Company No. 01448919

Rathbone Investment Management Limited

Annual report and financial statements

for the year ended 31 December 2018

Contents

Strategic report

This Strategic report has been prepared to provide a balanced picture of Rathbone Investment Management Limited's ("the Company") business and prospects, without prejudicing the confidential nature of commercially sensitive information.

It 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 these financial statements. Statements contained within the Strategic report should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. The Strategic report has been prepared by the Company to provide information to its shareholder, Rathbone Brothers Plc ("Rathbones"), and should not be relied upon by any other party or for any other purpose.

Principal activity

The principal activity of the Company during the year was the provision of personal discretionary investment management solutions to private clients with investible assets of £100,000 upwards. Clients of this service can expect:

- direct access to their investment manager;
- an investment manager that understands their requirements and agrees a strategy that meets their objectives; and
- an investment process that aims to provide risk-adjusted returns to meet their needs today and in the future.

The Company provides several specialist capabilities including;

- *Charities* – the Company's charities business aims to deliver a suitably tailored investment portfolio to meet the specific needs of charity clients and trustees; and
- *Rathbone Greenbank* - Rathbone Greenbank manages investments in ethical and socially responsible investment portfolios for private clients, charities and trusts.

The Company also offers a range of complementary services, including;

- *Banking and loan services* – the Company offers loans to its existing clients secured against their investment portfolios and, in some cases, other assets. As a licensed deposit taker, the Company is also able to offer its clients a range of banking services including currency and payment services, and fixed interest term deposits. These additional services are valued by the Company's clients and are an important point of differentiation from many of the Company's peers;
- *Financial planning* – the Company offers in-house financial planning, which provides 'whole of market' advice to clients. The Company's in-house financial planners are experts at thinking ahead and have long-standing experience of advising individuals, couples and families, companies and trusts and can act on a one-off basis or as part of an ongoing service;
- *Utilised Portfolio Services* - Using Rathbone Multi Asset Portfolio Funds, the Company offers clients with investible assets of £25,000 or more, model-based discretionary investment management services. This is designed for clients who do not require a fully bespoke investment solution, but still want access to an investment manager who will undertake suitability to ensure investment needs are selected and monitored to suit their individual circumstance, as well as ensuring that their investments are managed in a tax-efficient manner; and
- *Managed Portfolio Service* - A simple and straightforward execution-only investment service which gives clients with £15,000 or more the ability to access high-quality investments. The service is delivered at a price that reflects the competitive nature of the Company's sector, but to a standard that clients have come to expect from Rathbones.

Results and financial highlights

The Company's results in 2018 were reasonably strong. The Company's total funds under management decreased 4.4% to £32.4 billion at 31 December 2018 (31 December 2017: £33.9 billion) as a result of considerable falls in asset levels in the final quarter of 2018 as markets reacted to growing economic and political uncertainty. This was reflected in profit before tax, which fell by 6.2% to £59.0 million.

Key performance indicators

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

Key performance indicators continued

Year-on-year changes in the key performance indicators for the Company are shown in table 1, below:

Table 1. Key performance indicators

	2018	2017
Funds under management at 31 December[1]	£32.4bn	£33.9bn
Underlying rate of net organic growth in funds under management[1]	2.1%	2.7%
Underlying rate of total net growth in funds under management[1]	2.4%	3.7%
Average net operating basis point return[2]	71.7bps	71.4bps
Operating profit margin[3]	23.6%	26.1%
Number of investment management clients	51,000	49,000
Number of investment managers	280	269

1 See table 2

2 See table 5

3 See table 3

During 2018, the Company has continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from approximately 49,000 in 2017 to approximately 51,000. In 2018, the total number of investment managers increased to 280 at 31 December 2018 from 269 at the end of 2017.

Funds under management

Funds under management decreased by 4.4% to £32.4 billion at 31 December 2018 from £33.9 billion at the start of the year.

The movement in funds under management is analysed below:

Table 2. Funds under management

	2018 £bn	2017 £bn
As at 1 January	33.9	30.1
Inflows	3.1	3.2
– organic[1]	3.0	2.9
– acquired[2]	0.1	0.3
Outflows[1]	(2.3)	(2.1)
Market adjustment[3]	(2.3)	2.7
As at 31 December	32.4	33.9
Net organic new business[4]	0.7	0.8
Underlying rate of net organic growth[5]	2.1%	2.7%
Underlying rate of total net growth[6]	2.4%	3.7%

1 Value at the date of transfer in/(out)

2 Value at 31 December

3 Represents the impact of market movements and investment performance

4 Organic inflows less outflows

5 Net organic new business as a % of opening funds under management

6 Net organic new business and acquired inflows as a % of opening funds under management

Net organic growth in the Company was 2.1% (2017: 2.7%). This was below the 5% target the Company aimed for, reflecting the headwinds of a sustained period of low yields and a continuing client appetite to invest away from public investment markets and to transfer wealth to younger generations. Outflows of funds under management during the year were 6.8% of the opening balance (2017: 7.0%).

In total, net organic and acquired growth added £0.8 billion to funds under management in 2018 (2017: £1.1 billion), representing an underlying rate of total net growth of 2.4% (2017: 3.7%).

Strategic report continued

Funds under management continued

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

Against this backdrop, the average investment return across all Investment Management client portfolios slightly outperformed the WMA index by 0.2%. This outperformance was largely driven by UK equities, which have benefitted from the weakness in Sterling, and more defensive alternative asset classes such as UK property and gold. Overall performance against other competitor indices, such as the Private Client Indices published by ARC, was robust.

Financial performance

Table 3. Financial performance

	2018 £m	2017 £m
Net fee income[1]	189.2	182.7
Net commission income	37.2	38.7
Net interest income[2]	14.2	10.8
Other income	9.6	8.4
Net operating income	250.2	240.6
Operating expenses[3]	(191.2)	(177.7)
Profit before tax	59.0	62.9
Operating margin[4]	23.6%	26.1%

1 Net fee income is stated after deducting fees and commission expenses paid to introducers

2 Presented net of interest expense paid on client accounts

3 See table 6

4 Profit before tax divided by net operating income

Net fee income increased by 3.6% (2017: 16.1%) from £182.7 million to £189.2 million in 2018, benefiting from positive markets for most of the year as well as organic and acquired growth in funds under management. Fees are applied to the value of funds at our quarterly charging dates. Average funds under management on these billing dates in 2018 were £33.6 billion up 3.4% from 2017.

Table 4. Average funds under management

	2018 £bn	2017 £bn
Valuation dates for billing		
– 5 April	32.7	31.4
– 30 June	34.4	32.0
– 30 September	34.8	32.6
– 31 December	32.4	33.9
Average[1]	33.6	32.5
Average FTSE 100 level[1]	7269	7426

1 Calculated as the sum of the values at each quarter-end charging date divided by four.

In 2018, net commission income was £37.2 million, a decrease of £1.5 million (3.9%) on 2017 (2017: £38.7m), reflecting the continued trend towards our fee only tariff as well as challenging investment markets.

Net interest income increased 31.5% to £14.2 million in 2018 as a result of higher interest rates during 2018, coupled with an increase in both the average maturity of the treasury book and the level of exposure to higher yielding asset classes. Cash held at the Bank of England reduced from £1.38 billion at 31 December 2017 to £1.20 billion at the end of 2018.

The Company's loan book grew to £131.7 million by the end of the year (2017: £120.5 million) and contributed £3.5 million to net interest income in 2018 (2017: £3.1 million). Included in net interest income is £1.3 million (2017: £1.3 million) of interest payable on the Tier 2 notes, which are callable in August 2020 (note 26 to the financial statements).

Financial performance continued

The basis point return earned on average funds under management in 2018 increased by 0.3 bps to 71.7 bps from 71.4 bps in 2017, as shown in table 5 below. This largely reflects higher interest margins following the increase in base rates.

Table 5. Revenue margin

	2018 bps	2017 bps
Basis point return[1] from:		
- fee income	56.4	56.2
- commission	11.1	11.9
- interest	4.2	3.3
Basis point return on funds under management	71.7	71.4

1 Net operating income excluding other income (see table 3), and interest payable on Tier 2 notes issued, divided by the average funds under management on the quarterly billing dates (see table 4)

Underlying operating expenses for 2018 were £191.2 million, compared to £177.7 million in 2017, an increase of 7.6%. This is detailed in table 6 below:

Table 6. Operating expenses

	2018 £m	2017 £m
Staff costs		
– fixed	81.3	74.5
– variable	31.9	36.5
Total staff costs	113.2	111.0
Other operating expenses	78.0	66.7
Operating expenses	191.2	177.7
Cost/income ratio[1]	76.4%	73.9%

1 Operating expenses divided by net operating income (see table 3)

Fixed staff costs of £81.3 million increased by 9.1% year-on-year, principally reflecting a 9.3% increase in average headcount and salary inflation.

Variable staff costs of £36.5 million in 2017 include £5.1 million for the cost of variable awards for new teams who had been in situ for longer than 12 months. Following the adoption of IFRS 15, such costs are now capitalised (see note 3 to the financial statements). Excluding these costs from 2017, variable staff costs increased by 1.6% to £31.9 million in 2018, reflecting the introduction of the Staff Equity Plan in May 2018.

Other operating expenses of £78.0 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £11.3 million (16.9%) reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.

Brexit

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

For these reasons, the Company continues to monitor Brexit-related developments closely. As a UK business with no operations in other European Union countries, no material dependencies on goods or people from other European Union countries and a predominantly UK client base, the Company anticipates that the operational impacts on its business will be relatively small. In particular Brexit will bring no changes to the basis or nature of the services that the Company provides to the vast majority of its clients and investors who are based in the UK.

The Company is continuing to monitor the potential consequences of Brexit very closely and is conscious that the position has the potential to change and raise unexpected challenges and implications, possibly extending to its supply chain. For the reasons stated above, the Company recognises the impact of Brexit more generally could affect the value of its funds under management which could, in turn, affect the Company's income levels.

Strategic report continued

Taxation

The corporation tax charge for 2018 was £11.2 million (2017: £12.0 million) and represents an effective tax rate of 19.0% (2017: 19.0%). A full reconciliation of income tax expense is included in note 11 to the financial statements.

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

Capital management

The Company has accounting capital, which is the total of share capital, share premium and retained earnings, as at 31 December 2018 of £275.4 million (2017: £269.5 million). Further details of the Company's capital management objectives and regulatory capital resources are set out in note 29 to the financial statements.

Total assets

Total assets at 31 December 2018, as shown on the balance sheet on page 16, were £2.6 billion (2017: £2.6 billion), of which £1.3 billion (2017: £1.5 billion) are cash and cash equivalents as set out in note 32 to the financial statements.

Treasury assets

As a licensed deposit taker, the Company holds most of Rathbone Brothers Plc and fellow subsidiaries' surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis, excluding balances due to fellow Group undertakings, of £2.2 billion (2017: £2.2 billion), represented 6.8% of total funds under management at 31 December 2018 compared to 6.4% at the end of 2017. Cash held in client money accounts was £3.0 million (2017: £4.5 million).

The treasury department of the Company, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk as described in note 28 to the financial statements. The treasury department 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 or equivalent rating by Moody's and are regularly reviewed by the banking committee. During the year, the Company decreased the amount of treasury assets held with the Bank of England to £1.2 billion from £1.4 billion at 31 December 2017 and increased the balance invested in certificates of deposit with maturities of up to one year. Interest rates paid by those assets had increased during the year, enabling us to increase the interest margin earned whilst maintaining a consistent appetite for credit risk.

Loans to clients

Loans are provided as a service to investment management clients who have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in the Company's nominee name, typically 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. The Company's ability to provide such loans is a valuable additional service, for example, for clients that require bridging finance when moving home.

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

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. Intangible assets reported on the balance sheet also include purchased and developed software. At 31 December 2018, the total carrying value of intangible assets arising from acquired growth was £99.8 million (2017: £105.7 million). During the year, purchased client relationship intangible assets of £1.3 million were capitalised (2017: £2.7 million). No goodwill was acquired during 2018 (2017: £nil).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2018, including the impact of lost relationships, was £10.6 million (2017: £10.2 million).

Goodwill that arises from business combinations is not amortised, but is subject to a test for impairment at least annually. No goodwill was found to be impaired during 2017 or 2018.

Further details on the Company's intangible assets are provided in note 20 to the financial statements.

As described in note 3 to the financial statements, the adoption of IFRS 15 in the year required the Company to change the accounting policy for these awards. Historically, the cost of awards for funds introduced by investment managers who had been in situ for more than 12 months were charged to profit or loss (2017: £5.1 million). Under the new accounting standard, these amounts are also capitalised. Consequently, the opening balance of client relationship intangible assets was increased by £8.3 million.

Capital expenditure

Overall, capital expenditure of £11.0 million in 2018 was down £0.3 million compared to 2017, a fall of 2.7%. As planned, expenditure on software increased by £0.7 million as we continued with the IT change programme announced in 2017. These activities are expected to continue in to 2019 with a similar level of capital expenditure.

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

Strategic report continued

Risks and uncertainties

The factors which particularly impact the risk profile of the Company are outlined below.

Risks are assessed using a scoring system with each risk rated by assessing the likelihood of its occurrence in a five year period and the associated impact. A residual rating of high, medium, low or very low is then derived, taking into account an assessment of the internal control environment or insurance mitigation.

