks	**117,839**	136,203
Fair value through profit or loss investment securities	**100,194**	75,333
At 31 December	**2,148,033**	1,408,537

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

Cash flows arising from the (repurchase)/issue of ordinary shares comprise:

	2019 £'000	2018 £'000 (restated - note 2)
Share capital issued	**58**	194
Share premium on shares issued	**5,666**	62,184
Merger reserve on shares issued	**14,971**	24,950
Shares issued in relation to share-based schemes for which no cash consideration was received	**(15,001)**	(25,000)
Shares issued in relation to share buybacks	**(10,034)**	(4,888)
	(4,340)	57,440

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

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2019 (restated)	**19,807**	**208,033**	**24,048**	**232,059**	**483,947**
Changes from financing cash flows					
Proceeds from issue of share capital	**–**	**5,694**		**–**	**5,694**
Proceeds from sale of treasury shares	**–**	**–**	**(9,234)**	**(799)**	**(10,033)**
Dividends paid	**–**	**–**	**–**	**(35,959)**	**(35,959)**
Total changes from financing cash flows	**–**	**5,694**	**(9,234)**	**(36,758)**	**(40,298)**
The effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**
Other changes					
Liability-related					
Interest expense	**1,291**	**–**	**–**	**–**	**1,291**
Interest paid	**(1,171)**	**–**	**–**	**–**	**(1,171)**
Total liability-related changes	**120**	**–**	**–**	**–**	**120**
Total equity-related other changes	**–**	**30**	**14,971**	**46,550**	**61,551**
At 31 December 2019	**19,927**	**213,757**	**29,785**	**241,851**	**505,320**

16 *Consolidated statement of cash flows continued*

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2018	19,695	145,655	26,971	198,947	391,268
Changes from financing cash flows					
Proceeds from issue of share capital (restated - note 2)	–	62,378	24,950	–	87,328
Proceeds from sale of treasury shares	–	–	(27,873)	(2,015)	(29,888)
Dividends paid	–	–	–	(32,691)	(32,691)
Total changes from financing cash flows	–	62,378	(2,923)	(34,706)	24,749
The effect of changes in foreign exchange rates	–	–	–	–	–
Changes in fair value	–	–	–	–	–
Other changes					
Liability-related					
Interest expense	1,283	–	–	–	1,283
Interest paid	(1,171)	–	–	–	(1,171)
Total liability-related changes	112	–	–	–	112
Total equity-related other changes	–	–		67,818	67,818
At 31 December 2018 (restated)	19,807	208,033	24,048	232,059	483,947

17 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.

18 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 2019 or 2018. Statutory financial statements for 2018 have been delivered to the Registrar of Companies. Statutory financial statements for 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2018 and 2019 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

19 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 2019 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.

Independent auditor's report to the shareholders of Rathbone Brothers PLC on the preliminary announcement of Rathbone Brothers PLC

As the independent auditor of Rathbone Brothers PLC we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Rathbone Brothers PLC's preliminary announcement statement of annual results for the period ended 31 December 2019.

The preliminary statement of annual results for the period ended 31 December 2019 includes:

- Disclosures required by the Listing Rules
- Chairman's statement
- Chief executive's review
- Overview of financial performance
- Consolidated statement of comprehensive income
- Consolidated statement of changes in equity
- Consolidated balance sheet
- Consolidated statement of cash flows; and
- Notes to the preliminary announcement.

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

The directors of Rathbone Brothers PLC are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

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

Status of our audit of the financial statements

Our audit of the annual financial statements of Rathbone Brothers PLC is complete and we signed our auditor's report on 19 February 2020. Our auditor's report is not modified and contains no emphasis of matter paragraph.

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

Impairment of client relationship intangibles and goodwill

Key audit matter description

The group holds client relationship intangibles of £124.5m (2018: £134.6m) and goodwill of £90.4m (2018: £91.0m), comprising both relationships acquired through business combinations and those through acquisition of individual investment managers and their client portfolios.

As detailed in the summary of principal accounting policies in note 1 and note 24 (included within note 10 to this announcement) to the financial statements, client relationships are reviewed for indicators of impairment at each balance sheet date and, if an indicator of impairment exists, an impairment test is performed. Goodwill is tested for impairment at least annually, whether or not indicators of impairment exist.