Financial risks

	Risk	Definition	Residual Rating I*	Residual Rating L*	How the risk arises	Key Mitigators
•	Credit	The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement.	High	Very low	This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients.	• Banking committee oversight. • Counterparty limits and credit reviews. • Treasury policy and procedures. • Active monitoring of exposures. • Annual Individual Capital Adequacy Assessment Process. • Client loan policy and procedures.
•	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.	High	Med	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.	• 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 & advice	The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios.	High	Med	This risk can arise through a failure to appropriately understand the wealth management needs of our clients and a failure to apply suitable advice or investment strategies.	• Investment governance and structured committee oversight. • Management oversight and segregated quality assurance and performance teams. • Performance measurement and attribution analysis. • Know your client (KYC) suitability processes. • Weekly investment management meetings. • Investment manager reviews through supervisor sampling. • Compliance monitoring.
•	Regulatory	The risk of failure by the Company to fulfil its regulatory requirements and comply with the introduction of new, or changes to the existing, regulation.	High	Med	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change.	• Board and executive oversight. • Active involvement with industry bodies. • Compliance monitoring to examine the control of key regulatory risks. • Separate anti-money laundering role with specific responsibility. • Oversight of industry and regulatory developments. • Documented policy and procedures. • Staff training and development.

*I = Impact, L = Likelihood

Risks and uncertainties continued

Operational risks

	Risk	Definition	Residual Rating I*	Residual Rating L*	How the risk arises	Key Mitigators
•	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.	High	Med	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.	• Executive and board oversight of material change programmes. • Dedicated function, use of internal and, where required, external subject matter experts. • Documented business plans and IT strategy. • Two-stage assessment, challenge and approval of project plans. • Documented project and change procedures.
•	Data integrity & security	The risk of a lack of integrity of, inappropriate access to, or disclosure of, client or company-sensitive information.	High	Med	This risk can arise from the Company 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.	• Data security committee oversight. • Data protection policy & procedures. • System access controls & encryption. • Penetration testing & multi-layer network security. • Training and employee awareness programmes. • Physical security.
•	People	The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives, or behaviour leading to complaints, regulatory action or litigation.	High	Med	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation.	• Executive oversight. • Succession and contingency planning. • Transparent, consistent and competitive remuneration schemes. • Contractual clauses with restrictive covenants. • Continual investment in staff training and development. • Employee engagement survey. • Appropriate balanced performance measurement system.

*I = Impact, L = Likelihood

Further detailed discussion of the Company's exposures to financial risks is included in note 28 to the financial statements.

Approved by the Board on 20 February 2019 and signed on its behalf:

P L Howell
Chief executive

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2018 for Rathbone Investment Management Limited.

Directors

The directors serving at the year end, all of whom have served throughout the year unless stated, were as follows:

M P Nicholls* (chairman)	J W Dean*	J N Pettigrew *
P L Howell (chief executive)	T L Duhon*	R P Stockton
C M Clark*	S F Gentleman*	

*Non-executive director

T L Duhon was appointed to the board on 2 July 2018. K A Matthews resigned from the board on 12 September 2018. C M Clark was appointed to the board on 24 October 2018.

On 27 November 2018, Rathbone Brothers Plc (the Company's ultimate parent undertaking) announced that Philip Howell intends to retire from its board by 9 May 2019. In light of this, Mr Howell also intends to retire as a director of the Company within a similar time-frame.

None of the directors had any interest in the shares of the Company at any time during the year.

Dividend

Dividends of £50.0 million (note 12) were paid to the shareholder during 2018 (2017: £40.0 million). The Board has not recommended that a final dividend be paid (2017: £nil).

Employees

All Group staff who provide services to the Company in the UK are employed by Rathbones, the Company's ultimate parent undertaking. The ultimate parent company operates share-based payment incentive schemes and defined benefit pension schemes for the benefit of its employees. The associated charges to profit or loss that relate to employees that provide services to the Company are recharged to the Company by its ultimate parent and are disclosed within operating expenses. The full disclosures relating to the share-based payments and defined benefit pension schemes are available in the Rathbones Brothers Plc Annual report and accounts for the year ended 31 December 2018.

Equality and diversity

Rathbones is an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation.

Rathbones policy and practice is to give full and fair consideration to applications for employment by disabled people. If employees become disabled during their service with Rathbones, wherever practical, arrangements are made to continue their employment and training.

Employee involvement

Communication with staff takes place through a variety of means including internal email and an internal newsletter. Employees have easy access to policies, procedures, organisation charts, announcements and Company news through a web-based shared workspace. Presentations to staff on full and half year Group results are given by Board members.

Auditor

The directors have decided to review the appointment of the Company's auditor and a resolution concerning the appointment will be proposed at Rathbones' Annual General Meeting. KPMG LLP have expressed their willingness to continue in office as auditor.

Going concern

The Company remains well capitalised and does not rely on the wholesale market to fund its operations. Note 29 to the financial statements include the Company's objectives and policies for managing its capital. Note 28 to the financial statements explains the Company's financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk.

In 2018, the Company continued to generate net organic growth in client funds under management and this is expected to continue in the future. The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

As the directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In forming their view, the directors have considered the Company's prospects, including the possible impact of Brexit on the Company's resources and operations, for a period exceeding 12 months from the date the financial statements are approved.

Post balance sheet events

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

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board on 20 February 2019 and signed on its behalf:

Ali Johnson
Company Secretary
Port of Liverpool Building
Pier Head
Liverpool
L3 1NW

Independent Auditor's report to the members of Rathbone Investment Management Limited

1 Our opinion is unmodified

We have audited the financial statements of Rathbone Investment Management Limited ("the Company") for the year ended 31 December 2018 which comprise the financial statements, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 9 June 2009. The period of total uninterrupted engagement is for the ten financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

(New) The impact of uncertainties due to UK exiting the European Union on our audit

Refer to page 4 (strategic report).

- ***The risk – Unprecedented levels of uncertainty***

  All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters below including considering the impairment of client relationship intangibles, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

  In addition, we are required to consider the other information presented in the Annual Report, including the risks and uncertainties disclosure, to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

  Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

- ***Our response***

In this area our procedures included:

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own assessment of the risks. We considered the directors' plans to take action to mitigate the risks.

- **Sensitivity analysis** – When addressing the key audit matter, being impairment of client relationship intangibles, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty.

- **Assessing transparency** – As well as assessing individual disclosures as part of our procedures on the key audit matter, being impairment of client relationship intangibles, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

- ***Our results*** – As reported under the key audit matter, being impairment of client relationship intangibles, we found the resulting estimates and related disclosures of the key audit matter and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Impairment of client relationship intangibles. Carrying amount of client relationship intangible asset £73,791,000 (2017: £79,732,000)

Risk vs 2017: ◄►

Refer to page 22 (accounting policy), page 28 critical accounting judgements and page 35 (financial disclosures).

The Company has capitalised significant amounts as client relationship intangibles, including both those purchased individually (initially recognised at cost) and those acquired as part of a business combination (initially recognised at fair value).

□ The risk – Accounting application in relation to impairment of client relationship intangibles

- For client relationship intangibles acquired as part of a business combination, the Company assesses whether there is an indication of impairment considering a range of impairment triggers. Where such an indication exists, the Company considers whether the ongoing benefits offered by the capitalised client relationship intangibles are greater than their carrying value and, if not, an impairment provision is recorded. There is a risk that a client relationship intangible was impaired but the Company did not record an impairment provision, because the impairment trigger remained undetected.

- For client relationship intangibles purchased individually, the Company assesses whether there is an indication of impairment by considering if the remaining economic benefits expected to be received is greater than the carrying value and, if not, an impairment provision is recorded. There is a risk that a client relationship intangible was impaired but the Company did not record an impairment provision.

- The effect of these matters is that, as part of our risk assessment, we determined that impairment of client relationship intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

- ***Our response***

In this area our procedures included:

Accounting application in relation to impairment of client relationship intangibles

— **Independent re-performance:** For the element of the client relationship intangibles previously capitalised under IFRS 3 Business Combinations we have critically assessed the Company's review of the client relationship intangibles against impairment triggers. We have assessed and re-performed the Company's impairment calculation and verified the data inputs such as value of funds under management and number of client accounts.

— **Tests of details:** In considering the adequacy of the impairment assessment performed by the Company to support the carrying value of client relationship intangibles previously capitalised, we assessed the population for closed client accounts or non-income generating clients to assess whether they were appropriately derecognised. We inspected client attrition rates and funds under management for evidence of impairment.

Assessing transparency: We have also considered adequacy of the Company's disclosure in respect of client relationship intangible assets.

Our results – We found the carrying value of client relationship intangibles to be acceptable.

Following the implementation of IFRS 15, which introduces guidance on capitalisation of contract costs, we have not assessed recognition of client relationship intangibles as one of the most significant risks in our current year audit and, therefore, it is not included as part of this key audit matter in this year's report.

3 Our application of materiality and an overview of the scope of our audit

A materiality of £2.9 million (2017: £3 million) has been applied to the audit of the Company. This represents 5% of the Company's profit before tax (2017: 4.8%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £160,000 (2017: £149,050), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's report to the members of Rathbone Investment Management Limited

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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

Nicholas Edmonds (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

20 February 2019

Statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest and similar income		**19,291**	12,569
Interest expense and similar charges		**(5,103)**	(1,809)
Net interest income	5	**14,188**	10,760
Fee and commission income		**229,105**	224,509
Fee and commission expense		**(2,702)**	(3,091)
Net fee and commission income		**226,403**	221,418
Intra-group management charges		**9,241**	8,225
Other operating income		**387**	212
Operating income	6	**250,219**	240,615
Amortisation of acquired client relationships	7	**(10,568)**	(10,248)
Head office relocation costs	8	**(791)**	(2,132)
Other operating expenses	7	**(179,848)**	(165,321)
Operating expenses	7	**(191,207)**	(177,701)
Profit before tax		**59,012**	62,914
Taxation	11	**(11,185)**	(11,964)
Profit after tax		**47,827**	50,950
Profit for the year attributable to equity holders of the Company		**47,827**	50,950
Other comprehensive income:			
Other comprehensive income for the year net of tax		**-**	-
Total comprehensive income for the year net of tax attributable to equity holders of the Company		**47,827**	50,950

The accompanying notes on pages 18 to 56 form an integral part of the financial statements.

Statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017		2,935	117,575	98,038	218,548
Total comprehensive income for the year		-	-	50,950	50,950
Dividends paid	12	-	-	(40,000)	(40,000)
Issue of share capital	27	445	39,555	-	40,000
At 31 December 2017		**3,380**	**157,130**	**108,988**	**269,498**
Adjustment on initial application of IFRS 9 (net of tax)	3	-	-	**(129)**	**(129)**
Adjustment on initial application of IFRS 15 (net of tax)	3	-	-	**8,204**	**8,204**
Adjusted balance at 1 January 2018		**3,380**	**157,130**	**117,063**	**277,573**
Total comprehensive income for the year		-	-	**47,827**	**47,827**
Dividends paid	12	-	-	**(50,000)**	**(50,000)**
At 31 December 2018		**3,380**	**157,130**	**114,890**	**275,400**

The accompanying notes on pages 18 to 56 form an integral part of the financial statements.

Balance sheet

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Cash and balances with central banks	13	**1,198,478**	1,375,381
Settlement balances		**13,715**	15,017
Loans and advances to banks	14	**105,041**	80,506
Loans and advances to customers	15	**154,891**	138,448
Investment securities:			
- fair value through profit and loss	16	**40,333**	-
- amortised cost	16	**907,225**	-
- available for sale	16	**-**	81,746
- held to maturity	16	**-**	701,966
Prepayments, accrued income and other assets	17	**55,673**	57,784
Property, plant and equipment	18	**15,629**	16,252
Net deferred tax asset	19	**3,790**	4,184
Intangible assets	20	**113,078**	115,948
Investments in subsidiary undertakings	21	**8,867**	8,867
Total assets		**2,616,720**	2,596,099
Liabilities			
Deposits by banks	22	**491**	1,337
Settlement balances		**19,077**	27,570
Due to customers	23	**2,291,006**	2,266,848
Accruals, deferred income, provisions and other liabilities	24	**7,521**	5,590
Current tax liabilities		**3,418**	5,560
Subordinated loan notes	26	**19,807**	19,696
Total liabilities		**2,341,320**	2,326,601
Equity			
Share capital	27	**3,380**	3,380
Share premium	27	**157,130**	157,130
Retained earnings		**114,890**	108,988
Total equity		**275,400**	269,498
Total liabilities and equity		**2,616,720**	2,596,099

The financial statements were approved by the board of directors and authorised for issue on 20 February 2019 and were signed on its behalf by:

P L Howell
Chief Executive

R P Stockton
Finance Director

Company registered number: 01448919

The accompanying notes on pages 18 to 56 form an integral part of the financial statements.

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit before tax		**59,012**	62,914
Net charge for provisions	25	**304**	211
Net interest income	5	**(14,229)**	(10,760)
Impairment losses on financial instuments	5	**41**	-
Profit on disposal of property, plant and equipment		**1**	-
Depreciation and amortisation	18 & 20	**18,886**	17,887
Foreign exchange movements	16	**(2,297)**	1,480
Interest paid		**(4,964)**	(1,728)
Interest received		**18,261**	12,256
		75,015	82,260
Changes in operating assets and liabilities:			
- net increase in loans and advances to banks and customers		**(12,909)**	(16,518)
- net decrease in settlement balance debtors		**1,302**	3,728
- net increase in prepayments, accrued income and other assets		**(514)**	(8,285)
- net increase in amounts due to customers and deposits by banks		**23,248**	264,980
- net (decrease)/increase in settlement balance creditors		**(8,493)**	2,585
- net increase/(decrease) in accruals, deferred income, provisions and other liabilities		**1,529**	(789)
Cash generated from operations		**79,178**	327,961
Tax paid		**(12,932)**	(13,290)
Net cash inflow from operating activities		**66,246**	314,671
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(7,126)**	(14,002)
Purchase of investment securities	16	**(1,050,084)**	(745,867)
Proceeds from sale and redemption of investment securities	16	**847,088**	742,421
Net cash used in investing activities		**(210,122)**	(17,448)
Cash flows from financing activities			
Issue of ordinary shares	27	**-**	40,000
Dividends paid	12	**(50,000)**	(40,000)
Net cash used in financing activities		**(50,000)**	-
Net (decrease)/increase in cash and cash equivalents		**(193,876)**	297,223
Cash and cash equivalents at the beginning of the year		**1,506,253**	1,209,030
Cash and cash equivalents at the end of the year	32	**1,312,377**	1,506,253

The accompanying notes on pages 18 to 56 form an integral part of the financial statements.

Notes to the financial statements

1 Reporting entity

The Company is a private company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the Company's registered office is Port of Liverpool Building, Pier Head, Liverpool L3 1NW. The nature of the Company's operations and its principal activities are set out in the Strategic report on page 1.

2 Basis of preparation and principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Company financial statements are presented on pages 14 to 56.

The Company has taken advantage of the exemption allowed by Section 400 of the Companies Act 2006 and has not prepared consolidated financial statements as it is a wholly owned subsidiary undertaking of Rathbone Brothers Plc, a company registered in England and Wales. Rathbone Brothers Plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Group accounts may be obtained from the Company Secretary, Rathbone Brothers Plc, 8 Finsbury Circus, London EC2M 7AZ. The financial statements present information about the Company as a single entity only.

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (as detailed in accounting policies below).

Developments in reporting standards and interpretations

<u>Standards and interpretations affecting the reported results or the financial position</u>

This is the first set of financial statements where IFRS 9 and IFRS 15 have been applied. These new standards were adopted from 1 January 2018. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in note 3.

<u>Future new standards and interpretations</u>

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

The effects of IFRS 16 'Leases' on the financial statements of the Company are discussed below.

IFRS 16 ' Leases'

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

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

Transition

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

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

Lessee accounting

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

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

Based on the information currently available, the Company estimates that it will recognise lease liabilities of approximately £0.3 million to £0.4 million as at 1 January 2019 and related right-of-use assets with a value of approximately £0.3 million to £0.4 million, reflecting the impact of accrued rent free periods up to 31 December 2018. The Company does not expect any impact on its equity at the date of adoption.

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

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

Notes to the financial statements

2 Basis of preparation and principal accounting policies continued

Foreign currencies
The Company's functional and presentational currency is sterling.

Transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in profit or loss for the year.

Income
The Company has initially applied IFRS 15 from 1 January 2018.

Net interest income

Interest income or expense are recognised within net interest income using the effective interest method.

The effective interest method is the method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding the impact of future credit losses.

Dividends received from money market funds are included in net interest income when received.

Net fees and commission income

Portfolio or investment management fees, commissions receivable or payable and fees from advisory services are recognised on a continuous basis over the period that the related service is provided.

Commission charges for executing transactions on behalf of clients are recognised when the transaction is dealt.

Dividend income

Dividend income from final dividends on equity securities is accounted for on the date the security becomes ex-dividend. Interim dividends are recognised when received.

Operating leases
Lease agreements that do not transfer substantially all of the risks and rewards of ownership of the leased assets to the Company are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. The impact of any lease incentives is spread over the term of the lease.

Intra-group management charges
The intra-group management charges arise in relation to certain overheads that are initially borne by the Company and then recharged to other group companies, when incurred.

Taxation
Current tax

Current tax is the expected tax payable or receivable on net taxable profits for the year. Current tax is calculated using tax rates enacted or substantively enacted by the balance sheet date, together with any adjustment to tax payable or receivable in respect of previous years.

Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the liability is settled or when the asset is realised. Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences may be utilised, except where the temporary difference arises:

- from the initial recognition of goodwill;
- from the initial recognition of other assets and liabilities in a transaction, which affects neither the tax profit nor the accounting profit, other than in a business combination; or
- in relation to investments in subsidiaries and associates, where the Company is able to control the reversal of the temporary difference and it is the Company's intention not to reverse the temporary difference in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Notes to the financial statements

2 Basis of preparation and principal accounting policies continued

Cash and cash equivalents
Cash comprises cash in hand.

Cash equivalents comprises money market funds which are realisable on demand and loans and advances to banks with a maturity of less than three months from the date of acquisition.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial assets
Initial recognition and measurement
Financial assets, excluding trade receivables, are initially recognised when the Company becomes party to the contractual provisions of the asset. Trade receivables are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to its acquisition. Trade receivables without a significant financing component are initially measured at the transaction price.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Classification and subsequent measurement
Financial assets are classified and measured in the following categories;

- amortised cost
  Financial assets are measured at amortised cost if its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and it is held within a business model whose objective is to hold assets to collect contractual cash flows.

  Assets are measured at amortised cost using the effective interest rate method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- at fair value through other comprehensive income ("FVOCI")
  Debt instruments are measured at FVOCI if its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and it is held within a business model whose objective is both to hold assets to collect contractual cash flows and sell the assets.

  For debt instruments, interest income is calculated using the effective interest method. For equity instruments, dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains and losses on assets at FVOCI are recognized in OCI.

- at fair value through profit and loss ("FVTPL")
  All equity instruments are measured at FVTPL unless, provided the instrument is not held for trading, the Company irrevocably elects to measure the instrument at FVOCI. This election is made on an investment-by-investment basis.

  All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI or FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

  Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Business model assessment
The Company assesses the objective of the business model in which a financial asset is held at a portfolio level. The information considered includes:

- the objectives for the portfolio and how those tie in to the current and future strategy of the Company;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how company employees are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

2 Basis of preparation and principal accounting policies continued

Financial assets continued

Payments of principal and interest criterion

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers:

- the contractual terms of the instrument, checking consistency with a basic lending criteria;
- the impact of the time value of money;
- features that would change the amount or timing of contractual cash flows; and
- other factors, such as prepayment or extension features.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost and FVOCI.

A financial asset will attract a loss allowance equal to either:

- 12 month expected credit losses (losses resulting from possible defaults within the next 12 months); or
- lifetime expected credit losses (losses resulting from possible defaults over the remaining life of the financial asset).

The latter applies if there has been a significant deterioration in the credit quality of the asset, albeit lifetime ECLs will always be recognised for assets without a significant financing component.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for treasury book and investment management loan book exposures for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for financial planning debtors are always measured at an amount equal to lifetime ECLs.

When assessing whether the credit risk of a financial asset has increased significantly between the reporting date and initial recognition, quantitative and qualitative indicators are used. More detail can be found in note 28.

Measurement of ECLs

Treasury book and loan book

The Company's assessment of the ECLs are integrated with the wider Rathbones Group's assessment. The group as a whole has developed a detailed model for calculating ECLs on its treasury book and loan book. This requires considerable judgement in developing different economic scenarios and probability-weighting them accordingly.

The economic scenarios in the model are based on the projections of GDP, inflation, unemployment rates, house price indices, financial markets and interest rates as set out in the banking system stress testing scenario published annually by the PRA. In addition, management prepare 'better' and 'worse' case economic forecasts by adjusting the projections for the economic variables.

Under each resultant scenario, an expected credit loss is forecast for each exposure in the treasury book and loan book. The expected credit loss is calculated based on management's estimate of the probability of default, the loss given default and the exposure at default of each exposure taking into account industry credit loss data, the group's own credit loss experience, the expected repayment profiles of the exposures and the level of collateral held. Industry credit loss information is drawn from data on credit defaults for different categories of exposure published by the Council of Mortgage Lenders and Standard & Poor's.

The model adopts a staging allocation methodology, primarily based on changes in the internal and/or external credit rating of exposures to identify significant increases in credit risk since inception of the exposure.

The Company has not rebutted the presumption that if an exposure is more than 30 days past due, the associated credit risk has significantly increased.

ECLs are discounted back to the balance sheet date at the effective interest rate of the asset.

Financial planning debtors

The Company's financial planning debtors are generally short term and do not contain significant financing components. Therefore, the Company has applied a practical expedient by using a provision matrix to calculate lifetime ECLs based on actual credit loss experience over the past four years.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 Basis of preparation and principal accounting policies continued

Financial assets continued

Presentation of impairment

Loss allowances for financial assets measured at amortised cost and FVOCI are deducted from the gross carrying amount of the assets.

Impairment losses related to the Company's treasury book and loan book are presented in 'interest expense and similar charges' and those related to all other financial assets (including financial planning debtors) are presented under 'other operating expenses'. No losses are presented separately on the Statement of comprehensive income and there have been no reclassifications of amounts previously recognised under IAS 39.

Property, plant and equipment

All property, plant and equipment is stated at historical cost, which includes directly attributable acquisition costs, less accumulated depreciation and impairment losses. Depreciation is charged so as to write off the cost of assets to their estimated residual value over their estimated useful lives, using the straight line method, on the following bases:

- Leasehold improvements: over the lease term
- Plant, equipment and computer hardware: over three to 10 years

The assets' residual lives are reviewed and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and these are included in profit or loss.

Intangible assets

Goodwill

Goodwill arises through business combinations and represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a business at the date of acquisition.

Goodwill is recognised as an asset and measured at cost less accumulated impairment losses. It is allocated to groups of cash generating units. Cash generating units are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

On disposal of a subsidiary the attributed amount of goodwill that has not been subject to impairment is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 January 2010, being the date of the Company's transition to IFRS, has been retained at the previous UK GAAP carrying amounts and is tested for impairment annually.

Client relationships

Client relationships acquired as part of a business combination are initially recognised at fair value. Determining whether a transaction that involves the purchase of client relationships is treated as a business combination or a separate purchase of intangible assets requires judgement. The factors that the Company takes into consideration in making this judgement are set out in note 4.

Individually purchased client relationships are initially recognised at cost. Where a transaction to acquire client relationship intangibles includes an element of variable deferred consideration, an estimate is made of the value of consideration that will ultimately be paid. The client relationship intangible recognised on the balance sheet is adjusted for any subsequent change in the value of deferred consideration. Note 4 sets out the approach taken by the Company where judgement is required to determine whether payments made for the introduction of client relationships should be capitalised as intangible assets or charged to profit or loss.

Client relationships are subsequently carried at the amount initially recognised less accumulated amortisation, which is calculated using the straight line method over their estimated useful lives (normally 10 to 15 years, but not more than 15 years).

Computer software and software development costs

Costs incurred to acquire and bring to use computer software licences are capitalised and amortised over their expected useful lives (three to four years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the Company are recognised as intangible assets when the Company is expected to benefit from future use of the software and the costs are reliably measurable. Other costs of producing software are charged to profit or loss as incurred. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives (not exceeding four years).

2 Basis of preparation and principal accounting policies continued

Impairment of goodwill and intangible assets
At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Goodwill is tested for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to the Company's cash generating units ("CGUs"). The carrying amount is compared to its value-in-use, calculated using a discounted cash flow method. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Client relationship intangibles are tested for impairment by comparing the fair value of funds under management for each individually acquired client relationship (or, for client relationships acquired with a business combination, each acquired portfolio of clients) with their associated amortised value. An example of evidence of impairment would be lost client relationships. In determining whether a client relationship is lost, the Company considers factors such as the level of funds withdrawn and the existence of other retained family relationships. When client relationships are lost, the full amount of unamortised cost is recognised immediately in profit or loss and the intangible asset is derecognised.

If the recoverable amount of any asset other than client relationships or goodwill is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Any impairment loss is recognised immediately in profit or loss.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated as cost less, where appropriate, provision for impairment.

Financial liabilities
<u>Initial recognition and measurement</u>
Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to its issue.

<u>Classification and subsequent measurement</u>
Financial liabilities are classified as measured at amortised cost or at fair value through profit or loss.

The Company has not designated any liabilities as fair value through profit or loss and holds no liabilities as held for trading. Financial liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discounts or premiums on settlement. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

<u>Derecognition</u>
The Company derecognises financial liabilities when its contractual obligations are discharged or cancelled, or expire.

Provisions and contingent liabilities
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits, that can be reliably estimated, will occur. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingent liabilities are possible obligations that depend on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless the likelihood of crystallisation is judged to be remote.

Employee Benefits
The Company's parent operates share-based payment incentive schemes and defined benefit pension schemes for the benefit of its employees. The associated charges to profit or loss that relate to employees that provide services to the Company are recharged to the Company by its parent. Recharges relating to pension costs are disclosed within staff costs. Recharges relating to share-based payments are included within operating expenses.

The cost of providing benefits under defined benefit plans are recharged to the Company by the parent company. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

The full disclosure relating to the share based payments and defined benefit pension schemes are available in the Rathbone Brothers Plc report and accounts for the year ended 31 December 2018.

2 Basis of preparation and principal accounting policies continued

Fiduciary activities

The Company holds certain monies in accordance with the Client Money Rules of the Financial Conduct Authority. Such monies and the corresponding amounts due to clients are not shown on the face of the balance sheet as the Company is not beneficially entitled to them.

Financial guarantees

The Company provides a limited number of financial guarantees which are backed by assets in clients' portfolios. Financial guarantees are initially recognised in the balance sheet at fair value. Guarantees are subsequently measured at the higher of the best estimate of any amount to be paid to settle the guarantee and the amount initially recognised less cumulative amortisation, which is recognised over the life of the guarantee.