For client relationship intangibles, in determining the appropriate impairment triggers for each portfolio, there is a degree of significant management judgement. This assessment is based on movements in the value of funds under management and the loss of client relationships in advance of the amortisation period.

For goodwill, the impairment assessment is performed by comparing the carrying amount of each cash generating unit ("CGU") to its recoverable amount from its value-in-use, calculated using a discounted cash flow method. In determining the value-in-use for the CGUs management is required to make assumptions in relation to an appropriate income growth rate, expenditure growth rate and the discount rate. Management must also make a judgement on the CGUs that are appropriate to recognise.

How our audit responded to this key audit matter

We evaluated the design and implementation of the key controls in relation to the impairment review process for client relationship intangibles for both acquired portfolios and individual relationships and for goodwill. We assessed the design and implementation and tested the operating effectiveness of the controls in place over FUM values which form the basis of the impairment assessment.

Independent auditor's report to the shareholders of Rathbone Brothers PLC on the preliminary announcement of Rathbone Brothers PLC continued

For client relationship intangibles, we specifically tested the calculations prepared by management as part of the impairment review exercise to assess whether they meet the requirements of IAS 36 "Impairment of Assets" and that the relevant assumptions and judgements made were appropriate. We agreed a sample of FUM for capitalised client relationships through to third party sources. We challenged the completeness and appropriateness of the impairment trigger thresholds used by management and independently considered whether there is indication of an impairment event as at the year-end.

For goodwill, we challenged the completeness of the CGU's identified by management through independently assessing what CGU's should be recognised, in line with IAS 36. In order to challenge the appropriateness of the income and expenditure growth assumptions used in the value-in-use calculation, we have back-tested the assumptions used by management against historical performance and challenged the appropriateness of forward looking assumptions, checking consistency with forecasts used elsewhere in the business.

We independently challenged the determination of the discount rate applied by benchmarking to appropriate market rates of interest.

We have also performed sensitivity analysis to assess the risk that reasonably possible changes in assumptions used by management could give rise to an impairment and if relevant, ensured that appropriate disclosures are provided in the notes to the financial statements.

Furthermore, we have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for client relationship intangibles and goodwill.

Key observations

For client relationship intangibles, through our testing, we concluded that no impairment was required.

As set out in note 24 to the financial statements (included within note 10 to this announcement), based on our challenge, management updated their methodology for defining a CGU during the year. Following this update, through our testing, we concluded that no impairment of goodwill was required given the amount of headroom available against the carrying value.

We observed that the underlying assumptions applied by management in determining whether any impairment of client relationship intangibles or goodwill should be recognised are conservative.

Defined benefit pension scheme liability

Key audit matter description

The group has recognised a net defined benefit pension scheme liability of £8.0m (2018: £11.2m). The net liability comprises assets of £151.1m (2018: £135.3m) and liabilities of £159.1m (2018: £146.5m).

The calculation of the liability is sensitive to changes in underlying assumptions and is considered to be a key source of estimation uncertainty for the group as detailed in note 3 and disclosed in note 31 to the financial statements (included within notes 4.2 and 12 to this announcement).

The key assumptions are in respect of the discount rate, inflation rate and mortality rate where small changes to these assumptions could result in a material change to the valuation of the pension scheme liability.

How our audit responded to this key audit matter

In order to evaluate the appropriateness of the assumptions used by management, we assessed the design and implementation of controls over the appropriate determination of assumptions and the calculation of the liability to be recognised in the financial statements.

With the involvement of our in-house actuarial specialists, we made direct enquiries of the group's actuary to review and challenge each of the key assumptions used in the IAS 19 ("Employee Benefits") pension valuation. In particular, we compared each assumption used by management against independently determined benchmarks derived using market and other data.

Key observations

We concluded that each of the assumptions used by management to estimate the defined benefit pension scheme liability are consistent with the requirements of IAS 19 and fall within the middle of a reasonable range when compared to our internal benchmarks.

Investment management ("IM") fee revenue

Key audit matter description

As detailed in the summary of principal accounting policies in note 1 and in note 4 (included within note 5 to this announcement) to the financial statements, operating income comprises net investment management fee income of £260.2m (2018: £233.4m), net commission income of £51.1m (2018: £41.4m), net interest income of £16.4m (2018: £15.3m) and fees from advisory services and other income of £20.4m (2018: £21.8m).