Segment information

Under IFRS 8 'Operating Segments', the Company is exempt from the requirement to disclose financial information on the Company's business activities in which it engages and the economic environments in which it operates, as it has not issued any debt or equity instruments that are traded in a public market place and it does not file accounts with a regulated organisation for the purpose of issuing any class of instruments in a public market place.

Balances with clients and counterparties

In accordance with market practice, certain balances with clients and market counterparties are presented gross for unsettled bought and sold transactions within settlement balances, loans and advances to customers and loans and advances to banks.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. As set out in the Balance sheet, the Company has a surplus of current assets and is well capitalised. The Company's objectives, policies and processes for managing its capital are set out in note 29 to the financial statements. Details of the Company's financial risk management objectives and its financial instruments; exposure to credit risk, market risk and liquidity risk are set out in note 28 to the financial statements.

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In forming their view, the directors have considered the Company's prospects, including the possible impact of Brexit on the Company's resources and operations, for a period exceeding 12 months from the date the financial statements are approved.

Notes to the financial statements

3 Changes in significant accounting policies

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

The effect of applying these standards is mainly attributed to the following:
- an increase in impairment losses recognised on financial assets (IFRS 9); and
- an increase in client relationship intangibles in respect of the additional capitalisation of payments made to investment managers (IFRS 15).

IFRS 9 'Financial Instruments'

IFRS 9 governs the accounting treatment for the classification and measurement of financial instruments and the timing and extent of credit provisioning. The standard replaces IAS39.

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

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

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

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

	Impact of adopting IFRS 9 on opening balance
	Retained earnings
	£'000
Recognition of expected credit losses under IFRS 9	129
Impact at 1 January 2018	**129**

The recognition of expected credit losses under IFRS 9 in opening retained earnings of £129,000 is split out by balance sheet line item in the table below.

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

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

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

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

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

Financial assets	Original classification under IAS 39	Original carrying amount under IAS 39 £'000	New classification under IFRS 9	New carrying amount under IFRS 9 £'000
Cash and balances with central banks	Loans and receivables	1,375,381	Amortised cost	1,375,286
Loans and advances to banks	Loans and receivables	80,506	Amortised cost	80,503
Loans and advances to customers	Loans and receivables	138,448	Amortised cost	138,447
Money market funds	Available for sale	81,746	Fair value through profit or loss	81,746
Debt securities	Held to maturity	701,966	Amortised cost	701,936
Other financial assets	Loans and receivables	70,257	Amortised cost	70,257
Total financial assets		**2,448,304**		**2,448,175**

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described in note 2.

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39.

3 Changes in significant accounting policies continued

IFRS 9 'Financial Instruments' continued

Impairment of financial assets
Under IFRS 9, an ECL model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred. Further details on the ECL model are given in note 2.

Impact of the new impairment model
The initial application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment provision as follows:

	£'000
Loss provision at 31 December 2017 under IAS 39	-
Additional impairment recognised at 1 January 2018 on:	
– cash and balances with central banks	95
– loans and advances to banks	3
– loans and advances to customers:	
– investment management loan book	1
– debt securities	30
Loss provision at 1 January 2018 under IFRS 9	**129**

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

IFRS 15 'Revenue from Contracts with Customers'

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

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

	Impact of adopting IFRS 15 on opening balance £'000
Retained earnings	
Recognition of intangible assets under IFRS 15	8,268
Reduction in accruals balance due to parent undertaking	4,011
Recognition of provisions balance due to parent undertaking	(4,075)
Impact at 1 January 2018	**8,204**

The impact on transition is due to a change in policy for capitalising contract costs under IFRS 15 (see below). Client relationship intangible assets with a carrying value of £8,268,000 were recognised as a result of additional costs capitalised under the new policy. There is also a reclassification between accruals and provisions for the amounts still payable as at 1 January 2019 under these contracts. These amounts are settled by the Company's parent and are therefore shown as amounts due to group undertakings within these financial statements.

Impact on financial statements for the year ended 31 December 2018
The Company has considered the impact of adopting the standard, on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts.

- *Net fee and commission income*

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

The adoption of IFRS 15 has not had a significant impact on the Company's accounting policies for revenue recognition, as the application of the new requirements does not change the treatment under previous guidance, in particular IAS 18.

- Contract costs

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

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

3 Changes in significant accounting policies continued

IFRS 15 'Revenue from Contracts with Customers' continued

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

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

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

Impact on the Statement of comprehensive income (extract)

	As reported audited year ended 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Operating income	250,219	-	250,219
Charges in relation to client relationships and goodwill	(10,568)	727	(9,841)
Other operating expenses	(180,639)	(160)	(180,799)
Operating expenses	(191,207)	567	(190,640)
Profit before tax	59,012	567	59,579
Taxation	(11,185)	(108)	(11,293)
Profit for the period attributable to equity holders of the company	47,827	459	48,286
Other comprehensive income net of tax	-	-	-
Total comprehensive income for the period net of tax attributable to equity holders of the company	47,827	459	48,286

The adjustments to the Statement of comprehensive income primarily relate to amortisation charged on the additional client relationship intangibles recognised under the new policy for capitalising contract costs (see below) as a result of the revised treatment under IFRS 15.

Impact on the Balance sheet (extract)

	As reported audited 31 December 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
Assets			
Intangible assets	**113,078**	(7,641)	105,437
Total assets	**2,616,720**	**(7,641)**	**2,609,079**
Liabilities			
Accruals, deferred income and other liabilities	**7,521**	(10)	7,511
Current tax liabilities	**3,418**	108	3,526
Total liabilities	**2,341,320**	**98**	**2,341,438**
Equity			
Retained earnings	**114,890**	(7,739)	107,151
Total equity	**275,400**	**(7,739)**	**267,661**
Total liabilities and equity	**2,616,720**	**(7,641)**	**2,609,079**

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

4 Critical accounting judgements and key sources of estimation and uncertainty

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

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

Client relationship intangibles (note 20)

Client relationship intangibles purchased through corporate transactions

When the Company 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 Company assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction, whether ownership of a corporate entity has been acquired and to whom any amounts payable under the transaction are payable, among other factors.

Payments to newly recruited investment managers

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

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

Amortisation of client relationship intangibles

The Company 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 £10,568,000 was charged during the year (2017: £10,248,000). A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £761,000 (2017: increase by £746,000). At 31 December 2018, the carrying value of client relationship intangibles was £73,791,000 (2017: £79,732,000).

5 Net interest income

	2018 £'000	2017 £'000
Interest income		
Cash and balances with central banks	7,634	3,963
Fair value though profit or loss investment securities	930	-
Amortised cost investment securities	6,502	-
Held to maturity investment securities	-	4,242
Available for sale investment securities	-	806
Loans and advances to banks	705	479
Loans and advances to customers	3,520	3,079
	19,291	12,569
Interest expense		
Banks and customers	(3,779)	(533)
Subordinated loan notes (note 26)	(1,283)	(1,276)
Credit impairment charges (note 28)	*(41)*	-
	(5,103)	(1,809)
Net interest income	14,188	10,760

6 Operating income

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

	2018 £'000	2017 £'000
Products and services transferred at a point in time	47,638	47,798
Products and services transferred over time	202,581	192,817
Operating income	250,219	240,615

7 Operating expenses

	2018 £'000	2017 £'000
Staff costs (note 9)	113,227	110,979
Depreciation of property, plant and equipment	3,662	3,562
Amortisation of internally generated intangible assets included in operating expenses (note 20)	686	492
Amortisation of purchased software (note 20)	3,970	2,806
Auditor's remuneration (see below)	314	309
Impairment charges on loans and advances to customers (note 28)	10	(29)
Recharges from fellow Group undertakings	15,721	11,429
Operating lease rentals (i)	7,863	6,801
Other	34,395	28,972
Other operating expenses	179,848	165,321
Head office relocation costs (note 8)	791	2,132
Amortisation of acquired client relationships (note 20)	10,568	10,248
Total operating expenses	191,207	177,701

(i) Operating lease rentals include recharges from Rathbone Brothers Plc, the Company's ultimate parent undertaking, which hold the leases on behalf of the Company. The total rental recharge from Rathbone Brothers Plc in 2018 was £7,734,077 (2017: £6,724,674).

A more detailed analysis of auditor's remuneration is provided below:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	161	153
Fees payable to the Company's auditor for other services to the Company:		
- audit-related assurance services	134	131
- tax compliance services	19	25
Total	314	309

8 Head office relocation costs

On 6 June 2018, the group completed the assignment of its leases on surplus property at 1 Curzon Street.

During the year ended 31 December 2018, incremental costs of £791,000 (2017: £2,132,000) were incurred. Included in these costs are rental costs recharged from the Company's parent of £nil (2017: £527,000) for 8 Finsbury Circus prior to occupation and a recharge of £492,000 (2017: £248,000) for dilapidations at the new property. These costs also include depreciation charges of £nil (2017: £779,000) in relation to 1 Curzon Street, service charge costs of £nil (2017: £9,000) and legal and professional costs of £299,000 (2017: £569,000); of which £95,000 (2017: £424,000) were incurred directly by the Company.

Notes to the financial statements continued

9 Staff costs

The Company does not employ any staff. All UK Group staff are employed by Rathbones, the Company's ultimate parent undertaking, and related costs for those employees that provide services to the Company are recharged to the Company. The total staff costs recharged to the Company were as follows:

	2018 £'000	2017 £'000
Wages and salaries	95,573	93,394
Social security costs	11,686	11,566
Pension costs	5,968	6,019
	113,227	110,979

The average number of employees during the year was as follows:	2018	2017
Investment Management	532	487
Dealing and investment management support	279	263
Shared services	320	285
	1,131	1,035

The Company pays contributions on behalf of its parent company, Rathbones, to a defined contribution personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees of Rathbones. The total contributions made during the year were £5,968,000 (2017: £4,750,000).

Included above are costs relating to employees providing central services that are recharged to fellow subsidiaries as part of the intra-group management recharges.

10 Directors' emoluments

All directors of the Company are employed by Rathbone Brothers Plc, the Company's ultimate parent undertaking. Directors' remuneration associated with their position as directors of the Company was as follows:

	2018 £'000	2017 £'000
Emoluments for qualifying services	648	461
Amounts receivable under long term incentive schemes	290	151
	938	612

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director was £514,000 (2017: £249,000).

	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	-	-
The number of directors, in respect of whose services shares in the ultimate parent undertaking were received or receivable under long term incentive plans was:	2	2
The number of directors who exercised share options during the year was:	2	-

11 Income tax expense

	2018 £'000	2017 £'000
Current tax:		
- charge for the year	11,781	13,696
- adjustment in respect of prior years	(990)	(219)
Deferred tax (note 19)	394	(1,513)
	11,185	11,964

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

11 Income tax expense continued

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

	2018 £'000	2017 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2017: 19.2%)	11,212	12,109
Effects of:		
- disallowable expenses	494	610
- adjustments in respect of transfer pricing	(446)	(649)
- adjustment in respect of prior years	(130)	(296)
Effect of change in corporation tax rate on deferred tax	55	190
	11,185	11,964

12 Dividends paid

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
- interim dividend for the year ended 31 December 2018 of 1,479.3p (2017: 1,183.4p) per share	50,000	40,000
	50,000	40,000

An interim dividend of 1,479.3p per share was paid on 11 December 2018 to the shareholder. In 2017, an interim dividend of 1,183.4p per share was paid on 7 December 2017.

13 Cash and balances with central banks

	2018 £'000	2017 £'000
Cash in hand	-	1
Balances with central banks	1,198,600	1,375,380
Less impairment loss allowance (note 28)	(122)	-
	1,198,478	1,375,381

The fair value of balances with central banks is not materially different to their carrying amount.

	2018 £'000	2017 £'000
Repayable:		
- on demand	1,197,000	1,374,001
- 1 year or less but over 3 months	1,600	1,380
Less impairment loss allowance (note 28)	(122)	-
	1,198,478	1,375,381
Amounts include cash and balances with:		
- variable interest rates	1,197,000	1,374,000
- non-interest bearing	1,600	1,381
Less impairment loss allowance (note 28)	(122)	-
	1,198,478	1,375,381

The Compay's exposure to credit risk arising from cash and balances with central banks is described in note 28.

14 Loans and advances to banks

	2018 £'000	2017 £'000
Current accounts	65,044	39,323
Fixed term deposits	40,000	41,183
Less impairment loss allowance (note 28)	(3)	-
	105,041	80,506

	2018 £'000	2017 £'000
Repayable:		
- on demand	65,044	39,323
- 3 months or less excluding on demand	10,000	11,183
- 1 year or less but over 3 months	30,000	30,000
Less impairment loss allowance (note 28)	(3)	-
	105,041	80,506
Amounts include loans with:		
- variable interest rates	65,044	39,323
- fixed interest rates	40,000	41,183
Less impairment loss allowance (note 28)	(3)	-
	105,041	80,506

14 Loans and advances to banks continued

The fair value of loans and advances is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates.

Loans and advances to banks included in cash and cash equivalents at 31 December 2018 amounted to £75,044,000 (2017: £50,506,000) (note 32).

The Company's exposure to credit risk arising from loans and advances to banks is described in note 28.

15 Loans and advances to customers

	2018 £'000	2017 £'000
Overdrafts	6,077	4,599
Loan book	131,741	120,509
Amounts owed by Group undertakings	17,007	13,242
Financial planning debtors	48	64
Other debtors	29	34
Less impairment loss allowance (note 28)	(11)	-
	154,891	138,448

The fair value of loans and advances to customers is not materially different to their carrying amount. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be received using current market rates. Debtors arising from the financial planning businesses are non-interest-bearing.

	2018 £'000	2017 £'000
Repayable:		
- on demand	23,785	17,951
- 3 months or less excluding on demand	20,430	12,262
- 1 year or less but over 3 months	50,240	42,519
- 5 years or less but over 1 year	60,447	65,716
Less impairment loss allowance (note 28)	(11)	-
	154,891	138,448
Amounts include loans with:		
- variable interest rates	137,797	125,022
- non-interest bearing	17,105	13,426
Less impairment loss allowance (note 28)	(11)	-
	154,891	138,448

Loans and advances to customers include amounts due from fellow Group undertakings of £17,007,000 (2017: £13,242,000), which are non-interest bearing and are repayable on demand.

The Company's exposure to credit risk arising from loans and advances to customers is described in note 28.

16 Investment securities

Fair value through profit or loss

	2018 £'000	2017 * £'000
Money market funds:		
- unlisted	40,333	81,746

* Fair value through profit or loss investments as at 31 December 2017 were classified under IAS 39 as available for sale securities.

Amortised cost

	2018 £'000	2017 * £'000
Debt securities:		
- unlisted	907,259	701,966
Less impairment loss allowance (note 28)	(34)	-
	907,225	701,966

* Amortised cost investments as at 31 December 2017 were classified under IAS 39 as held to maturity.

All amortised cost debt securities are due to mature within one year (2017: all).

Debt securities comprise bank and building society certificates of deposit, which have fixed coupons.

The fair value of debt securities at 31 December 2018 was £911,190,000 (2017: £704,002,000).

16 Investment securities continued

Money market funds, which declare daily dividends that are in the nature of interest at a variable rate and which are realisable on demand, have been included within cash equivalents (note 32).

The change in the Company's holdings of investment securities may be summarised as follows:

	Fair value through profit or loss * £'000	Amortised cost ** £'000	Total £'000
At 1 January 2017	78,557	700,000	778,557
Additions	35,549	745,867	781,416
Disposals (sales and redemptions)	(27,093)	(742,421)	(769,514)
Foreign exchange movements	(5,267)	(1,480)	(6,747)
At 1 January 2018	**81,746**	**701,966**	**783,712**
Additions	**7,515**	**1,050,084**	**1,057,599**
Disposals (sales and redemption)	**(50,789)**	**(847,088)**	**(897,877)**
Foreign exchange movements	**1,861**	**2,297**	**4,158**
Less impairment loss allowance (note 28)	**-**	**(34)**	**(34)**
At 31 December 2018	***40,333***	***907,225***	***947,558***

* Fair value through profit or loss investments as at 31 December 2017 were classified under IAS 39 as available for sale securities.

** Amortised cost investments as at 31 December 2017 were classified under IAS 39 as held to maturity.

17 Prepayments, accrued income and other assets

	2018 £'000	2017 £'000
Prepayments	**3,018**	2,543
Accrued income	**49,386**	50,328
Other assets	**3,269**	4,913
	55,673	57,784

18 Property, plant and equipment

	Short term leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2017	22,618	16,512	39,130
Additions	1,940	2,287	4,227
Disposals	-	(1,970)	(1,970)
At 1 January 2018	**24,558**	**16,829**	**41,387**
Additions	**1,298**	**1,741**	**3,039**
Disposals	**(6,031)**	**(645)**	**(6,676)**
At 31 December 2018	**19,825**	**17,925**	**37,750**
Depreciation			
At 1 January 2017	9,792	12,972	22,764
Charge for the year	2,415	1,926	4,341
Disposals	-	(1,970)	(1,970)
At 1 January 2018	**12,207**	**12,928**	**25,135**
Charge for the year	**1,621**	**2,041**	**3,662**
Disposals	**(6,031)**	**(645)**	**(6,676)**
At 31 December 2018	**7,797**	**14,324**	**22,121**
Carrying amount at 31 December 2018	**12,028**	**3,601**	**15,629**
Carrying amount at 31 December 2017	12,351	3,901	16,252
Carrying amount at 1 January 2017	12,826	3,540	16,366

The Company occupies premises leased by its parent company for which it is recharged a pro-rata rental. Short term leasehold improvements represent amounts capitalised by the Company on improving those parts of the building it occupies. The depreciation period is based on the assumption that the Company will continue to occupy the premises for the remaining period of the lease held by the Company's parent. Accelerated depreciation charges of £nil (2017: £779,000) were recognised following the decision of the parent Company, Rathbone Brothers Plc, to move head office to 8 Finsbury Circus (note 8).

19 Net deferred tax asset

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.0% (2017: 17.0%)

The Finance Bill 2016 contained legislation to reduce the UK corporation tax rate to 17.0% in April 2020 and was substantively enacted in September 2016. Deferred income tax are calculated on all temporary differences under the liability method using the rate expected to apply when the relevant timing differences are forecast to unwind.

The movement in net deferred tax account is as follows:

	2018 £'000	2017 £'000
As at 1 January	**4,184**	2,671
Recognised in profit or loss in respect of:		
- current year	**521**	1,626
- prior year	**(860)**	77
- change in rate	**(55)**	(190)
At 31 December	**3,790**	4,184

Deferred tax assets

	2018 £'000	2017 £'000
Deferred capital allowances	**1,360**	1,284
Intangible assets	**(8)**	(10)
Staff related costs	**2,438**	2,910
At 31 December	**3,790**	4,184

The deferred tax charge in the income statement comprises the following temporary differences:

	2018 £'000	2017 £'000
Deferred capital allowances	**76**	161
Intangibles assets	**2**	1
Staff related costs	**(472)**	1,351
	(394)	1,513

20 Intangible assets

	2018 £'000	2017 £'000
Goodwill	**25,970**	25,970
Other intangible assets	**87,108**	89,978
	113,078	115,948

Goodwill

The cost and carrying value of goodwill as at 31 December 2018 was £25,970,000 (2017: £25,970,000). No impairment was recognised during the year.

The recoverable amounts of the CGUs to which goodwill is allocated are assessed using value-in-use calculations. The Company prepares cash flow forecasts derived from the most recent financial budgets approved by the Board, covering the forthcoming year 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 for the forthcoming year. Budgets are extrapolated for up to 10 years based on an annual revenue growth for each CGU of 5.0% (2017: 5.0%) as well as the Company's expectation of future industry growth rates. A 10 year extrapolation period is chosen based on the Company's assessment of the likely duration of client relationships. The Company estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The pre tax rate used to discount the forecast cash flows for each CGU is 12.3% (2017: 11.1%) these are based on a risk-adjusted weighted average cost of capital. Management judge this discount rate to appropriately reflect the market in which the CGUs operate.

No impairment charge was recognised in the year ended 31 December 2018 and no reasonably foreseeable changes to the assumptions used in the value-in-use calculation would result in an impairment charge being recognised.

20 Intangible assets continued

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2017	132,178	4,921	24,355	161,454
Internally developed in the year	-	837	-	837
Purchased in the year	2,743	-	6,195	8,938
Disposals	(1,702)	-	-	(1,702)
At 31 December 2017	133,219	5,758	30,550	169,527
Adjustment on initial application of IFRS 15 (note 3)	9,691	-	-	9,691
At 1 January 2018	**142,910**	**5,758**	**30,550**	**179,218**
Internally developed in the year	-	**1,450**	-	**1,450**
Purchased in the year	**1,298**	-	**6,277**	**7,575**
Disposals	**(1,915)**	-	-	**(1,915)**
Revaluation of assets	**(4,939)**	-	-	**(4,939)**
At 31 December 2018	**137,354**	**7,208**	**36,827**	**181,389**
Amortisation				
At 1 January 2017	44,941	4,037	18,727	67,705
Charge for the year	10,248	492	2,806	13,546
Disposals	(1,702)	-	-	(1,702)
At 31 December 2017	53,487	4,529	21,533	79,549
Adjustment on initial application of IFRS 15 (note 3)	1,423	-	-	1,423
At 1 January 2018	**54,910**	**4,529**	**21,533**	**80,972**
Charge for the year	**10,568**	**686**	**3,970**	**15,224**
Disposals	**(1,915)**	-	-	**(1,915)**
At 31 December 2018	**63,563**	**5,215**	**25,503**	**94,281**
Carrying amount at 31 December 2018	**73,791**	**1,993**	**11,324**	**87,108**
Carrying amount at 31 December 2017	79,732	1,229	9,017	89,978
Carrying amount at 1 January 2017	87,237	884	5,628	93,749

Purchases of client relationships 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 £10,568,000 (2017: £10,248,000).

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

Purchased software with a cost of £18,769,000 (2017: £18,069,000) has been fully amortised but is still in use.

21 Investments in subsidiary undertakings

	Investments in subsidiaries £'000
At 1 January 2017	8,867
At 1 January 2018	**8,867**
At 31 December 2018	**8,867**

At 31 December 2018 subsidiary undertakings were as follows:

Subsidiary undertaking	Country of incorporation	Activity and operation
Rathbone Investment Management International Limited	Jersey	Investment management
Citywall Nominees Limited	England & Wales	Corporate nominee
Neilson Cobbold Client Nominees Limited	England & Wales	Corporate nominee
Rathbone Nominees Limited	England & Wales	Corporate nominee
R M Walkden & Co Limited	England & Wales	Non trading

The Company directly owns 100% of the ordinary share capital of all subsidiaries and the accounting reference date of all subsidiary undertakings is 31 December.

The registered office for all subsidiaries is 8 Finsbury Circus, London, EC2M 7AZ, except for Rathbones Investment Management International Limited which is registered at 26 Esplanade, St Helier, Jersey, JE1 2RB.

22 Deposits by banks

On 31 December 2018, deposits by banks included overnight cash book overdraft balances of £491,000 (2017: £1,337,000).

The fair value of deposits by banks was not materially different to their carrying value. Fair value has been calculated as the discounted amount of estimated future cash flows expected to be paid using current market rates.

23 Due to customers

	2018 £'000	2017 £'000
Repayable:		
- on demand	**2,130,499**	2,178,138
- 3 months or less excluding on demand	**153,127**	83,425
- 1 year or less but over 3 months	**7,380**	5,285
	2,291,006	2,266,848
Amounts include:		
- variable interest rates	**2,064,814**	2,060,565
- fixed interest rates	**131,327**	83,908
- non-interest bearing	**94,865**	122,375
	2,291,006	2,266,848

Due to customers includes amounts due to fellow Group undertakings of £65,470,000 (2017: £96,350,000) all of which are repayable on demand and are non-interest bearing.

The fair value of amounts due to customers was not materially different to their carrying value. The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount at which deposits could be transferred to third party at the measurement date. The estimated fair value of fixed-interest bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

24 Accruals, deferred income, provisions and other liabilities

	2018 £'000	2017 £'000
Creditors	**2,259**	1,658
Accruals and deferred income	**4,783**	3,507
Other provisions (note 25)	**479**	425
	7,521	5,590

25 Other provisions

	Legal & compensation £'000	Property -related £'000	Total £'000
At 1 January 2017	267	22	289
Charged to profit or loss	214	4	218
Unused amount credited to profit or loss	(7)	-	(7)
Net charge to profit or loss	207	4	211
Other movements	-	-	-
Utilised/paid during the year	(75)	-	(75)
At 1 January 2018	**399**	**26**	**425**
Charged to profit or loss	**344**	**4**	**348**
Unused amount credited to profit or loss	**(44)**	**-**	**(44)**
Net charge to profit or loss	**300**	**4**	**304**
Utilised/paid during the year	**(250)**	**-**	**(250)**
At 31 December 2018	**449**	**30**	**479**
Payable within 1 year	**449**	**-**	**449**
Payable after 1 year	**-**	**30**	**30**
	449	**30**	**479**

During the ordinary course of business the Company 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 advisors where appropriate, to determine the likelihood of the Company 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 reflect management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for legal & compensation is dependent, in part, on the duration of negotiations with third parties.

Property-related provisions relate to dilapidation provisions expected to arise on leasehold premises held by the Company. Dilapidation provisions are calculated using a discounted cash flow model; during the year, the impact of discounting has increased the provisions by £4,000 (2017: £4,000).

Property-related provisions, totalling £30,000 (2017: £26,000) are expected to be settled within 5 years (2017: 6 years) of the balance sheet date, which corresponds to the length of the lease term on the leasehold premises for which a dilapidations provision is being held.

26 Subordinated loan notes

	2018 Face value £'000	2018 Carrying value £'000	2017 Face value £'000	2017 Carrying value £'000
Subordinated loan notes	**20,000**	**19,807**	20,000	19,696

Subordinated loan notes consist of 10-year Tier 2 notes ('Notes'), which are repayable in August 2025, with a call option in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over 6 month LIBOR thereafter. An interest expense of £1,283,000 (2017: £1,276,000) was recognised during the year (note 5).

27 Share capital and share premium

The following movements in share capital occurred during the year:

	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2017	2,935	117,575	120,510
Shares issued	445	39,555	40,000
At 1 January 2018	**3,380**	**157,130**	**160,510**
At 31 December 2018	**3,380**	**157,130**	**160,510**

The total number of issued and fully paid up ordinary shares at 31 December 2018 was 3,380,000 (2017: 3,380,000) with a par value of £1 per share.

On 7 December 2017, the Company issued 445,000 ordinary shares of £1 each at a price of £90 per share to its parent Company, Rathbone Brothers Plc.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. The ordinary shareholders are entitled to any residual assets in the winding up of the Company.