Independent auditor's report to the shareholders of Rathbone Brothers PLC on the preliminary announcement of Rathbone Brothers PLC continued

Investment management fees from the IM segment account for approximately 64% of total operating income and are based on a percentage of an individual client's funds under management ("FUM"). Due to its many long standing client relationships and history of acquisitions, the number of fee schedules managed by the group is high. This means that fee amendments can require a degree of manual intervention.

During the year ended 31 December 2018, the group acquired a new subsidiary, Speirs & Jeffrey Limited, also an investment management company. The clients of Speirs & Jeffrey Limited have been migrated onto Rathbones core platform.

As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, incorrect rates could be used to calculate management fees, or that manual amendments are inaccurate, incomplete or invalid.

How our audit responded to this key audit matter

We evaluated the design and implementation and tested the operating effectiveness of controls over the calculation of investment management fees. This included controls relating to the set-up of client fee rates, rate card amendments, the valuation of FUM and the system generated investment management fees, including associated IT controls.

We used data analytics to recalculate the system generated amount for the total fee population. We agreed a sample of client fee rates through to client contracts and the value of FUM to third party sources.

We inspected evidence of authority and rationale for a sample of manual amendments made to system generated fees.

We also performed specific testing on the migration of Speirs & Jeffrey Limited clients onto the Rathbones core platform, to check that their fees were calculated in line with their contractual terms.

Key observations

We concluded that the investment management fee revenue is appropriately recognised for the year ended 31 December 2019.

Speirs and Jeffrey Deferred consideration

Key audit matter description

On 31 August 2018, the group acquired a 100% equity interest in Speirs & Jeffrey Limited ("Speirs & Jeffery").

The consideration includes a variable element which is dependent on certain operational and financial targets linked to the value of Speirs & Jeffrey FUM which is determined to be "Qualifying" under the terms of the sale and purchase agreement. The determination of the total deferred consideration will be set based on the qualifying FUM as at 31 December 2020 and 31 December 2021. If qualifying FUM does not exceed £4.5bn no deferred consideration is payable.

The estimate of what the level of qualifying FUM will be requires significant management judgement. The assumptions underpinning this estimate are considered to be a key source of estimation uncertainty for the Group, as detailed in note 3 and disclosed in note 9 to the financial statements (included within notes 4.3 and 6 to this announcement).

The expected pay-out of the consideration is accrued over the period from acquisition up until pay-out in 2022, therefore spreading the P&L charge over this period.

At each reporting date, management update their estimate of the expected pay-out of the consideration and prospectively adjust the P&L charge. As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, management's estimate of the expected pay-out of the consideration at each financial reporting date may be materially misstated.

How our audit responded to this key audit matter

We evaluated the design and implementation of key controls over the determination of the key assumptions in the FUM conversion model.

We held targeted meetings with management and key personnel within the business, including a sample of Investment Managers, to challenge the appropriateness of the qualifying FUM estimate.

We challenged the consistency and validity of management's estimate by checking it was consistent with forecasts used elsewhere in the business.

We have also performed focussed benchmarking against the investment management market, in order to challenge the potential impact of external factors on achieving management's estimate of qualifying FUM.

We independently re-performed the calculation of the estimate for deferred consideration and we assessed the appropriateness of the related disclosures including the sensitivity assumptions for the range of estimates included in the disclosure.

Independent auditor's report to the shareholders of Rathbone Brothers PLC on the preliminary announcement of Rathbone Brothers PLC continued

Key observations

The determination of the deferred consideration that could be payable is a critical accounting estimate. We concluded that the assumptions used by management to estimate the expected level of qualifying FUM as at 31 December 2020 and 2021 are reasonable as at the current reporting date.

As more experience and empirical data becomes available during 2020, these assumptions may need to be updated. The disclosure in respect of this critical accounting estimate for deferred consideration payable, as set out in note 3.3 to the financial statements (included within note 4.3 to this announcement), shows the sensitivity, for each £100m movement in qualifying FUM, to the eventual amount that could be payable.

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

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Rathbone Brothers PLC we carried out the following procedures:

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

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

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

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

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

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

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

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Manbhinder Rana FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

19 February 2020