28 Financial risk management

The Company has identified the financial, business and operational risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite, as described in the Group's Internal Capital Adequacy Assessment Process, prepared in accordance with the requirements of the Prudential Regulation Authority (PRA) in its application of the Capital Requirements Directive (CRD). The Company categorises its financial risks into three areas:
(i) credit risk (which includes counterparty default risk);
(ii) liquidity risk; and
(iii) market risk (which includes fair value interest rate risk, cash flow interest rate risk, foreign exchange risk and price risk).

The sections below outline the Group's financial risk appetite to which the Company adheres and explain how it defines and manages each category of financial risk.

The Group's financial risk management policies are designed to identify and analyse the financial risks that the Group faces, to set appropriate risk limits and controls and to monitor the financial risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its financial risk management policies and systems to reflect changes in the business, counterparties, markets and the range of financial instruments that it utilises.

The treasury department, reporting through the banking committee, has principal responsibility for monitoring exposure to credit risk, liquidity risk and market risk. Procedures and delegated authorities are documented in a Group treasury manual and policy documents are in place to cover the management and monitoring of each type of risk. The primary objective of the Group's treasury policy is to manage short-term liquidity requirements whilst maintaining an appropriate level of exposure to other financial risks in accordance with the Group's risk appetite.

28 Financial risk management continued

(i) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due, through its banking, treasury activities and financial planning activities. The principal source of credit risk arises from placing funds in the money market and holding interest bearing securities. The Company also has exposure to credit risk through its loan books and guarantees given on clients' behalf.

It is the Company's policy to place funds generated internally and from deposits by clients with a range of high quality financial institutions and the Bank of England. Investments with financial institutions are spread to avoid excessive exposure to any individual counterparty. Loans made to clients are secured against clients' assets that are held and managed by the Company.

Exposure to credit risk is managed through setting appropriate ratings requirements and lending limits. Limits are reviewed regularly, taking into account the ability of borrowers and potential borrowers to meet repayment obligations.

The Company categorises its exposures based on the long-term ratings awarded to counterparties by Fitch Ratings Ltd ('Fitch') or Moody's Corporation ('Moody's'). Each exposure is assessed individually, both at inception and in ongoing monitoring. In addition to formal external ratings, the banking committee also utilises market intelligence information to assist its ongoing monitoring.

The Company's financial assets are categorised as follows:

Cash and balances with central banks (note 13)
The Company has exposure to central banks through its deposits held with the Bank of England.

Loans and advances to banks (note 14) and investment securities (note 16)
The Company has exposures to a wide range of financial institutions, through its treasury portfolio which includes bank deposits, certificates of deposit, money market funds and treasury bills. These exposures principally arise from the placement of clients' cash, which is held under a banking relationship, and the Company's own reserves.

Balances with central banks, loans and advances to banks and debt and other securities are collectively referred to as the Company's treasury book.

Treasury book	2018 £'000	2017 £'000
Balances with central banks	**1,198,600**	1,375,380
Loans and advances to banks - fixed deposits	**40,000**	41,183
Unlisted debt securities	**907,259**	701,966
Money market funds	**40,333**	81,746
	2,186,192	2,200,275

The Company's policy requires that all such exposures are only taken with counterparties that have been awarded a minimum long-term rating of single A by Fitch or equivalent rating by Moody's. Counterparty limits are also in place to limit exposure to an individual counterparty or connected group of counterparties. Counterparty exposures are monitored on a daily basis and reviewed by the banking committee on a monthly basis, or more frequently when necessary. The banking committee may suspend dealing in a particular counterparty, or liquidate specific holdings, in the light of adverse market information.

Loans and advances to customers (note 15)
The Company provides loans to clients through its investment management operations (the investment management loan book). The Company is also exposed to credit risk on overdrafts on clients' investment management accounts, financial planning debtors and other debtors.

(a) Overdrafts
Overdrafts on clients' investment management accounts arise from time to time due to short-term timing differences between the purchase and sale of assets on a clients' behalf. Overdrafts are actively monitored and reported to the banking committee on a monthly basis.

(b) Investment management loan book
Loans are provided as a service to investment management clients who are generally asset rich but have short to medium term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in Rathbones' nominee name, and some loans may be partially secured. Extensions to the initial loan period may be granted subject to credit criteria.

At 31 December 2018, the total lending exposure limit for the investment management loan book was £200,000,000 (2017: £175,000,000) of which £131,071,000 had been advanced (2017: £120,433,000) and a further £32,854,000 had been committed (2017: £30,025,000).

(c) Financial planning debtors
Financial planning debtors relate to fees which have been invoiced but not yet settled by clients. The collection and ageing of financial planning debtors are reviewed on a monthly basis by the management committee.

28 Financial risk management continued

(i) Credit risk continued

Loans and advances to customers continued

(d) Other debtors
Other loans and advances to customers relate to management fees receivable.

Settlement balances
Settlement risk arises in any situation where a payment in cash or transfer of a security is made in the expectation of a corresponding delivery of a security or receipt of cash. The majority of transactions are carried out on a delivery versus payment basis, which results in securities and cash being exchanged within a very close timeframe. Settlement balances outside standard terms are monitored on a daily basis.

The Company has exposures to market counterparties in the settlement of trades which arise primarily in relation to client trades and risk of non-settlement is borne by clients.

Maximum exposure to credit risk	2018 £'000	2017 £'000
Credit risk relating to on-balance sheet exposures:		
Cash and balances with central banks	**1,198,600**	1,375,380
Settlement balances	**13,715**	15,017
Loans and advances to banks	**105,044**	80,506
Loans and advances to customers:		
- Overdrafts	**6,077**	4,599
- Investment management loan book	**131,741**	120,509
- Amounts owed by group undertakings	**17,007**	13,242
- Financial planning debtors	**48**	64
- Other debtors	**29**	34
Investment securities:		
- Unlisted debt securities and money market funds	**947,592**	783,712
Other financial assets	**52,655**	55,240
Credit risk relating to off-balance sheet exposures:		
Loan commitments	**32,854**	30,025
Financial guarantees (note 30).	**117**	117
	2,505,479	2,478,445

The above table represents the gross credit risk exposure to the Company at 31 December 2018 and 2017, without taking account of any associated collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts.

10.4% of the total maximum exposure is derived from loans and advances to banks and customers (2017: 8.8%) and 37.8% represents investments in debt securities (2017: 31.6%).

The credit risk relating to off-balance sheet exposures for financial guarantees reflects the Company's gross potential exposure of guarantees held on balance sheet.

Impairment of financial instruments
The Company's accounting policy governing impairment of financial assets is given in note 2. Impairment losses on financial assets recognised in profit or loss were as follows.

	2018 £'000	2017 £'000
Impairment losses arising from:		
- treasury book	**31**	-
- investment management loan book	**10**	-
	41	-

Expected credit loss assessment
At each reporting date, for both the treasury book and investment management loan book, the Company assesses whether there has been a significant increase in credit risk of exposures since initial recognition, by comparing the change in the risk of a default occurring over the expected life of the instrument between the reporting date and the date of initial recognition. The following criteria are used to identify significant increases in credit risk and are monitored and reviewed periodically for appropriateness by the treasury team.

Qualitative indicators
The Company periodically monitors its exposures and uses a set of defined criteria to flag any counterparties that may be experiencing financial difficulties. Such exposures are added to a watch list maintained by the treasury team. These are considered to have experienced a significant increase in credit risk and are classified as 'Stage 2' on which a lifetime ECL is recognised.

28 Financial risk management continued

(i) Credit risk continued

Quantitative indicators
The lifetime probability of default at the reporting date is compared to the original lifetime probability of default at initial recognition and if the difference exceeds a predefined threshold (for the current analysis this threshold is set at 50% of the value at initial recognition) the exposure is moved to stage 2.

Probability of defaults used for identifying significant increases in credit risk for staging purposes are calculated using the same methodology and data used for estimating probability of defaults for the purpose of measuring expected credit losses.

The 30 days past due backstop indicator has not been rebutted by the Company, albeit it is not a significant driver of stage movements as the opportunity for a counterparty to miss payment is low due to the fact that over the life of exposure, any interest and or principal is directly debited from the counterparty's investment balance and investment income which is in turn held as collateral under the bank's custody.

Materially all exposures in both the treasury book and investment management loan book follow a bullet repayment structure; therefore, the exposure at any point in time reflects the outstanding balance of the instrument at that point in time.

Definition of default
The Company considers an investment management loan book exposure to be in default when a client fails to respond to three sets of default notices (every 30 days for a period of 90 days). A treasury book exposure is deemed to be in default when a payment is past due by more than one working day (grace period).

Probability of default (PD)
The Company uses a lifetime PD for each exposure, which is the probability-weighted result of considering three economic scenarios; a base case, an upside and a downside scenario. These scenarios include the forecast of the macroeconomic factors that have been identified as relevant to the Bank's exposures, namely GDP and UK unemployment rates, are incorporated into the estimation of lifetime PDs.

The methodology for estimating lifetime PDs and adjustments for macroeconomic scenarios used for identifying significant increases in credit risk are as follows:

Treasury book assessment
The 12-month PD for each exposure is initially estimated as the historical 12-month PD sourced from Standard & Poors, by credit rating and country of exposure. In order to estimate the PDs occurring over the lifetime of an underlying exposure, the Company applies its expectations of future progression in point in time ("PiT") default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to treasury assets, namely UK GDP, UK unemployment rates, UK inflation and UK interest rates.

Loss given default (LGD) for treasury book assets is dependent on the nature of the counterparty and the region in which the instrument was issued. For Sovereign exposures, the group applies a flat LGD rate, which is externally sourced from Moody's most recent 'Sovereign Default and Recovery Rates' research statistics, by country of issuer. For unsecured Corporate exposures, a time series of historical corporate recovery rates is sourced from Moody's annual publication on 'Corporate Defaults and Recovery' rates.

The following table presents an analysis of the credit quality of treasury book exposures at amortised cost and Fair value through profit or loss (2017: held-to-maturity, available-for-sale and loans and receivables). It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired:

	2018	At amortised cost			2017		
	Fair value through profit or loss £'000	12-month ECL £'000	Lifetime ECL - not credit impaired £'000	Lifetime ECL - credit impaired £'000	Loans and receivables £'000	Available for Sale £'000	Held to maturity £'000
AAA	40,333	-	-	-	-	81,746	-
AA+ to AA-	-	1,655,155	-	-	1,375,380	-	264,569
A+ to A-	-	490,704	-	-	41,183	-	437,397
Gross carrying amounts	40,333	2,145,859	-	-	1,416,563	81,746	701,966
Loss allowance		(159)	-	-	-	-	-
Carrying amount	40,333	2,145,700	-	-	1,416,563	81,746	701,966
Cash and balance with central banks	-	1,198,478	-	-	1,375,380	-	-
Loans and advances to banks	-	39,997	-	-	41,183	-	-
Unlisted debt securities	-	907,225	-	-	-	-	701,966
Money market funds	40,333	-	-	-	-	81,746	-
Carrying amount	40,333	2,145,700	-	-	1,416,563	81,746	701,966

Notes to the financial statements continued

28 Financial risk management continued

(i) Credit risk continued

Treasury book assessment continued

The movement in allowance for impairment for the treasury book during the year was as follows. Comparative amounts for 2017 represents the allowance for impairment losses under IAS 39.

	2018				2017
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Total	Impaired
	£'000	£'000	£'000	£'000	£'000
Balance at 31 December				-	
IFRS 9 opening adjustment			-	128	-
Balance at 1 January	128	-	-	128	-
Net remeasurement of loss allowance	31	-	-	31	
Balance at 31 December	159	-	-	159	-
Cash and balance with central banks	122	-	-	122	
Loans and advances to banks	3	-	-	3	
Unlisted debt securities	34	-	-	34	
ECL provision	159	-	-	159	-

The reason for the increase in the loss allowance during 2018 is that, despite the reduction in the gross amount held with the Bank of England, the 12-month PD increased during the year, driven by small changes in macroeconomic factors.

Investment management loan book assessment

Due to the lack of historical defaults within the loan book, the model uses publicly available default data for UK secured lending as a starting point in order to obtain an initial estimate for PD. The 12-month PD is estimated as the historical long term default rate on lending in the UK as sourced from the Council of Mortgage Lending ("CML").

In order to estimate the PDs occurring over the lifetime of an underlying exposure, the Company develops its expectations of future progression in PiT default probabilities, which inherently revolves around expectations of future development of macroeconomic factors relevant to the Bank's Lending portfolio, namely UK GDP ("GDP") and UK unemployment rates ("UR").

In order to develop and apply such forward looking expectations, a historical relationship between PD, GDP and UR is estimated statistically through a multi-factor regression analysis of past movements between these variables. The relationship resulting from this analysis reflects the relative quantitative behaviour of the regressed macroeconomic factors against PD.

Using the calculated 12-month PiT PD as a starting point, conditional PDs for each future period within the period of exposure are estimated by applying the GDP and UR coefficients to the group's forecasts of UK GDP and UK UR respectively, as sourced from International Monetary Fund ("IMF") forecast data. This analysis forms the base case scenario for estimating lifetime PD's. The same methodology is applied for separate upside and downside scenarios as required by the standard.

The following table presents an analysis of the credit quality of IM loan book exposures at amortised cost (2017: loans and receivables). It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

28 Financial risk management continued

(i) Credit risk continued

Investment management loan book assessment continued

	2018 At amortised cost			2017
	12-month ECL £'000	Lifetime ECL - not credit impaired £'000	Lifetime ECL - credit impaired £'000	Loans and receivables £'000
Very low	16,730	-	-	-
Low	92,888	680	-	-
Medium	20,743	-	-	-
High	40	660	-	-
Gross carrying amounts	130,401	1,340	-	120,509
Loss allowance	(11)	-	-	-
Carrying amount	130,390	1,340	-	120,509

The movement in allowance for impairment for the IM loan book during the year was as follows. Comparative amounts for 2017 represents the allowance for impairment losses under IAS 39.

	2018				2017
	12-month ECL £'000	Lifetime ECL - not credit impaired £'000	Lifetime ECL - credit impaired £'000	Total £'000	Impaired £'000
Balance at 31 December				-	
IFRS 9 opening adjustment				1	-
Balance at 1 January	1	-	-	1	-
Net remeasurement of loss allowance	10	-	-	10	
Balance at 31 December	11	-	-	11	-

Financial planning debtors assessment

The Company uses a provision matrix to measure the ECLs of financial planning debtors, which comprise a large number of small balances. For such debts, a normal settlement period of up to 30 days is expected.

Financial planning debtors may be outstanding for some time before collection, but this is not necessarily an indication that the debt will not ultimately be collected.

At 31 December	Weighted average loss rate	2018 £'000	2017 £'000
<90 days overdue	0.0%	38	57
90-180 days overdue	0.0%	7	7
180-270 days overdue	0.0%	2	-
270-365 days overdue	0.0%	-	-
		47	64

28 Financial risk management continued

(i) Credit risk continued

(i) Concentration of credit risk

The Company has counterparty concentration risk within its treasury assets in that exposure is to a number of similar credit institutions. The banking committee actively monitors counterparties and may reduce risk by either suspending dealing or liquidating investments in the light of adverse market information, for example in anticipation of or in response to any formal Fitch or Moody's rating downgrade. This may happen in relation to specific banks or banks within a particular country or sector.

(a) Geographical sectors

The following table analyses the Company's credit exposures, at their carrying amounts, by geographical region as at the balance sheet date. In this analysis, exposures are categorised based on the country of domicile of the counterparty.

At 31 December 2018	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	1,198,478	-	-	1,198,478
Settlement balances	9,801	3,408	506	13,715
Loans and advances to banks	105,033	-	8	105,041
Loans and advances to customers:				
- Overdrafts	5,522	67	488	6,077
- Investment Management loan book	122,522	191	9,017	131,730
- Amounts owed by group undertakings	17,007	-	-	17,007
- Financial planning debtors	48	-	-	48
- Other debtors	29	-	-	29
Investment securities:				
- Unlisted debt securities and money market funds	149,991	333,172	464,395	947,558
- Listed debt securities	-	-	-	-
Other financial assets	49,212	1,380	2,063	52,655
	1,657,643	338,218	476,477	2,472,338

At 31 December 2017	United Kingdom £'000	Eurozone £'000	Rest of the World £'000	Total £'000
Cash and balances with central banks	1,375,380	-	-	1,375,380
Settlement balances	12,698	1,168	1,151	15,017
Loans and advances to banks	80,506	-	-	80,506
Loans and advances to customers:				
- Overdrafts	4,287	67	245	4,599
- Investment Management loan book	112,286	269	7,954	120,509
- Amounts owed by group undertakings	13,242	-	-	13,242
- Financial planning debtors	64	-	-	64
- Other debtors	34	-	-	34
Investment securities:				
- Unlisted debt securities and money market funds	195,000	291,750	296,962	783,712
Other financial assets	53,819	689	732	55,240
	1,847,316	293,943	307,044	2,448,303

At 31 December 2018, materially all eurozone exposures were to counterparties based in Netherlands, France, Finland, Ireland and Luxembourg (2017: Netherlands and France) and all rest of the world exposures were to counterparties based in Switzerland, Sweden, Norway, Canada, and Australia (2017: Switzerland, Australia, Canada, Norway and Sweden).

At 31 December 2018, the Company had no exposure to sovereign debt (2017: no exposure to sovereign debt).

28 Financial risk management continued

(i) Credit risk continued

(i) Concentration of credit risk continued

(b) Industry sectors

The Company's credit exposures at the balance sheet date, analysed by the primary industry sectors in which our counterparties operate, were:

At 31 December 2018	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	1,198,478	-	-	1,198,478
Settlement balances	-	13,715	-	13,715
Loans and advances to banks	-	105,041	-	105,041
Loans and advances to customers:				
- Overdrafts	-	-	6,077	6,077
- Investment Management loan book	-	-	131,730	131,730
- Amounts owed by group undertakings	-	-	17,007	17,007
- Financial planning debtors	-	-	48	48
- Other debtors	-	-	29	29
Investment securities:				
- Unlisted debt securities and money market funds	-	947,558	-	947,558
Other financial assets	295	4,490	47,870	52,655
	1,198,773	1,070,804	202,761	2,472,338

At 31 December 2017	Public sector £'000	Financial institutions £'000	Clients and other corporates £'000	Total £'000
Cash and balances with central banks	1,375,380	-	-	1,375,380
Settlement balances	-	15,017	-	15,017
Loans and advances to banks	-	80,506	-	80,506
Loans and advances to customers:				
- Overdrafts	-	-	4,599	4,599
- Investment Management loan book	-	-	120,509	120,509
- Amounts owed by group undertakings	-	-	13,242	13,242
- Financial planning debtors	-	-	64	64
- Other debtors	-	-	34	34
Investment securities:				
- Unlisted debt securities and money market funds	-	783,712	-	783,712
Other financial assets	1,138	2,429	51,673	55,240
	1,376,518	881,664	190,121	2,448,303

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The primary objective of the Company's treasury policy is to manage short to medium term liquidity requirements and the Company performs an annual assessment of liquidity adequacy in accordance with the regulatory requirements of the Prudential Regulation Authority (PRA) (our Individual Liquidity Adequacy Assessment). The Company faces two principal risks, namely that a significant proportion of client funds are withdrawn over a short period of time (retail funding risk) and the risk that marketable assets may not be capable of being realised in the time and at the value required (marketable assets risk).

28 Financial risk management continued

(ii) Liquidity risk continued

Retail funding risks are managed by daily cash mismatch analysis and Basel Committee ratios using expected cash and asset maturity profiles and regular forecasting work. This is supported by stress tests which cover firm-specific idiosyncratic scenarios and/or the effects of unforeseen market wide stresses. Marketable assets risk is primarily managed by holding cash and marketable instruments which are realisable at short notice. The Company operates strict criteria to ensure that investments are liquid and placed with high-quality counterparties. A minimum liquid assets buffer (to be held in eligible liquid assets) is set by the Board at least annually in conjunction with an amount prescribed by the PRA.

The Company does not rely on external funding for its activities.

Non-derivative cash flows

The table below presents the undiscounted cash flows receivable and payable by the Company under non-derivative financial assets and liabilities by the remaining contractual maturities at the balance sheet date.

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash and balances with central banks	1,197,000	295	1,600	-	-	1,198,895
Settlement balances	-	13,715	-	-	-	13,715
Loans and advances to banks	65,044	10,110	30,300	-	-	105,454
Loans and advances to customers	23,783	20,583	51,097	64,582	-	160,045
Debt securities and money market funds	40,415	309,666	605,562	-	-	955,643
Other financial assets	-	47,961	-	-	-	47,961
Cash flows arising from financial assets	1,326,242	402,330	688,559	64,582	-	2,481,713
Deposits by banks	491	-	-	-	-	491
Settlement balances	-	19,077	-	-	-	19,077
Due to customers	2,130,500	153,229	7,422	-	-	2,291,151
Subordinated loan notes	-	586	586	21,171	-	22,343
Other financial liabilities	9	5,941	-	45	-	5,995
Cash flows arising from financial liabilities	2,131,000	178,833	8,008	21,216	-	2,339,057
Net liquidity gap	(804,758)	223,497	680,551	43,366	-	142,656
Cumulative net liquidity gap	(804,758)	(581,261)	99,290	142,656	142,656	

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash and balances with central banks	1,374,001	1,138	1,380	-	-	1,376,519
Settlement balances	-	15,017	-	-	-	15,017
Loans and advances to banks	39,323	11,293	30,330	-	-	80,946
Loans and advances to customers	17,951	12,423	43,304	70,450	-	144,128
Debt securities and money market funds	81,810	263,385	442,503	-	-	787,698
Other financial assets	-	51,688	-	-	-	51,688
Cash flows arising from financial assets	1,513,085	354,944	517,517	70,450	-	2,455,996
Deposits by banks	1,337	-	-	-	-	1,337
Settlement balances	-	27,570	-	-	-	27,570
Due to customers	2,178,155	83,469	5,306	-	-	2,266,930
Subordinated loan notes	-	586	586	22,342	-	23,514
Other financial liabilities	11	4,667	60	-	38	4,776
Cash flows arising from financial liabilities	2,179,503	116,292	5,952	22,342	38	2,324,127
Net liquidity gap	(666,418)	238,652	511,565	48,108	(38)	131,869
Cumulative net liquidity gap	(666,418)	(427,766)	83,799	131,907	131,869	

28 Financial risk management continued

(ii) Liquidity risk continued

Liabilities which do not have a contractual maturity date are categorised as 'on demand'. Included within the amounts due to customers due on demand disclosed overleaf are balances which historical experience shows are unlikely to be called in the short-term. A prudent level of highly liquid assets is retained to cover reasonably foreseeable short term changes in client deposits. All debt securities are readily marketable and can be realised through disposals.

Derivative cash flows (derivatives settled on a net basis)

The Company did not hold any derivative instruments at the 31 December 2018 (2017: none).

Off-balance sheet items

Cash flows arising from the Company's off-balance sheet financial liabilities (note 30) are summarised in the table below.

The contractual value of the Company's commitments to extend credit to clients and maximum potential value of financial guarantees are analysed by the duration of the commitment. Future minimum lease payments under non-cancellable operating leases are reported by their contractual payment dates. Capital commitments are summarised by the earliest expected date of payment.

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	32,854	-	-	-	32,854
Financial guarantees	-	-	117	-	117
Operating lease commitments	24	70	277	-	371
Capital commitments	603	-	-	-	603
Total off-balance sheet items	**33,481**	**70**	**394**	**-**	**33,945**

At 31 December 2017	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Loan commitments	30,025	-	-	-	30,025
Financial guarantees	-	-	117	-	117
Operating lease commitments	18	56	271	15	360
Capital commitments	48	-	-	-	48
Total off-balance sheet items	30,091	56	388	15	30,550

28 Financial risk management continued

(ii) Liquidity risk continued

Total liquidity requirement

At 31 December 2018	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	2,131,000	178,833	8,008	21,216	-	2,339,057
Total off-balance sheet items	-	33,481	70	394	-	33,945
	2,131,000	212,314	8,078	21,610	-	2,373,002

At 31 December 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	After 5 years £'000	Total £'000
Cash flows arising from financial liabilities	2,179,503	116,292	5,952	22,342	38	2,324,127
Total off-balance sheet items	-	30,091	56	388	15	30,550
	2,179,503	146,383	6,008	22,730	53	2,354,677

(iii) Market risk

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company's principal exposure to cash flow interest rate risk arises from the mismatch between the repricing of its financial assets and liabilities. In particular, customer accounts and loan balances are repriced very shortly after changes in base rates, whereas the yield on the Company's interest-bearing assets is correlated to the future expectation of base rates and varies depending on the maturity profile of the Company's treasury portfolio. The average maturity mismatch is controlled by the banking committee, which generally lengthens the mismatch when the yield curve is rising and shortens it when the yield curve is falling.

28 Financial risk management continued

(iii) Market risk continued

Interest rate risk continued

The table below shows the repricing profile of the Company's financial assets and liabilities, stated at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2018	Not more than 3 months £'000	After 3 months but not more more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets						
Cash and balances with central banks	1,196,878	-	-	-	1,600	1,198,478
Settlement balances	-	-	-	-	13,715	13,715
Loans and advances to banks	75,044	9,999	19,998	-	-	105,041
Loans and advances to customers	137,786	-	-	-	17,105	154,891
Investment securities:						
- Unlisted debt securities and money market funds	347,589	174,993	424,976	-	-	947,558
Other financial assets	-	-	-	-	52,655	52,655
Total financial assets	1,757,297	184,992	444,974	-	85,075	2,472,338
Liabilities						
Deposits by banks	491	-	-	-	-	491
Settlement balances	-	-	-	-	19,077	19,077
Due to customers	2,188,761	7,380	-	-	94,865	2,291,006
Subordinated loan notes	-	-	-	19,807	-	19,807
Other financial liabilities	-	-	-	-	5,979	5,979
Total financial liabilities	2,189,252	7,380	-	19,807	119,921	2,336,360
Interest rate repricing gap	(431,955)	177,612	444,974	(19,807)	(34,846)	135,978

At 31 December 2017	Not more than 3 months £'000	After 3 months but not more more than 6 months £'000	After 6 months but not more than 1 year £'000	After 1 year but not more than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets						
Cash and balances with central banks	1,374,000	-	-	-	1,381	1,375,381
Settlement balances	-	-	-	-	15,017	15,017
Loans and advances to banks	50,506	-	30,000	-	-	80,506
Loans and advances to customers	125,022	-	-	-	13,426	138,448
Investment securities:						
- Unlisted debt securities and money market funds	343,708	85,004	355,000	-	-	783,712
Other financial assets	-	-	-	-	55,240	55,240
Total financial assets	1,893,236	85,004	385,000	-	85,064	2,448,304
Liabilities						
Deposits by banks	1,337	-	-	-	-	1,337
Settlement balances	-	-	-	-	27,570	27,570
Due to customers	2,139,188	5,285	-	-	122,375	2,266,848
Subordinated loan notes	-	-	-	19,696	-	19,696
Other financial liabilities	-	-	-	-	4,764	4,764
Total financial liabilities	2,140,525	5,285	-	19,696	154,709	2,320,215
Interest rate repricing gap	(247,289)	79,719	385,000	(19,696)	(69,645)	128,089

Notes to the financial statements continued

28 Financial risk management continued

(iii) Market risk continued

Interest rate risk continued

The banking committee has set an overall pre-tax interest rate exposure limit of £7,000,000 (2017: £6,000,000) for the total potential profit or loss resulting from an unexpected immediate and sustained 2% movement in sterling interest rates for the Company. The potential total profit or loss is calculated on the basis of the average number of days to repricing of the interest-bearing liabilities compared with the period to repricing on a corresponding amount of interest-bearing assets.

At 31 December 2018, the Company had a net present value sensitivity of £6,068,000 (2017: £4,310,000) for an upward 2% shift in rates. The Company held no forward rate agreements at 31 December 2018 (2017: none).

Foreign exchange risk

The Company is exposed to translational foreign exchange risk as it undertakes transactions in foreign currencies and is therefore exposed to foreign exchange rate fluctuations. The Company monitors its currency exposures that arise in the ordinary course of business on a daily basis and significant exposures are managed through the use of spot contracts, from time to time, so as to reduce any currency exposure to a minimal amount. The Company has no structural foreign currency exposure.

The Company does not have any material exposure to transactional foreign currency risk. The table below summarises the Company's exposure to foreign currency translation risk at 31 December 2018. Included in the table are the Company's financial assets and liabilities, at carrying amounts, categorised by currency.

	Sterling	US Dollar	Euro	Other	Total
At 31 December 2018	£'000	£'000	£'000	£'000	£'000
Assets					
Cash and balances with central banks	1,198,478	-	-	-	1,198,478
Settlement balances	12,821	592	100	202	13,715
Loans and advances to banks	49,220	25,781	22,252	7,788	105,041
Loans and advances to customers	146,512	5,128	3,231	20	154,891
Investment securities:					
- unlisted debt securities and money market funds	872,966	74,592	-	-	947,558
Other financial assets	52,566	70	19	-	52,655
Total financial assets	**2,332,563**	**106,163**	**25,602**	**8,010**	**2,472,338**
Liabilities					
Deposits by banks	-	-	375	116	491
Settlement balances	18,203	432	7	435	19,077
Due to customers	2,153,955	105,126	24,655	7,270	2,291,006
Subordinated loan notes	19,807	-	-	-	19,807
Other financial liabilities	5,909	70	-	-	5,979
Total financial liabilities	**2,197,874**	**105,628**	**25,037**	**7,821**	**2,336,360**
Net on-balance sheet position	**134,689**	**535**	**565**	**189**	**135,978**
Loan commitments	**32,854**	-	-	-	**32,854**

	Sterling	US Dollar	Euro	Other	Total
At 31 December 2017	£'000	£'000	£'000	£'000	£'000
Assets					
Cash and balances with central banks	1,375,381	-	-	-	1,375,381
Settlement balances	14,400	465	-	152	15,017
Loans and advances to banks	44,025	15,363	13,902	7,216	80,506
Loans and advances to customers	130,826	4,482	3,140	-	138,448
Investment securities:					
- unlisted debt securities and money market funds	695,004	88,708	-	-	783,712
Other financial assets	55,170	61	9	-	55,240
Total financial assets	2,314,806	109,079	17,051	7,368	2,448,304
Liabilities					
Deposits by banks	1,337	-	-	-	1,337
Settlement balances	25,549	950	958	113	27,570
Due to customers	2,135,506	109,453	14,773	7,116	2,266,848
Subordinated loan notes	19,696	-	-	-	19,696
Other financial liabilities	4,737	27	-	-	4,764
Total financial liabilities	2,186,825	110,430	15,731	7,229	2,320,215
Net on balance sheet position	127,981	(1,351)	1,320	139	128,089
Loan commitments	30,025	-	-	-	30,025

28 Financial risk management continued

(iii) Market risk continued

Foreign exchange risk continued

A 10% weakening of the US dollar against sterling, occurring on 31 December 2018, would have reduced equity and profit after tax by £43,000 (2017: increased by £109,000). A 10% weakening of the euro against sterling, occuring on 31 December 2018, would have reduced equity and profit after tax by £46,000 respectively (2017: reduced by £107,000). A 10% strengthening of the US dollar or euro would have had an equal and opposite effect. This analysis assumes that all other variables, in particular other exchange rates, remain constant.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

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 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets				
Available for sale securities:				
- money market funds	-	40,333	-	40,333
Total financial assets	-	40,333	-	40,333

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
- money market funds	-	81,746	-	81,746
Total financial assets	-	81,746	-	81,746

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2017: none). 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 Company's other financial assets and liabilities are not materially different to their carrying values, with the exception of equity investments in subsidiaries, which are carried at historical cost (note 21) and investment debt securities (note 16). Debt securities comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2018 was £911,190,000 (2017: £704,002,000) and the carrying value was £907,225,000 (2017: £701,966,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy (see above).

Subordinated loan notes (note 26) comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2018 was £20,217,000 (2017: £20,478,000) and the carrying value was £19,807,000 (2017: £19,696,000). 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.

29 Capital management

The Company's capital is defined for accounting purposes as total equity. As at 31 December 2018 this totalled £275,400,000 (2017: £269,498,000).

The Company has issued 10 year subordinated Tier 2 loan notes (note 26). At 31 December 2018, the carrying value of the notes was £19,807,000 (2017: £19,696,000). From time-to-time, the Company runs small overnight overdraft balances as part of working capital. Amounts owed to Group undertakings as at 31 December 2018 were £65,470,000 (2017: £96,350,000) (note 23).

The Company's objectives when managing capital are to:
- safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- maintain a strong capital base in a cost-efficient manner to be able to support the development of the business when required;
- optimise the distribution of capital across group companies reflecting the requirements of each business;
- strive to make capital freely transferable across the Group, to which the Company belongs, where possible; and
- comply with regulatory requirements at all times.

The Group, to which the Company belongs, is classified for capital purposes as a banking group and performs an Internal Capital Adequacy Assessment Process (ICAAP), which is presented to the Prudential Regulation Authority on an annual basis. Regulatory capital resources for ICAAP purposes are calculated in accordance with published rules. These require certain adjustments to and certain deductions from accounting capital, the latter largely in respect of intangible assets. The ICAAP compares regulatory capital resources against regulatory capital requirements derived using the CRD's Pillar I and Pillar II methodology. The Group has adopted the standardised approach to calculating its Pillar I credit risk component and the basic indicator approach to calculating its operational risk component. Capital management policy and practices are applied at both Rathbones Group and the Company level.

At 31 December 2018, the Company's regulatory capital resources, including retained earnings for 2018, were £182,290,000 (2017: £173,560,000). The increase in reserves during 2017 and 2018 is due to the impact of issuing shares and retained profits.

In addition, to a variety of stress tests performed as part of the ICAAP process, and daily reporting in respect of treasury activity, capital levels are monitored and forecasted on a monthly basis to ensure that dividends and investment requirements are appropriately managed and appropriate buffers are kept against adverse business conditions.

No breaches were reported to the Prudential Regulation Authority during the financial years ended 31 December 2017 and 2018.

The Company has not applied transitional relief in recognising expected credit losses (ECLs) in regulatory capital resources. As such, there is no difference between accounting ECLs and regulatory capital ECLs.

30 Contingent liabilities and commitments

(a) Capital expenditure authorised and contracted for at 31 December 2018 but not provided in the accounts amounted to £603,000 (2017: £48,000).

(b) The contractual amounts of the Company's commitments to extend credit to its clients are as follows:

	2018 £'000	2017 £'000
Guarantees	**117**	117
Undrawn commitments to lend of 1 year or less	**26,803**	20,985
Undrawn commitments to lend of more than 1 year	**6,051**	9,040
	32,971	30,142

The fair value of the guarantees is £nil (2017: £nil).

(c) The Company leases an office under a non-cancellable operating lease agreement. The future minimum lease payments under non-cancellable operating leases payable by the Company were as follows:

	2018 £'000	2017 £'000
No later than 1 year	**84**	66
Later than 1 year and no later than 5 years	**271**	265
Later than 5 years	**-**	15
	355	346

(d) The Company has annual commitments under non-cancellable leases for other assets as follows:

	2018 £'000	2017 £'000
No later than 1 year	**11**	8
Later than 1 year and no later than 5 years	**5**	6
	16	14

(e) The arrangements put in place by the Financial Services Compensation Scheme (FSCS) to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years. The financial impact of unexpected FSCS levies is largely out of the Company's control as they result from other industry failures.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Company contributes to the deposit class and investment fund management class and accrues levy costs for future levy years when the obligation arises.

31 Related party transactions

(i) Parent and ultimate controlling party
The ultimate parent undertaking and controlling party of the Company is Rathbone Brothers Plc, a company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Group accounts may be obtained from the Company Secretary, Rathbone Brothers Plc, 8 Finsbury Circus, London EC2M 7AZ.

(ii) Transactions with key management personnel
Key management personnel are defined as those persons having responsibility and authority for planning, directing and controlling the operations of the Company. The Company's key management personnel are its directors.

The remuneration of the key management personnel of the Company, who are defined as the Company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the Company, is set out below. Historically, the key management personnel of the Company were considered to be limited to the Company's directors.

Key management personnel compensation
As explained in note 9 all staff, including key management personnel, are employed by the Company's ultimate parent undertaking. Key management personnel compensation borne by the Company's ultimate parent undertaking and charged to the Company comprised:

	2018	2017
	£	£
Short term employee benefits	3,435,000	2,809,000
Post-employment benefits	10,000	-
Other long-term benefits	197,000	-
Share-based payments	3,315,000	1,073,000
	6,957,000	3,882,000

Key management personnel compensation has risen to £6,957,000 in 2018 from £3,882,000 in 2017.

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

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

(iii) Other related party transactions
During the year, the Company entered into the following transactions with its ultimate parent undertaking:

	2018 Receivable £'000	2018 Payable £'000	2017 Receivable £'000	2017 Payable £'000
Fees and commissions	-	-	-	-
Interest	-	-	-	-
Charges for management services	-	36,146	-	29,764
Dividends paid	-	50,000	-	40,000
	-	86,146	-	69,764

During the year, the Company entered into the following transactions with fellow subsidiaries:

	2018 Receivable £'000	2018 Payable £'000	2017 Receivable £'000	2017 Payable £'000
Fees and commissions	2,384	920	1,894	932
Interest	-	-	-	-
Charges for management services	9,241	-	8,225	-
Dividends received	-	-	-	-
	11,625	920	10,119	932

31 Related party transactions continued

(iii) Other related party transactions continued

The Company's balances with fellow group companies at 31 December 2018 are set out in notes 15 and 23.

All transactions and outstanding balances with fellow Group companies are priced on an arm's length basis and are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts for any amounts due from fellow Group companies.

Staff costs and rent, which are incurred by Rathbone Brothers Plc, the Company's ultimate parent undertaking, are recharged to the Company on a pro-rata basis based on head count and occupancy.

The Company's parent operates share based payment incentive schemes and defined benefit pension schemes for the benefit of its employees. The associated charges to profit that relate to employees that provide services to the Company are recharged to the Company by its parent. Recharges relating to pension costs are disclosed within staff costs. Recharges relating to share based payments are included within operating expenses.

The cost of providing benefits under defined benefit plans are recharged to the Company by the parent company. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

32 Statement of cash flows

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

	2018 £'000	2017 £'000
Cash and balances with central banks (note 13)	1,197,000	1,374,001
Loans and advances to banks (note 14)	75,044	50,506
Fair value through profit or loss investment securities (note 16)	40,333	81,746
	1,312,377	1,506,253

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

Cash flows arising from issue of ordinary shares comprise:

	2018 £'000	2017 £'000
Share capital issued (note 27)	-	445
Share premium on shares issued (note 27)	-	39,555
	-	40,000

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

	Subordinate loan notes £'000	Share capital/ premium £'000	Retained earnings £'000	Total £'000
At 31 December 2017	19,696	157,130	108,988	285,814
Adjustment on initial application of IFRS 9 (net of tax)			(129)	(129)
Adjustment on initial application of IFRS 15 (net of tax)			8,204	8,204
Adjusted balance at 1 January 2018	19,696	157,130	117,063	293,889
Changes from financing cash flows				
Proceeds from issue of share capital	-	-	-	-
Dividends paid	-	-	(50,000)	(50,000)
Total changes from financing cash flows	-	-	(50,000)	(50,000)
The effect of changes in foreign exchange rates	-	-	-	-
Changes in fair value	-	-	-	-
Other changes				
Liability-related				
Interest expense	1,282	-	-	1,282
Interest paid	(1,171)	-	-	(1,171)
Total liability-related changes	111	-	-	111
Total equity-related other changes	-	-	47,827	47,827
At 31 December 2018	19,807	157,130	114,890	291,827

33 Client money

At 31 December 2018 amounts held by the Company on behalf of clients in accordance with the Client Money Rules of the FCA amounted to £3,046,000 (2017: £4,526,000). The Company has no beneficial interest in these assets or deposits and accordingly they are not included in the Company's balance sheet.

34 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.